

CLAYTON WILLIAMS ENERGY INC /DE

FORM 10-K (Annual Report)

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Address	SIX DESTA DR STE 6500 MIDLAND, Texas 79705
Telephone	915-682-6324
CIK	0000880115
Industry	Oil & Gas Operations
Sector	Energy
Fiscal Year	12/31

FORM 10-K

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 1998

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 0-20838

CLAYTON WILLIAMS ENERGY, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	75-2396863
-----	-----
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
SIX DESTA DRIVE - SUITE 6500 MIDLAND, TEXAS	79705-5510
-----	-----
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code: (915) 682-6324

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

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock - \$.10 Par Value

(Title of Class)

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the outstanding Common Stock, \$.10 par value, of the registrant held by non-affiliates of the registrant as of March 24, 1999, based on the closing price as quoted on the Nasdaq Stock Market's National Market as of the close of business on said date, was \$24,606,494.

There were 8,955,082 shares of Common Stock, \$.10 par value, of the registrant outstanding as of March 24, 1999.

Documents incorporated by reference:

(1) The information required by Part III of Form 10-K is found in the registrant's definitive Proxy Statement which will be filed with the Commission not later than April 30, 1999. Such portions of the registrant's definitive Proxy Statement are incorporated herein by reference.

PART I

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain statements in this Form 10-K under "Item 1. Business," "Item 3. Legal Proceedings," "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations," "Item 7A. Quantitative and Qualitative Disclosure About Market Risks," and elsewhere in this Form 10-K constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than statements of historical facts, included in this Form 10-K that address activities, events or developments that Clayton Williams Energy, Inc. and its subsidiaries (the "Company") expects, projects, believes or anticipates will or may occur in the future, including such matters as oil and gas reserves, future drilling and operations, future production of oil and gas, future net cash flows, future capital expenditures and other such matters, are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: the volatility of oil and gas prices, the Company's drilling results, the Company's ability to replace short-lived reserves, the availability of capital resources, the reliance upon estimates of proved reserves, operating hazards and uninsured risks, competition, government regulation, the ability of the Company to implement its business strategy, and other factors referenced in this Form 10-K.

ITEM 1 - BUSINESS

SPECIAL NOTE: CERTAIN STATEMENTS SET FORTH BELOW UNDER THIS CAPTION CONSTITUTE "FORWARD-LOOKING STATEMENTS." SEE "SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS" FOR ADDITIONAL FACTORS RELATING TO SUCH STATEMENTS.

GENERAL

Clayton Williams Energy, Inc. and its subsidiaries (the "Company") are primarily engaged in the exploration for and development and production of oil and natural gas. The Company commenced operations in May 1993 following the consolidation into the Company of substantially all of the oil and gas and gas gathering operations previously conducted by various companies controlled by Clayton W. Williams, Jr. and the completion of the Company's initial public offering of Common Stock.

Prior to 1998, the Company and its predecessors concentrated their drilling activities in the Cretaceous Trend (the "Trend"), which extends from south Texas through east Texas, Louisiana and other southern states and includes the Austin Chalk, Buda, and Georgetown formations. The Company believes that it has been one of the leaders in horizontal drilling in the Trend. From January 1, 1990 through December 31, 1998, the Company drilled or participated in 277 gross (224.6 net) horizontal wells in the Trend.

In 1997, the Company initiated several exploratory projects designed to reduce its dependence on Trend drilling for future production and reserve growth. These new areas include other formations in the vicinity of its core properties in east central Texas, as well as south Texas, Louisiana and Mississippi.

As of December 31, 1998, the Company had estimated proved reserves totaling 5,741 MBbls of oil and 38.9 Bcf of gas with \$52.1 million of estimated future net revenues before income taxes (discounted at 10% and based on year-end prices). During 1998, the Company added 1,716 MBOE of estimated proved reserves through extensions and discoveries. The Company held interests in 633 gross (392.6 net) oil and gas wells and

owned leasehold interests in approximately 434,700 gross (261,647 net) undeveloped acres at December 31, 1998.

In January 1999, the Company sold its interest in eight non-operated oil and gas wells located in Matagorda County, Texas for \$5.2 million. In March, 1999, the Company entered into a definitive agreement for the sale of its interests in the Jalmat Field located in Lea County, New Mexico for \$12.5 million. Proceeds from these sales will be used to reduce the amount of outstanding indebtedness on the Company's secured bank credit facility. In the aggregate, these properties accounted for approximately 9% of the Company's 1998 oil and gas production on a BOE basis and 22% of the Company's estimated future net revenues (discounted at 10%) at December 31, 1998. See "PROPERTIES" and "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS."

DRILLING, EXPLORATION AND PRODUCTION ACTIVITIES

Following is a discussion of the Company's significant drilling, exploration and production activities during 1998, together with its plans for capital and exploratory expenditures in 1999. At the present time, the Company plans to spend only \$3.8 million on exploration and development activities during 1999, substantially all of which are projected to be spent on the Cotton Valley Exploratory Project. The Company may increase its planned activities for 1999 if product prices improve and if the Company is able to obtain the capital resources necessary to finance such activities.

THE TREND

The Company has assembled a 122,000 net acre lease block (the "North Giddings Block") in the updip area of the Giddings Field in Burleson, Robertson and Milam Counties, Texas where the Company has drilled 110 gross (106.2 net) horizontal oil wells through December 31, 1998.

The economic viability of the Company's Trend drilling activities is highly dependent upon the price of oil expected to be realized during the early years of a well's productive life due to high initial production rates and steep decline rates which are characteristic of most Trend wells. Due to the low oil prices that prevailed during 1998, the Company suspended its Trend drilling activities in April 1998, thereby reducing its capital expenditures on Trend drilling and leasing activities from \$44.1 million in 1997 to \$9.1 million in 1998. The Company has no plans to resume drilling and leasing activities in the Trend during 1999. However, when oil prices improve and stabilize, the Company plans to continue development of its Trend acreage by conducting cyclic water stimulation treatments on many of its existing wells and by drilling new wells in areas that warrant development on an increased density. The suspension of Trend drilling activities for an extended period of time may have a significant adverse effect on the Company's oil and gas production and cash flows from operating activities in 1999 and future periods unless the Company can offset the negative impact of such suspension through favorable drilling results from its exploration program or through acquisitions of proved properties. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS."

The Company's current production of oil and gas in the Trend is derived principally from the Austin Chalk formation in the Giddings Field. At December 31, 1998, the Company had interests in 266 gross (202.3 net) producing wells in the Giddings Field, including 196 horizontal and 70 vertical wells. For the year ended December 31, 1998, the Company's daily net production in the Giddings Field averaged approximately 6,353 Bbls of oil and 6,032 Mcf of gas. The Company operates 82% of its wells in the Giddings Field.

COTTON VALLEY EXPLORATORY PROJECT

During 1997, the Company completed a 3-D seismic survey covering approximately 55,000 net acres in its North Giddings Block to explore for gas reserves in the prolific Cotton Valley Pinnacle Reef play. As

opposed to Trend formations, which are encountered at depths of 5,500 to 7,000 feet in this area, the Cotton Valley formation is encountered at depths of 15,000 to 16,000 feet. During 1998, the Company spent \$10.8 million on the Cotton Valley Exploratory Project to complete the interpretation of approximately one-third of the seismic survey, to renew and extend leases in this area, and to drill the J. C. Fazzino Unit #1, a 16,000-foot test well on one of the several reef anomalies identified by the seismic survey. The Fazzino #1 confirmed that the anomaly was in fact a pinnacle reef capable of producing natural gas in commercial quantities. In 1999, the Company plans to spend approximately \$3.2 million to complete the well, construct a gas pipeline and treatment facility, and renew and extend leases in the North Giddings Block, as required.

Based upon data obtained during post-completion operations, the Company has concluded that the Fazzino #1 penetrated the edge of the reef. Therefore, the Company plans to drill the J. C. Fazzino Unit #2 in 1999 in an attempt to penetrate the core of the reef. The Company is presently negotiating with certain vendors to finance the cost of their goods and services with respect to the Fazzino #2 on a non-recourse basis.

The Company also plans to process and evaluate the remainder of the 3-D seismic survey and to conduct a similar survey on the remainder of the North Giddings Block. However, the timing of this activity will be substantially dependent upon the availability of the Company's capital resources. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - LIQUIDITY AND CAPITAL RESOURCES."

OTHER EXPLORATION ACTIVITIES

GLEN ROSE

The Company spent \$9.2 million during 1998 to explore for gas reserves in the Glen Rose formation utilizing the Company's horizontal drilling expertise. The Company has assembled a 111,000 acre block of leases and seismic options in Grimes, Walker and Madison Counties, Texas. During 1998, the Company drilled and completed 2 gross (.5 net) horizontal gas wells on this acreage. While the production rates on the second well are encouraging, the Company intends to evaluate the performance of this well for several months before assessing the commercial viability of further drilling in the Glen Rose area. Accordingly, no amounts of capital expenditures are presently planned for exploration activities in this area in 1999.

SOUTH TEXAS

During 1998, the Company spent \$4.5 million on certain exploratory prospects in Duval, Jim Hogg and Goliad Counties, Texas, including costs to conduct 3-D seismic surveys, purchase other 3-D seismic data and drill 4 gross (2.8 net) exploratory wells on prospects identified by such surveys. One of the wells was marginally productive, while three resulted in dry holes. The Company does not intend to incur any capital expenditures on these prospects in 1999, but may farmout to industry partners its position on certain prospects where exploratory drilling is warranted and retain a carried interest in any wells drilled.

LOUISIANA

The Company spent \$2.3 million during 1998 on various exploratory prospects in Louisiana. The Company completed a well on its Mamou Prospect in Evangeline Parish, but the well is uneconomic at prevailing prices. The Company plans to spend approximately \$500,000 to drill a test well on one prospect and plans to complete a 3-D seismic survey on another. In addition, the Company may farmout to industry partners its position on certain prospects where exploratory drilling is warranted and retain a carried interest in any wells drilled.

MISSISSIPPI

During 1998, the Company spent \$2.6 million on various exploratory prospects in Mississippi, including the cost to drill 2 gross (.7 net) exploratory wells on two of these prospects. One of the wells resulted in a producing oil discovery, while the other was a dry hole. The Company does not plan to incur

any capital expenditures on these prospects in 1999, but may farmout to industry partners its position on certain prospects where exploratory drilling is warranted and retain a carried interest in any wells drilled.

EAST TEXAS HORIZONTAL

The Company spent \$2.6 million in 1998 on an exploratory horizontal well in the Haynesville Limestone formation in Freestone County, Texas which, upon final evaluation, was determined to be uneconomic. The Company does not plan any further exploration activity in this area.

ACQUISITIONS OF PROVED PROPERTIES

In October 1998, the Company purchased certain non-operated oil and gas properties in north Texas for \$1.8 million.

In November 1998, the Company and an affiliated limited partnership acquired certain oil and gas properties in east Texas for an aggregate purchase price of \$41.2 million, net of closing adjustments. The Company acquired an undivided 10% interest in the purchased assets for \$4.9 million of the adjusted purchase price. The Company serves as operator of substantially all of the 108 wells acquired in the transaction. In addition, the Company serves as general partner of the limited partnership that acquired the remaining 90% interest. After the limited partner receives an agreed-upon rate of return, the Company's general partnership interest will increase from 1% to 35%.

Although no specified amounts of capital expenditures have been designated for acquisitions of proven properties in 1999, the Company believes that the purchase of long-lived oil and gas reserves would effectively compliment its exploration program. Therefore, the Company plans to actively seek and evaluate acquisition opportunities during 1999.

MARKETING ARRANGEMENTS

The Company sells substantially all of its oil production under short-term contracts based on prices quoted on the New York Mercantile Exchange ("NYMEX") for spot West Texas Intermediate contracts, less agreed-upon deductions which vary by grade of crude oil. The majority of the Company's gas production is sold under short-term contracts based on pricing formulae which are generally market responsive.

The Company believes that the loss of any of its oil and gas purchasers would not have a material adverse effect on its results of operations due to the availability of other purchasers.

NATURAL GAS SERVICES

The Company owns an interest in and operates seven gas gathering systems and three gas processing plants in the states of Texas and Mississippi. These natural gas service facilities consist of interests in approximately 70 miles of pipeline, two amine treating plants, one liquids extraction plant and three compressor stations. The Company does not derive a significant portion of its consolidated operating income from natural gas services and does not consider this business to be a strategic part of its business plan.

COMPETITION AND MARKETS

Competition in all areas of the Company's operations is intense. The oil and gas industry as a whole also competes with other industries in supplying the energy and fuel requirements of industrial, commercial and

individual consumers. Major and independent oil and gas companies and oil and gas syndicates actively bid for desirable oil and gas properties, as well as for the equipment and labor required to operate and develop such properties. A number of the Company's competitors have financial resources and acquisition, exploration and development budgets that are substantially greater than those of the Company, which may adversely affect the Company's ability to compete with these companies. Such companies may be able to pay more for productive oil and gas properties and exploratory prospects and to define, evaluate, bid for and purchase a greater number of properties and prospects than the Company's financial or human resources permit.

The market for oil, gas and natural gas liquids produced by the Company depends on factors beyond its control, including domestic and foreign political conditions, the overall level of supply of and demand for oil, gas and natural gas liquids, the price of imports of oil and gas, weather conditions, the price and availability of alternative fuels, the proximity and capacity of gas pipelines and other transportation facilities and overall economic conditions.

REGULATION

The Company's oil and gas exploration, production and related operations are subject to extensive rules and regulations promulgated by federal, state and local agencies. Failure to comply with such rules and regulations can result in substantial penalties. The regulatory burden on the oil and gas industry increases the Company's cost of doing business and affects its profitability. Because such rules and regulations are frequently amended or reinterpreted, the Company is unable to predict the future cost or impact of complying with such laws.

The State of Texas and many other states require permits for drilling operations, drilling bonds and reports concerning operations and impose other requirements relating to the exploration and production of oil and gas. Such states also have statutes or regulations addressing conservation matters, including provisions for the unitization or pooling of oil and gas properties, the establishment of maximum rates of production from oil and gas wells and the spacing, plugging and abandonment of such wells. The statutes and regulations of certain states limit the rate at which oil and gas can be produced from the Company's properties.

The Federal Energy Regulatory Commission ("FERC") regulates interstate natural gas transportation rates and service conditions, which affect the marketing of gas produced by the Company, as well as the revenues received by the Company for sales of such production. Since the mid-1980s, the FERC has issued a series of orders, culminating in Order Nos. 636, 636-A and 636-B ("Order 636"), that have significantly altered the marketing and transportation of gas. Order 636 mandates a fundamental restructuring of interstate pipeline sales and transportation services, including the unbundling by interstate pipelines of the sales, transportation, storage and other components of the city-gate sales services such pipelines previously performed. One of the FERC's purposes in issuing the orders is to increase competition within all phases of the gas industry. Order 636 and subsequent FERC orders on rehearing have been appealed and are pending judicial review. It is difficult to predict the ultimate impact of the orders on the Company and its gas marketing efforts. Generally, Order 636 has eliminated or substantially reduced the interstate pipelines' traditional role as wholesalers of natural gas, and has substantially increased competition and volatility in natural gas markets. While significant regulatory uncertainty remains, Order 636 may ultimately enhance the Company's ability to market and transport its gas, although it may also subject the Company to greater competition, more restrictive pipeline imbalance tolerances and greater associated penalties for violation of such tolerances.

Sales of oil and natural gas liquids by the Company are not regulated and are made at market prices. The price the Company receives from the sale of those products is affected by the cost of transporting the products to market. Effective as of January 1, 1995, the FERC implemented regulations establishing an indexing system for transportation rates for oil pipelines, which, generally, would index such rate to inflation, subject to certain conditions and limitations. These regulations could increase the cost of transporting oil and natural gas liquids

by pipeline. The Company is not able to predict with any certainty what effect, if any, these regulations will have on it, but, other factors being equal, the regulations may, over time, tend to increase transportation costs or reduce wellhead prices for oil and natural gas liquids.

ENVIRONMENTAL MATTERS

Operations of the Company pertaining to oil and gas exploration, production and related activities are subject to numerous and constantly changing federal, state and local laws governing the discharge of materials into the environment or otherwise relating to environmental protection. Numerous governmental agencies issue regulations to implement and enforce such laws which are often difficult and costly to comply with and which carry substantial civil and criminal penalties for failure to comply. These laws and regulations may require the acquisition of certain permits prior to or in connection with drilling activities, restrict or prohibit the types, quantities and concentration of substances that can be released into the environment in connection with drilling and production, restrict or prohibit drilling activities that could impact wetlands, endangered or threatened species or other protected areas or natural resources, require some degree of remedial action to mitigate pollution from former operations, such as pit cleanups and plugging abandoned wells, and impose substantial liabilities for pollution resulting from the Company's operations. Such laws and regulations may substantially increase the cost of exploring for, developing, producing or processing oil and gas and may prevent or delay the commencement or continuation of a given project and thus generally could have a material adverse effect upon the capital expenditures, earnings, or competitive position of the Company. Management of the Company believes it is in substantial compliance with current applicable environmental laws and regulations, and the cost of compliance with such laws and regulations has not been material and is not expected to be material during the next fiscal year. Nevertheless, changes in existing environmental laws and regulations or in the interpretations thereof could have a significant impact on the operating costs of the Company, as well as the oil and gas industry in general. For instance, legislation has been proposed in Congress from time to time that would reclassify certain oil and gas production wastes as "hazardous wastes," which reclassification would make exploration and production wastes subject to much more stringent handling, disposal and clean-up requirements. State initiatives to further regulate the disposal of oil and gas wastes and naturally occurring radioactive materials could have a similar impact on the Company.

The Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA"), also known as the "Superfund" law, imposes liability, without regard to fault or the legality of the original conduct, on certain classes of persons that are considered to have contributed to the release of a "hazardous substance" into the environment. These persons include the owner or operator of the disposal site or the site where the release occurred and companies that disposed or arranged for the disposal of the hazardous substances at the site where the release occurred. Under CERCLA, such persons may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment and for damages to natural resources, and it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment. The Company is able to control directly the operation of only those wells with respect to which it acts as operator. Notwithstanding the Company's lack of direct control over wells operated by others, the failure of an operator other than the Company to comply with applicable environmental regulations may, in certain circumstances, be attributed to the Company. Management of the Company believes that it has no material commitments for capital expenditures to comply with existing environmental requirements.

State water discharge regulations and federal waste discharge permitting requirements adopted pursuant to the Federal Water Pollution Control Act prohibit or are expected to prohibit, within the next several months, the discharge of produced water and sand, and some other substances related to the oil and gas industry, to coastal waters. Although the costs to comply with zero discharge mandates under state or federal law may be significant, the entire industry will experience similar costs and the Company believes that these costs will not have a material adverse impact on the Company's financial condition and operations.

TITLE TO PROPERTIES

As is customary in the oil and gas industry, the Company performs a minimal title investigation before acquiring undeveloped properties. A title opinion is obtained prior to the commencement of drilling operations on such properties. The Company has obtained title opinions on substantially all of its producing properties and believes that it has satisfactory title to such properties in accordance with standards generally accepted in the oil and gas industry. The Company's properties are subject to customary royalty interests, liens incident to operating agreements, liens for current taxes and other burdens which the Company believes do not materially interfere with the use of or affect the value of such properties. Substantially all of the Company's oil and gas properties are currently mortgaged to secure borrowings under the Company's secured bank credit facility and may be mortgaged under any future credit facilities entered into by the Company.

OPERATIONAL HAZARDS AND INSURANCE

The Company's operations are subject to the usual hazards incident to the drilling and production of oil and gas, such as blowouts, cratering, explosions, uncontrollable flows of oil, gas or well fluids, fires and pollution and other environmental risks. These hazards can cause personal injury and loss of life, severe damage to and destruction of property and equipment, pollution or environmental damage and suspension of operation.

The Company maintains insurance of various types to cover its operations. The limits provided under its general liability policies total \$32 million. In addition, the Company maintains operator's extra expense coverage which provides for care, custody and control of selected wells during drilling operations. The occurrence of a significant adverse event, the risks of which are not fully covered by insurance, could have a material adverse effect on the Company's financial condition and results of operations. Moreover, no assurances can be given that the Company will be able to maintain adequate insurance in the future at rates it considers reasonable.

EMPLOYEES

Presently, the Company has 91 full-time employees. None of the Company's employees is subject to a collective bargaining agreement. The Company considers its relations with its employees to be good.

OFFICES

The Company leases approximately 40,000 square feet of office space in Midland, Texas and approximately 1,400 square feet of office space in Houston, Texas.

ITEM 2 - PROPERTIES

The Company's properties consist primarily of oil and gas wells and its ownership in leasehold acreage, both developed and undeveloped. At December 31, 1998, the Company had interests in 633 gross (392.6 net) oil and gas wells and owned leasehold interests in 434,700 gross (261,647 net) undeveloped acres.

RESERVES

The following table sets forth certain information as of December 31, 1998 with respect to the Company's estimated proved oil and gas reserves and the present value of estimated future net revenues therefrom, discounted at 10% ("PV-10 Value").

	PROVED DEVELOPED	PROVED UNDEVELOPED	TOTAL (1)
Oil (MBbls).....	5,504	237	5,741
Gas (MMcf).....	32,215	6,639	38,854
MBOE.....	10,873	1,344	12,217
PV-10 Value:			
Before income taxes.....	\$ 48,693	\$ 3,368	\$ 52,061
After income taxes.....	\$ 48,693	\$ 3,368	\$ 52,061

(1) Subsequent to December 31, 1998, the Company sold or contracted to sell its interests in properties with proved reserves aggregating 284 MBbls of oil, 14,087 MMcf of gas, and 2,632 MBOE, and with an aggregate PV-10 Value of \$11.6 million.

The following table sets forth certain information as of December 31, 1998 regarding the Company's proved oil and gas reserves in each of its principal producing areas.

AREA OR FIELD	PROVED RESERVES			PERCENT OF TOTAL OIL EQUIVALENT	PRESENT VALUE OF FUTURE NET REVENUES BEFORE INCOME TAXES	PERCENTAGE OF PRESENT VALUE OF FUTURE NET REVENUES BEFORE INCOME TAXES
	OIL (MBBLS)	GAS (MMCF)	TOTAL OIL EQUIVALENT (MBOE)			
					(In thousands)	
Trend//.....	4,908	7,682	6,188	50.7%	\$ 27,463	52.7%
Jalmat (1).....	226	10,799	2,026	16.6	7,583	14.6
Cotton Valley.....	-	7,558	1,260	10.3	5,095	9.8
East Texas.....	17	5,223	888	7.3	2,784	5.4
Texas Gulf Coast (1).	93	3,799	726	5.9	4,812	9.2
Other//.....	497	3,793	1,129	9.2	4,324	8.3
Total.....	5,741	38,854	12,217	100.0%	\$ 52,061	100.0%

(1) Subsequent to December 31, 1998, the Company sold approximately 83% of its Texas Gulf Coast reserves on a BOE basis and contracted to sell all of its Jalmat reserves.

The estimates as of December 31, 1998 of proved reserves, future net revenues from proved reserves and the PV-10 Value before income taxes set forth in this Form 10-K were based on a report prepared by Williamson Petroleum Consultants, Inc. (the "Independent Engineers"). For purposes of preparing such estimates, the Independent Engineers reviewed production data through August, 1998 for properties representing 73% of the estimated present value of the Company's proved developed producing reserves and through earlier dates for the balance of the Company's properties. In order to calculate the proved reserve

estimates as of December 31, 1998, the Independent Engineers assumed that production for each of the Company's properties since the date of the last production data reviewed was in accordance with the production decline curve for such property.

In accordance with applicable guidelines of the Commission, the estimates of the Company's proved reserves and future net revenues therefrom set forth herein are made using oil and gas sales prices estimated to be in effect as of the date of such reserve estimates and are held constant throughout the life of the properties. Estimated quantities of proved reserves and future net revenues therefrom are affected by changes in oil and gas prices. Oil and gas prices decreased substantially from December 31, 1997 to December 31, 1998, resulting in significant decreases in the Company's estimated future net revenues and, to a lesser extent, decreases in estimated reserve quantities. The weighted average of the sales prices utilized for the purposes of estimating the Company's proved reserves and the future net revenues therefrom as of December 31, 1998 were \$10.33 per Bbl of oil and \$1.77 per Mcf of gas, as compared to \$17.00 per Bbl and \$2.33 per Mcf as of December 31, 1997.

Also in accordance with Commission guidelines, the estimates of the Company's proved reserves and future net revenues therefrom are made using current lease and well operating costs estimated by the Company. Lease operating expenses for oil wells operated by the Company in the Austin Chalk, Buda and Georgetown formations were estimated using a combination of fixed and variable-by-volume costs consistent with the Company's experience in operating such wells. For purposes of calculating future net revenues and PV-10 Value, operating costs exclude accounting and administrative overhead expenses attributable to the Company's working interest in wells operated by it under joint operating agreements, but include administrative costs associated with production offices.

The Independent Engineers report relies upon various assumptions, including assumptions required by the Commission as to oil and gas prices, drilling and operating expenses, capital expenditures, taxes and availability of funds. The process of estimating oil and gas reserves is complex, requiring significant decisions and assumptions in the evaluation of available geological, geophysical, engineering and economic data for each reservoir. As a result, such estimates are inherently imprecise. Actual future production, oil and gas prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable oil and gas reserves may vary substantially. Any significant variance in these assumptions could materially affect the estimated quantity and value of reserves set forth herein. In addition, the Company's reserves may be subject to downward or upward revision based upon production history, results of future development and exploration, prevailing oil and gas prices and other factors, many of which are beyond the Company's control. Actual production, revenues, taxes, development expenditures and operating expenses with respect to the Company's reserves will likely vary from the estimates used, and such variances may be material.

Approximately 11% of the Company's total proved reserves at December 31, 1998 were undeveloped, which are by their nature less certain. Recovery of such reserves will require significant capital expenditures and successful drilling operations. The reserve data set forth in the Independent Engineers' report as of December 31, 1998 assumes, based on the Company's estimates, that aggregate capital expenditures by the Company of approximately \$3.3 million through 2002 will be required to develop such reserves. Although cost and reserve estimates attributable to the Company's oil and gas reserves have been prepared in accordance with industry standards, no assurance can be given that the estimated costs are accurate, that development will occur as scheduled or that the results will be as estimated.

The PV-10 Value referred to herein should not be construed as the current market value of the estimated oil and gas reserves attributable to the Company's properties. In accordance with applicable requirements of the Commission, the PV-10 Value from proved reserves is generally based on prices and costs as of the date of the estimate, whereas actual future prices and costs may be materially higher or lower. Actual future net revenues also will be affected by changes in consumption and changes in governmental regulations or taxation. The timing of actual future net revenues from proved reserves, and thus their actual present value, will be affected by the timing of both the production and the incurrence of expenses in connection with development and

production of oil and gas properties. In addition, the 10% discount factor, which is required by the Commission to be used in calculating discounted future net revenues for reporting purposes, is not necessarily the most appropriate discount factor based on interest rates in effect from time to time and risks associated with the Company or the oil and gas industry in general.

The Company must develop or acquire new oil and gas reserves to replace those being depleted by production. Without successful drilling and exploration or acquisition activities, the Company's reserves and revenues will decline rapidly. In particular, the Company's producing properties in the Trend are characterized by a high initial production rate, followed by a steep decline in production. The Company has a relatively low reserve-to-production ratio of approximately 3.7 years (based upon the estimated quantities of proved oil and gas reserves as of December 31, 1998, divided by production volumes for 1998). See "ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS."

Since January 1, 1998, the Company has not filed an estimate of its net proved oil and gas reserves with any federal authority or agency other than the Commission.

EXPLORATION AND DEVELOPMENT ACTIVITIES

The Company drilled, or participated in the drilling of, the following numbers of wells during the periods indicated. Wells in progress at the end of any period are excluded.

	YEAR ENDED DECEMBER 31,					
	1998		1997		1996	
	GROSS	NET	GROSS	NET	GROSS	NET
DEVELOPMENT WELLS:						
Oil.....	10	6.6	33	28.0	23	20.9
Gas.....	-	-	1	.2	-	-
Dry.....	-	-	-	-	-	-
Total.....	10	6.6	34	28.2	23	20.9
EXPLORATORY WELLS:						
Oil.....	2	.8	8	7.5	4	4.0
Gas.....	4	2.2	-	-	-	-
Dry.....	10	6.6	5	1.9	2	.6
Total.....	16	9.6	13	9.4	6	4.6
TOTAL WELLS:						
Oil.....	12	7.4	41	35.5	27	24.9
Gas.....	4	2.2	1	.2	-	-
Dry.....	10	6.6	5	1.9	2	.6
Total.....	26	16.2	47	37.6	29	25.5

The information contained in the foregoing table should not be considered indicative of future drilling performance, nor should it be assumed that there is any necessary correlation between the number of productive wells drilled and the amount of oil and gas that may ultimately be recovered by the Company.

The Company does not own any drilling rigs and all of its drilling activities are conducted by independent contractors on a day rate basis under standard drilling contracts.

PRODUCTIVE WELL SUMMARY

The following table sets forth certain information regarding the Company's ownership as of December 31, 1998, of productive wells in the areas indicated.

	OIL		GAS		TOTAL	
	GROSS	NET	GROSS	NET	GROSS	NET
Trend	289	223.2	22	15.2	311	238.4
Jalmat	37	30.0	95	76.7	132	106.7
East Texas.....	-	-	108	10.7	108	10.7
Texas Gulf Coast.....	1	.4	27	11.3	28	11.7
Other.....	34	20.3	20	4.8	54	25.1
Total.....	361	273.9	272	118.7	633	392.6

The Company seeks to act as operator of the wells in which it owns a significant interest. As operator of a well, the Company is able to manage drilling and production operations as well as other matters affecting the production and sale of oil and gas. In addition, the Company receives fees from other working interest owners for the operation of the wells. At December 31, 1998, the Company was the operator of 518 wells, or approximately 82% of the 633 total wells in which it has a working interest. Production from these operated wells represented approximately 87% of the Company's total net production for 1998.

VOLUMES, PRICES AND PRODUCTION COSTS

The following table sets forth certain information regarding the production volumes of, average sales prices received from, and average production costs associated with the Company's sales of oil and gas for the periods indicated.

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
OIL AND GAS PRODUCTION DATA (1):			
Oil (MBbls).....	2,528	2,903	2,203
Gas (MMcf).....	4,833	5,091	5,584
Total (MBOE).....	3,334	3,752	3,134
AVERAGE OIL AND GAS SALES PRICE (2):			
Oil (\$/Bbl).....	\$ 16.20	\$ 19.80	\$ 20.85
Gas (\$/Mcf)(3).....	\$ 2.35	\$ 2.64	\$ 2.65
AVERAGE PRODUCTION COSTS			
Lease operations (\$/BOE)(4).....	\$ 4.27	\$ 4.32	\$ 4.71

(1) Subsequent to December 31, 1998, the Company sold or contracted to sell its interests in properties which produced an aggregate of 44 MBbls of oil, 1,525 MMcf of gas, and 298 MBOE in 1998.

(2) Includes effects of hedging transactions.

(3) Includes natural gas liquids.

(4) Includes direct lifting costs (labor, repairs and maintenance, materials and supplies), workover costs and the administrative costs of production offices, insurance and property and severance taxes.

DEVELOPMENT, EXPLORATION AND ACQUISITION EXPENDITURES

The following table sets forth certain information regarding the costs incurred by the Company in its development, exploration and acquisition activities during the periods indicated.

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
	(IN THOUSANDS)		
Property Acquisitions:			
Proved.....	\$ 7,077	\$ -	\$ 1,375
Unproved.....	10,602	14,042	5,002
Developmental Costs.....	7,285	32,656	20,931
Exploratory Costs.....	22,319	13,813	6,306
Total.....	\$ 47,283	\$ 60,511	\$ 33,614

ACREAGE

The following table sets forth certain information regarding the Company's developed and undeveloped leasehold acreage as of December 31, 1998 in the areas indicated. This table excludes options to acquire leases and acreage in which the Company's interest is limited to royalty, overriding royalty and similar interests.

	DEVELOPED		UNDEVELOPED		TOTAL	
	GROSS	NET	GROSS	NET	GROSS	NET
Trend.....	116,681	105,772	106,112	83,748	222,793	189,520
Glen Rose (1).....	8,414	2,042	112,033	71,600	120,447	73,642
Jalmat (2).....	9,481	8,023	-	-	9,481	8,023
Texas Gulf Coast (2).....	9,156	4,220	562	163	9,718	4,383
Other (3).....	20,768	6,041	215,993	106,136	236,761	112,177
Total.....	164,500	126,098	434,700	261,647	599,200	387,745

(1) In addition, the Company held options to acquire approximately 37,000 net acres in this area as of December 31, 1998.

(2) Subsequent to December 31, 1998, the Company entered into a definitive agreement for the sale of its interests in the Jalmat Field (8,023 net acres) and also sold its interest in eight non-operated oil and gas wells located in Matagorda County, Texas (1,736 net acres).

(3) Net undeveloped acres are attributable to the following areas:

Mississippi - 23,975; Louisiana - 22,641; Colorado - 20,756; Alabama - 13,486; Wyoming - 7,717; and other - 17,561.

ITEM 3 - LEGAL PROCEEDINGS

SPECIAL NOTE: CERTAIN STATEMENTS SET FORTH BELOW UNDER THIS CAPTION CONSTITUTE "FORWARD-LOOKING STATEMENTS." SEE "SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS" FOR ADDITIONAL FACTORS RELATING TO SUCH STATEMENTS.

The Company is a defendant in a suit styled The State of Texas, et al v. Union Pacific Resources Company et al, presently pending in Lee County, Texas. The suit attempts to establish a class action consisting of unidentified royalty and working interest owners throughout the State of Texas. Among other things, the plaintiffs are seeking actual and exemplary damages for alleged violation of various statutes relating to common carriers and common purchasers of crude oil including discrimination in the purchase of oil by giving preferential treatment to defendants' own oil and conspiring to keep the posted price or sales price of oil below market value. A general denial has been filed. Because the Company is neither a common purchaser nor common carrier of oil, management of the Company believes there is no merit to the allegations as they relate to the Company or its operations.

In addition, the Company is a defendant or codefendant in minor lawsuits that have arisen in the ordinary course of business. While the outcome of these lawsuits cannot be predicted with certainty, management does not expect any of these to have a material adverse effect on the Company's consolidated financial condition or results of operations.

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of the security holders of the Registrant during the fourth quarter of its fiscal year ended December 31, 1998.

PART II

ITEM 5 - MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED

STOCKHOLDER MATTERS

The Company's Common Stock is quoted on the Nasdaq Stock Market's National Market under the symbol "CWEI". As of December 31, 1998, there were approximately 1,400 beneficial and record stockholders. The following table sets forth, for the periods indicated, the high and low sales prices for the Common Stock, as reported on the National Market:

	High	Low
	-----	-----
Year Ended December 31, 1998:		
Fourth Quarter.....	\$ 10 1/2	\$ 6 1/2
Third Quarter.....	11 3/4	5 5/16
Second Quarter.....	12 7/8	9 1/4
First Quarter.....	15 1/4	7 7/8
Year Ended December 31, 1997:		
Fourth Quarter.....	\$ 18 7/8	\$ 12 1/2
Third Quarter.....	17 1/4	9 7/8
Second Quarter.....	15 3/4	10 1/2
First Quarter.....	19 7/8	11 3/4

The quotations in the table above reflect inter-dealer prices without retail markups, markdowns or commissions. On March 24, 1999, the last reported sale price for the Common Stock on the Nasdaq Stock Market's National Market was \$5 1/2.

The Company has not paid any cash dividends on its Common Stock, and the Board of Directors does not anticipate paying any cash dividends in the foreseeable future. The terms of the Company's secured bank credit facility limit the payment of cash dividends by the Company during any fiscal year to a maximum of 50% of the Company's net income during such period, assuming compliance with other terms thereof. Subject to the restrictions imposed by the Company's lenders, future dividend policy will depend on a number of factors, including future earnings, capital requirements, the financial condition and future prospects of the Company and such other factors as the Board of Directors may deem relevant.

ITEM 6 - SELECTED FINANCIAL DATA

The following table sets forth selected consolidated financial data for the Company as of the dates and for the periods indicated. The consolidated financial data for each of the years in the five-year period ended December 31, 1998 was derived from audited financial statements of the Company. The data set forth in this table should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Consolidated Financial Statements.

YEAR ENDED DECEMBER 31,

	1998	1997	1996	1995	1994
(IN THOUSANDS, EXCEPT PER SHARE DATA)					
STATEMENT OF OPERATIONS DATA:					
Revenues:					
Oil and gas sales.....	\$ 51,932	\$ 70,929	\$ 60,610	\$ 43,883	\$ 43,617
Natural gas services.....	3,795	4,559	4,281	5,388	5,868
Total revenues.....	55,727	75,488	64,891	49,271	49,485
Costs and expenses:					
Lease operations.....	14,237	16,205	14,776	13,533	12,775
Exploration:					
Abandonments and impairments.....	16,128	2,692	597	1,472	6,227
Seismic and other.....	4,501	7,629	1,036	83	912
Natural gas services.....	3,242	3,955	3,437	3,714	3,510
Depreciation, depletion and amortization.....	25,248	31,665	31,273	23,758	25,110
Impairment of property and equipment (1).....	-	8,493	236	1,186	10,259
General and administrative.....	4,299	4,181	3,266	3,708	5,659
Total costs and expenses.....	82,565	66,171	48,056	57,879	54,331
Operating income (loss).....	(26,838)	9,317	16,835	(8,608)	(4,846)
Other income (expense):					
Interest expense.....	(2,384)	(1,767)	(3,440)	(5,493)	(4,461)
Other income (expense) (2).....	138	217	335	6,022	759
Total other income (expense).....	(2,246)	(1,550)	(3,105)	529	(3,702)
Income (loss) before income taxes....	(29,084)	7,767	13,730	(8,079)	(8,548)
Income tax expense.....	-	-	-	-	-
Net income (loss).....	\$ (29,084)	\$ 7,767	\$ 13,730	\$ (8,079)	\$ (8,548)
Net income (loss) per common share:					
Basic.....	\$ (3.27)	\$.87	\$ 1.80	\$ (1.31)	\$ (1.50)
Diluted.....	\$ (3.27)	\$.85	\$ 1.76	\$ (1.31)	\$ (1.50)
Weighted average common shares outstanding:					
Basic.....	8,905	8,888	7,624	6,165	5,700
Diluted.....	8,905	9,094	7,800	6,165	5,700
OTHER DATA:					
Net cash provided by operating activities.....	\$ 33,505	\$ 39,324	\$ 40,306	\$ 24,203	\$ 23,672
EBITDAX (3).....	\$ 33,949	\$ 51,147	\$ 43,412	\$ 28,316	\$ 27,541

DECEMBER 31,

	1998	1997	1996
(IN THOUSANDS)			
BALANCE SHEET DATA:			
Working capital (deficit).....	\$ (15,848)	\$ (6,369)	\$ (3,422)
Total assets.....	120,653	134,562	103,598
Long-term debt.....	39,100	35,700	18,000
Stockholders' equity.....	44,394	73,074	66,214

(1) The Company adopted the provisions of Statement of Financial Accounting Standards No. 121 "Accounting for Impairment of Long-Lived Assets" effective October 1, 1995.

(2) The 1995 period includes a \$6 million non-recurring gain on sale of two principal gas gathering and processing systems.

(3) EBITDAX refers to earnings before income taxes, interest expense, depreciation, depletion and amortization, impairment of property and equipment, exploration costs, and other income (expense). EBITDAX is a financial measure commonly used in the Company's industry and should not be considered in isolation or as a substitute for net income, cash flow provided by operating activities or other income or cash flow data prepared in accordance with generally accepted accounting principles or as a measure of a company's profitability or liquidity.

ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SPECIAL NOTE: CERTAIN STATEMENTS SET FORTH BELOW UNDER THIS CAPTION CONSTITUTE "FORWARD-LOOKING STATEMENTS." SEE "SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS" FOR ADDITIONAL FACTORS RELATING TO SUCH STATEMENTS.

The following discussion is intended to assist in understanding the Company's historical consolidated financial position at December 31, 1998, and results of operations and cash flows for each of the three years in the period ended December 31, 1998. The Company's historical Consolidated Financial Statements and notes thereto included elsewhere in this Form 10-K contain detailed information that should be referred to in conjunction with the following discussion.

OVERVIEW

Prior to 1998, the Company and its predecessors concentrated their drilling activities in the Trend. Oil and gas production in the Trend is generally characterized by a high initial production rate, followed by a steep rate of decline. In order to maintain its oil and gas reserve base, production levels and cash flow from operations, the Company has been required to maintain or increase its level of drilling activity and achieve comparable or improved results from such activities. In response to low oil prices, the Company suspended its Trend drilling activities in April 1998 and has no plans to resume drilling in that area until oil prices improve and stabilize.

Beginning in 1997, the Company initiated several exploratory projects designed to reduce its dependence on Trend drilling for future production and reserve growth. These new areas include other formations in the vicinity of its core properties in east central Texas, as well as south Texas, Louisiana and Mississippi, and emphasize the development of long-life gas reserves. During 1998, the Company devoted a substantial portion of its capital expenditures to these new areas. Of the 16 gross (9.6 net) exploratory wells drilled in 1998, the Company successfully completed 5 gross (2.6 net) exploratory wells in areas outside the Trend, and in addition, completed 1 gross (1 net) exploratory well in January 1999. In the aggregate, these discoveries accounted for about 85% of the Company's 1,716 MBOE of proved reserves added during 1998.

The most significant discovery was the J. C. Fazzino Unit #1, a Cotton Valley Pinnacle Reef gas well in Robertson County, Texas in which the Company owns a 100% working interest. The Company's net proved reserves on this well are estimated to be 7.6 Bcf of gas (1,260 MBOE). The Company is presently constructing a gas pipeline and treatment facility in order to market these gas reserves. Prior to first sales, which are planned for May 1999, the Company will stimulate the well in an attempt to improve initial flow rates. The Company also plans to drill an offset well to the J. C. Fazzino #1 during 1999. See "LIQUIDITY AND CAPITAL RESOURCES - CAPITAL EXPENDITURES."

The Company follows the successful efforts method of accounting for its oil and gas properties, whereby costs of productive wells, developmental dry holes and productive leases are capitalized and amortized using the unit-of-production method based on estimated proved reserves. Costs of unproved properties are initially capitalized. Those properties with significant acquisition costs are periodically assessed and any impairment in value is charged to expense. The amount of impairment recognized on unproved properties which are not individually significant is determined by amortizing the costs of such properties within appropriate groups based on the Company's historical experience, acquisition dates and average lease terms. Exploration costs, including geological and geophysical expenses and delay rentals, are charged to expense as incurred. Exploratory drilling costs, including the cost of stratigraphic test wells, are initially capitalized but charged to expense if and when the well is determined to be unsuccessful.

RESULTS OF OPERATIONS

The following table sets forth certain operating information of the Company for the periods presented:

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
OIL AND GAS PRODUCTION DATA (1):			
Oil (MMbbls).....	2,528	2,903	2,203
Gas (MMcf).....	4,833	5,091	5,584
Total (MBOE) (2).....	3,334	3,752	3,134
AVERAGE OIL AND GAS SALES PRICES (3):			
Oil (\$/Bbl).....	\$16.20	\$19.80	\$ 20.85
Gas (\$/Mcf).....	\$ 2.35	\$ 2.64	\$ 2.65
OPERATING COSTS AND EXPENSES (\$/BOE PRODUCED):			
Lease operations.....	\$ 4.27	\$ 4.32	\$ 4.71
Oil and gas depletion.....	\$ 9.24	\$ 8.10	\$ 7.32
General and administrative.....	\$ 1.29	\$ 1.11	\$ 1.04
NET WELLS DRILLED (4):			
Exploratory Wells.....	9.6	9.4	4.6
Developmental Wells.....	6.6	28.2	20.9

(1) Subsequent to December 31, 1998, the Company sold or contracted to sell its interests in properties which produced an aggregate of 44 MMbbls of oil, 1,525 MMcf of gas, and 298 MBOE in 1998.

(2) Gas is converted to barrel of oil equivalents (BOE) at the ratio of six Mcf of gas to one Bbl of oil.

(3) Includes effects of hedging transactions.

(4) Excludes wells being drilled or completed at the end of each period.

1998 COMPARED TO 1997

REVENUES

Oil and gas sales decreased 27% from \$70.9 million in 1997 to \$51.9 million in 1998 due primarily to lower oil prices. The Company's average oil price during the current period declined 18% (after giving effect to a \$3.50 per barrel gain on hedging activities). Excluding hedging transactions, the Company's average price per barrel of oil declined 36% from \$19.76 in 1997 to \$12.70 in 1998. Although oil production for 1998 decreased 13% as compared to 1997, several factors related to the current depressed levels of oil prices had a negative impact on production. In April 1998, the Company suspended its Trend drilling program until oil prices improve and stabilize. The Company also implemented an oil curtailment strategy during 1998 which resulted in a decrease of approximately 100,000 barrels of oil production during the year. All of the Company's gas discoveries in 1998 were either completed late in the year or are currently waiting on pipeline connections. Accordingly, production from new wells has not been sufficient to offset the recent decline in oil production attributable to the suspension of Trend drilling. Furthermore, until these wells and other exploratory projects establish and sustain commercial levels of production, there can be no assurance that the Company will be successful in its efforts to offset the decline in production.

COSTS AND EXPENSES

Lease operations expenses decreased 12% from \$16.2 million in 1997 to \$14.2 million in 1998 due primarily to lower production taxes resulting from a significant decline in oil prices. Oil and gas production on a BOE basis decreased 11% during the current period, causing a 1% decrease in lease operations expenses on a BOE basis from \$4.32 per BOE in 1997 to \$4.27 per BOE in 1998.

Exploration costs doubled from \$10.3 million in 1997 to \$20.6 million in 1998 due primarily to the charge-off of 10 gross (6.6 net) exploratory dry holes during the 1998 period totaling \$7.7 million and \$8.4 million of unproved property impairments. These 1998 charges were offset in part by a \$3.3 million reduction in seismic costs from 1997 to 1998. Because the Company follows the successful efforts method of accounting, the Company's results of operations may be adversely affected during any accounting period in which seismic costs, exploratory dry hole costs, and unproved property impairments are expensed.

Depreciation, depletion and amortization ("DD&A") expense increased 1% from \$31.3 million in 1997 to \$31.7 million in 1998 due primarily to a 14% increase in the Company's average depletion rate per BOE attributable to the effects of lower oil and gas prices on estimated quantities of proved reserves. This increase in the average depletion rate was substantially offset by an 11% decline in oil and gas production on a BOE basis. Under the successful efforts method of accounting, costs of oil and gas properties are amortized on a unit-of-production method based on estimated proved reserves. The average depletion rate per BOE was \$9.24 in 1998 compared to \$8.10 in 1997.

General and administrative ("G&A") expenses were relatively constant from 1997 to 1998. However, beginning in December 1998, the Company implemented certain cost reduction measures, consisting primarily of personnel layoffs and salary reductions, in order to reduce overhead and conserve financial resources. Through these efforts, the Company expects to reduce G&A expenses in 1999 by approximately 33% on an annualized basis.

The Company recorded a provision for impairment of property and equipment of \$8.5 million during the fourth quarter of 1998 in accordance with Statement of Financial Accounting Standards No. 121 "Accounting for Impairment of Long-Lived Assets" ("SFAS 121"), as compared to a \$236,000 provision in 1997. The 1998 provision applied to certain oil and gas properties in east central Texas, south Texas, the Texas Gulf Coast, Louisiana, and Mississippi and was caused primarily by a decline in forecasted oil and gas prices.

INTEREST EXPENSE AND OTHER

Interest expense increased 33% from \$1.8 million in 1997 to \$2.4 million in 1998 due primarily to higher average levels of indebtedness on the Company's secured bank credit facility (the "Credit Facility"), offset in part by an increase in capitalized interest and slightly lower average interest rates. The average daily principal balance outstanding on such facility during 1998 was \$40.8 million compared to \$24 million in 1997. The effective annual interest rate on bank debt, including bank fees, during the 1998 period was 8.1% compared to 8.7% in 1997. Capitalized interest was \$621,000 higher during the 1998 period due to a significant increase in unproved acreage.

1997 COMPARED TO 1996

REVENUES

Oil and gas sales increased 17% from \$60.6 million in 1996 to \$70.9 million in 1997 due primarily to a 32% increase in oil production. The effect of higher oil production was partially offset by a 5% decrease in oil prices and a 9% decline in gas production. Production from wells completed subsequent to December 31, 1996 accounted for approximately 42% of total oil production for the 1997 period, which more than offset the effects of steep production declines from previously existing Trend wells. The Company plans to discontinue Trend drilling in April 1998 pending an improvement in oil prices, which have fallen to their lowest levels in four years. The suspension of Trend drilling activities for an extended period of time may adversely affect the Company's production and revenues in 1998.

COSTS AND EXPENSES

Lease operations expenses increased 9% from \$14.8 million in 1996 to \$16.2 million in 1997 while oil and gas production on a BOE basis increased 20%, resulting in a decrease in lease operations expenses on a BOE basis from \$4.71 per BOE in 1996 to \$4.32 per BOE in 1997. Higher initial rates of production on several of the wells completed during 1997 contributed materially to the decline in lease operations expenses per BOE.

Exploration costs increased from \$1.6 million in 1996 to \$10.3 million in 1997 due primarily to costs incurred during 1997 in connection with exploration projects initiated during the fourth quarter of 1996. The Company plans to spend approximately \$17 million in 1998 on exploratory prospects. Because the Company follows the successful efforts method of accounting, the Company's results of operations may be adversely affected during any accounting period in which seismic costs, exploratory dry hole costs, and unproved property impairments are expensed.

DD&A expense increased 32% from \$23.8 million in 1996 to \$31.3 million in 1997 due primarily to a 20% increase in oil and gas production on a BOE basis, combined with an 11% increase in the Company's average depletion rate per BOE. Under the successful efforts method of accounting, costs of oil and gas properties are amortized on a unit-of-production method based on estimated proved reserves. The average depletion rate per BOE was \$8.10 in the 1997 period compared to \$7.32 in the 1996 period.

G&A expenses increased 27% from \$3.3 million in 1996 to \$4.2 million in 1997 due primarily to increased personnel costs. In response to an increase in demand for skilled technical and managerial personnel in the oil and gas industry and an increase in the Company's level of exploration and development activities, the Company has hired additional personnel and increased salaries of existing personnel.

INTEREST EXPENSE

Interest expense decreased 47% from \$3.4 million in 1996 to \$1.8 million in 1997 due primarily to lower average levels of indebtedness on the Credit Facility and, to a much lesser extent, lower average interest rates. The average daily principal balance outstanding on such facility during the 1997 period was \$24 million compared to \$36.9 million in 1996. The effective annual interest rate on bank debt, including bank fees, during the 1997 period was 8.7% compared to 9.4% in 1996.

LIQUIDITY AND CAPITAL RESOURCES

OVERVIEW

The Company's primary financial resource is its oil and gas reserves. In accordance with the terms of the Credit Facility, the banks establish a borrowing base, as derived from the estimated value of the Company's oil and gas properties, against which the Company may borrow funds as needed to supplement its internally generated cash flow as a source of financing for its capital expenditure program. Product prices, over which the Company has very limited control, have a significant impact on such estimated value and thereby on the Company's borrowing availability under the Credit Facility. Within the confines of product pricing, the Company must be able to find and develop or acquire oil and gas reserves in a cost effective manner in order to generate sufficient financial resources through internal means to complete the financing of its capital expenditure program.

The following discussion sets forth the Company's current plans for capital expenditures in 1999, and the expected capital resources needed to finance such plans.

CAPITAL EXPENDITURES

At present time, the Company plans to spend only \$3.8 million on exploration and development activities during 1999, substantially all of which is projected to be spent on the Cotton Valley Exploratory Project in the North Giddings Block. In January 1999, the Company completed the J. C. Fazzino Unit #1, a Cotton Valley Pinnacle Reef well in Robertson County, Texas drilled into one of several reef anomalies identified by a 3-D seismic survey conducted in 1997. The Company is currently constructing a gas pipeline and treatment facility for the well and plans to acidize the well prior to first production. In the aggregate, the Company expects to spend approximately \$3.2 million in 1999 to complete the well and facilities and to renew and extend leases in the North Giddings Block, as required. In addition, the Company plans to drill an offset well to the J. C. Fazzino Unit #1 during 1999 utilizing a vendor financing program.

The Company may increase its planned activities for 1999 if product prices improve and if the Company is able to obtain the capital resources necessary to finance such activities. See "BUSINESS - DRILLING, EXPLORATION AND PRODUCTION ACTIVITIES."

CAPITAL RESOURCES

CREDIT FACILITY

The Credit Facility provides for a revolving loan facility in an amount not to exceed the lesser of the borrowing base, as established by the banks, or that portion of the borrowing base determined by the Company to be the elected borrowing limit. At December 31, 1998, the borrowing base was \$57 million and the outstanding advances were \$54.9 million. In January 1999, the borrowing base was reduced to \$53 million to give effect to the sale of certain assets in Matagorda County, Texas. The borrowing base is subject to redetermination at any time, but at least semi-annually, and is made at the discretion of the banks.

Anticipating the adverse affects that low product prices could have on the borrowing base, the Company initiated efforts late in 1998 to sell its interests in two properties in order to reduce the amount of outstanding indebtedness on the Credit Facility. In January 1999, the Company completed the sale of its interest in eight non-operated oil and gas wells located in Matagorda County, Texas for \$5.2 million. In March 1999, the Company entered into a definitive agreement for the sale of its interests in the Jalmat Field located in Lea County, New Mexico for \$12.5 million. The Jalmat sale is scheduled to close in April 1999.

In March 1999, the banks completed a borrowing base review and elected to maintain the borrowing base at \$53 million until the Company consummates the sale of its Jalmat assets. Once the Jalmat sale is completed, the borrowing base will reduce to \$43 million and will also be subject to monthly commitment reductions of \$650,000 beginning in July 1999. The adjusted borrowing base will remain in effect until the next scheduled borrowing base redetermination in November 1999. However, if the Jalmat sale does not occur by May 1, 1999, the banks will cause the borrowing base to be redetermined. If the redetermined borrowing base is less than the amount of outstanding indebtedness, the Company will be required to (i) pledge additional collateral, (ii) prepay the excess in not more than five equal monthly installments, or (iii) elect to convert the entire amount of outstanding indebtedness to a term obligation based on amortization formulas set forth in the loan agreement.

WORKING CAPITAL AND CASH FLOW

During 1999, the Company generated cash flow from operating activities of \$33.5 million, borrowed \$19.2 million on the Credit Facility, and spent \$53.7 million on capital expenditures.

The Company's working capital deficit increased from \$6.4 million at December 31, 1997 to \$15.8 million at December 31, 1998. The Company classified \$15.8 million of its outstanding indebtedness on the Credit Facility as a current liability based on the required levels of repayments during 1999. The Company also

classified the net book value of properties sold or contracted for sale in 1999 as properties held for resale and, accordingly, reported \$7.5 million as a current asset at December 31, 1998.

ADDITIONAL CAPITAL RESOURCES

The Company believes that the funds which will be available from the completed and pending sales of assets, combined with operating cash flow, will be adequate to fund the required reductions in indebtedness on the Credit Facility and the projected capital expenditures for 1999. However, because future cash flows and the availability of borrowings under the Credit Facility are subject to a number of variables, such as prevailing prices of oil and gas, actual production from existing and newly-completed wells, the Company's success in developing and producing new reserves, and the uncertainty with respect to the amount of funds which may ultimately be required to finance the Company's exploration program, there can be no assurance that the Company's capital resources will be sufficient to sustain the Company's exploratory and development activities.

If funds available from asset sales, combined with operating cash flow, are not sufficient to fund its debt repayments and anticipated levels of capital expenditures, the Company will be required to seek alternative forms of capital resources, including the sale of other assets and the issuance of debt or equity securities. Although the Company believes it will be able to obtain funds pursuant to one or more of these alternatives, if needed, management cannot be assured that any such capital resources will be available to the Company. If additional capital resources are needed, but the Company is unable to obtain such capital resources on a timely basis, the Company may not be able to maintain a level of liquidity sufficient to meet its obligations as they mature or maintain compliance with the required financial covenants contained in the Credit Facility.

INFLATION

Although certain of the Company's costs and expenses are affected by the level of inflation, inflation did not have a significant effect on the Company's results of operations during 1998.

INFORMATION SYSTEMS FOR THE YEAR 2000

Historically, certain computer software systems, as well as certain hardware containing embedded chip technology, such as microcontrollers and microprocessors, were designed to utilize a two-digit date field and consequently, they may not be able to properly recognize dates in the year 2000. This could result in system failures. The Company relies on its computer-based management information systems, as well as embedded technology, to operate instruments and equipment in conducting its day-to-day business activities. Certain of these computer-based programs and embedded technology may not have been designed to function properly with respect to the application of dating systems relating to the year 2000.

In response, the Company has developed a "Year 2000 Plan" and, in 1998, established an internal group to identify and assess potential areas of risk and to make any required modifications to its computer systems and equipment used in oil and gas exploration, production, gathering and gas processing activities. The Year 2000 Plan is comprised of various phases, including assessment, remediation, testing and contingency plan development. The Company believes this plan will provide reasonable assurance that its business activities and facilities will continue to operate safely and reliably, and without material interruption after 1999.

The Company has completed all phases of the Year 2000 Plan as it relates to its internal systems and hardware. The Company's inventory of computer hardware and software is substantially Year 2000 compliant. The programming modifications for the oil and gas accounting and production systems were completed by the software vendor in 1997 and were installed and tested by the Company in November 1998.

The Company has monitor and control equipment with embedded chip technology which are utilized in production and gas processing operations. The various systems were reviewed in conjunction with the overall Year 2000 Plan and were found to be Year 2000 compliant based on manufacturers' representations.

The Company has also undertaken to monitor the compliance efforts of purchasers, vendors, contractors and other third parties ("Third Party Providers") with whom it does business and whose computer-based systems and/or embedded technology equipment interface with those of the Company to ensure that operations will not be adversely affected by the Year 2000 compliance problems of others. There can be no assurance that there will not be an adverse effect on the Company if Third Party Providers do not convert their respective systems in a timely manner and in a way that is compatible with the Company's information systems and embedded technology equipment. However, management believes that ongoing communication with and assessment of the compliance efforts and status of Third Party Providers will minimize these risks. Since the Company's operations generally are not dependent on any single Third Party Provider, the Company is prepared to select Third Party Providers which are Year 2000 compliant by the fourth quarter of 1999.

To date, the costs to implement the Year 2000 Plan have been nominal since the primary area for remediation involved software covered by a maintenance agreement. The Company does not expect to incur any significant costs during the remainder of 1999 to complete the Year 2000 Plan.

Although the Company anticipates minimal business disruptions as a result of Year 2000 issues, in the event the computer-based programs and embedded technology equipment of the Company, or that owned and operated by Third Party Providers, should fail to function properly, possible consequences include, but are not limited to, loss of communication links, inability to produce, process and sell oil and natural gas, loss of electric power, and inability to automatically process commercial transactions or engage in similar automated or computerized business activities.

ITEM 7A - QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISKS

SPECIAL NOTE: CERTAIN STATEMENTS SET FORTH BELOW UNDER THIS CAPTION CONSTITUTE "FORWARD-LOOKING STATEMENTS." SEE "SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS" FOR ADDITIONAL FACTORS RELATING TO SUCH STATEMENTS.

The Company's business is impacted by fluctuations in commodity prices and interest rates. The following discussion is intended to identify the nature of these market risks, describe the Company's strategy for managing such risks, and to quantify the potential affect of market volatility on the Company's financial condition and results of operations.

OIL AND GAS PRICES

The Company's financial condition, results of operations, and capital resources are highly dependent upon the prevailing market prices of, and demand for, oil and natural gas. These commodity prices are subject to wide fluctuations and market uncertainties due to a variety of factors that are beyond the control of the Company. These factors include the level of global demand for petroleum products, foreign supply of oil and gas, the establishment of and compliance with production quotas by oil-exporting countries, weather conditions, the price and availability of alternative fuels, and overall economic conditions, both foreign and domestic. It is impossible to predict future oil and gas prices with any degree of certainty. Sustained weakness in oil and gas prices may adversely affect the Company's financial condition and results of operations, and may also reduce the amount of net oil and gas reserves that the Company can produce economically. Any reduction in reserves, including reductions due to price fluctuations, can have an adverse affect on the Company's ability to obtain capital for its exploration and development activities. Similarly,

any improvements in oil and gas prices can have a favorable impact on the Company's financial condition, results of operations and capital resources. Based on the Company's 1998 levels of oil and gas production, a \$1 change in the price per Bbl of oil and a \$.10 change in the price per Mcf of gas would result in an aggregate change in gross revenues of approximately \$3 million.

From time to time, the Company has utilized hedging transactions with respect to a portion of its oil and gas production to mitigate its exposure to price fluctuations. While the use of these hedging arrangements limits the downside risk of price declines, such use may also limit any benefits which may be derived from price increases. The Company uses various financial instruments, such as swaps, collars and puts, whereby monthly settlements are based on differences between the prices specified in the instruments and the settlement prices of certain futures contracts quoted on the NYMEX or certain other indices. Generally, when the applicable settlement price is less than the price specified in the contract, the Company receives a settlement from the counterparty based on the difference. Similarly, when the applicable settlement price is higher than the specified price, the Company pays the counterparty based on the difference. The instruments utilized by the Company differ from futures contracts in that there is not a contractual obligation which requires or permits the future physical delivery of the hedged products.

During 1998 and continuing into 1999, the oil and gas industry has operated in a depressed commodity price environment. Oil prices during the first quarter of 1999 fell to their lowest levels in history when adjusted for inflation. Although oil prices improved to some degree in late March 1999, current prices remain substantially lower than levels achieved in 1997. In November 1997, the Company entered into swap arrangements on a significant portion of its 1998 oil production and realized a gain of \$8.8 million in 1998 on oil hedges. In addition, the Company hedged a portion of its 1998 gas production at various times beginning in November 1997 and realized net gains of \$1.1 million in 1998 on gas hedges.

As of December 31, 1998, the Company had options to sell an aggregate of 800,000 barrels of oil production from January 1999 through June 1999 at a price of \$10.00 per barrel. The Company plans to enter into additional hedging arrangements when and if the market prices for future oil and gas production improve to favorable levels based on management's analysis of price expectations.

INTEREST RATES

All of the Company's outstanding indebtedness at December 31, 1998 is subject to market rates of interest as determined from time to time by the banks pursuant to the Credit Facility. See "CAPITAL RESOURCES". The Company may designate borrowings under the Credit Facility as either "Base Rate Loans" or "Eurodollar Loans." Base Rate Loans bear interest at a fluctuating rate that is linked to the discount rates established by the Federal Reserve Board. Eurodollar Loans bear interest at a fluctuating rate that is linked to LIBOR. Any increases in these interest rates can have an adverse impact on the Company's results of operations and cash flow. Although various financial instruments are available to hedge the effects of changes in interest rates, the Company does not consider the risk to be significant and has not entered into any interest rate hedging transactions. Based on the Company's outstanding indebtedness at December 31, 1998 of \$54.9 million, a change in interest rates of 25 basis points would affect annual interest payments by approximately \$137,000.

ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

For the financial statements and supplementary data required by this Item 8, see the Index to Consolidated Financial Statements included elsewhere in this Form 10-K.

ITEM 9 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10 - DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The Information required by this Item is incorporated herein by reference to the Company's definitive proxy statement which will be filed with the Commission within 120 days after December 31, 1998.

ITEM 11 - EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to the Company's definitive proxy statement which will be filed with the Commission within 120 days after December 31, 1998.

ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated herein by reference to the Company's definitive proxy statement which will be filed with the Commission within 120 days after December 31, 1998.

ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated herein by reference to the Company's definitive proxy statement which will be filed with the Commission within 120 days after December 31, 1998.

PART IV

ITEM 14 - EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

FINANCIAL STATEMENTS AND SCHEDULES

For a list of the consolidated financial statements filed as part of this Form 10-K, see the Index to Consolidated Financial Statements on page F-1.

No financial statement schedules are required to be filed as a part of this Form 10-K.

REPORTS ON FORM 8-K

No reports on Form 8-K were filed during the quarter ended December 31, 1998.

EXHIBITS

EXHIBIT NUMBER -----	DESCRIPTION OF EXHIBIT -----
**3.1	Second Restated Certificate of Incorporation of the Company, filed as an exhibit to the Form S-2 Registration Statement, Registration No. 333-13441
**3.2	Bylaws of the Company, filed as an exhibit to the Form S-1 Registration Statement, Registration No. 33-43350
**10.1	Sixth Restated Loan Agreement dated as of July 16, 1998, among Clayton Williams Energy, Inc., Warrior Gas Co., CWEI Acquisitions, Inc., Bank One, Texas, N.A., Banque Paribas and the First National Bank of Chicago, filed as an exhibit to the June 30, 1998 Form 10-Q
*10.2	First Amendment to Sixth Restated Loan Agreement dated as of November 20, 1998, among Clayton Williams Energy, Inc., Warrior Gas Co., CWEI Acquisitions, Inc., Bank One, Texas, N.A., Paribas, Union Bank of California, N.A., and Compass Bank.
*10.3	Second Amendment to the Sixth Restated Loan Agreement dated as of March 26, 1999, among Clayton Williams Energy, Inc., Warrior Gas Co., CWEI Acquisitions, Inc., Bank One, Texas, N.A., Paribas and Union Bank of California, N.A.
**10.4	1993 Stock Compensation Plan, filed as an exhibit to the Form S-8 Registration Statement, Registration No. 33-68318
**10.5	First Amendment to 1993 Stock Compensation Plan, filed as an exhibit to the December 31, 1995 Form 10-K
**10.6	Second Amendment to the 1993 Stock Compensation Plan, filed as an exhibit to the Form S-8 Registration Statement, Registration No. 33-68318
**10.7	Outside Directors Stock Option Plan, filed as an exhibit to the Form S-8 Registration Statement, Registration No. 33-68316
**10.8	First Amendment to Outside Directors Stock Option Plan, filed as an exhibit to the December 31, 1995 Form 10-K

EXHIBIT NUMBER -----	DESCRIPTION OF EXHIBIT -----
**10.9	Bonus Incentive Plan, filed as an exhibit to the Form S-8 Registration Statement, Registration No. 33-68320
**10.10	First Amendment to Bonus Incentive Plan, filed as an exhibit to the December 31, 1997 Form 10-K
**10.11	Amended and Restated 401(k) Plan & Trust, filed as an exhibit to the December 31, 1995 Form 10-K
**10.12	Second Amendment to Amended and Restated 401(k) Plan & Trust, filed as an exhibit to the December 31, 1995 Form 10-K
**10.13	Third Amendment to Amended and Restated 401(k) Plan & Trust, filed as an exhibit to the December 31, 1995 Form 10-K
**10.14	Executive Incentive Stock Compensation Plan, filed as an exhibit to the Form S-8 Registration Statement, Registration No. 33-92834
**10.15	First Amendment to Executive Incentive Stock Compensation Plan, filed as an exhibit to the December 31, 1996 Form 10-K
**10.16	Consolidation Agreement dated May 13, 1993 among Clayton Williams Energy, Inc., Warrior Gas Co. and the Williams Entities, filed as an exhibit to the Form S-1 Registration Statement, Registration No. 33-43350
**10.17	Agreement dated April 23, 1993 between the Company and Robert C. Lyon, filed as an exhibit to the Form S-1 Registration Statement, Registration No. 33-43350
**10.18	Service Agreement effective October 1, 1995 among Clayton Williams Energy, Inc. and certain Williams Entities, filed as an exhibit to the December 31, 1995 Form 10-K
**21	Subsidiaries of the Registrant, filed as an exhibit to the December 31, 1996 Form 10-K
*23.1	Consent of Arthur Andersen LLP
*23.2	Consent of Williamson Petroleum Consultants, Inc.
*24.1	Power of Attorney
*24.2	Certified copy of resolution of Board of Directors of Clayton Williams Energy, Inc. authorizing signature pursuant to Power of Attorney
*27	Financial Data Schedules for the year ended December 31, 1998

* Filed herewith ** Incorporated by reference to the filing indicated

SIGNATURES

In accordance with the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CLAYTON WILLIAMS ENERGY, INC. (Registrant)

By: /s/ CLAYTON W. WILLIAMS, JR. *

Clayton W. Williams, Jr.
Chairman of the Board, President
and Chief Executive Officer

In accordance with the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
----- /s/ CLAYTON W. WILLIAMS, JR. * ----- Clayton W. Williams, Jr.	----- Chairman of the Board, President and Chief Executive Officer and Director	----- March 30, 1999
----- /s/ L. PAUL LATHAM ----- L. Paul Latham	----- Executive Vice President, Chief Operating Officer and Director	----- March 30, 1999
----- /s/ MEL G. RIGGS * ----- Mel G. Riggs	----- Senior Vice President - Finance, Secretary, Treasurer, Chief Financial Officer and Director	----- March 30, 1999
----- /s/ STANLEY S. BEARD * ----- Stanley S. Beard	----- Director	----- March 30, 1999
----- /s/ WILLIAM P. CLEMENTS * ----- William P. Clements	----- Director	----- March 30, 1999
----- /s/ ROBERT L. PARKER * ----- Robert L. Parker	----- Director	----- March 30, 1999
*By: /s/ L. PAUL LATHAM ----- L. Paul Latham ATTORNEY-IN-FACT		

CLAYTON WILLIAMS ENERGY, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of
Clayton Williams Energy, Inc.:

We have audited the accompanying consolidated balance sheets of Clayton Williams Energy, Inc. as of December 31, 1998 and 1997, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Clayton Williams Energy, Inc. as of December 31, 1998 and 1997, and the results of its operations and cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Dallas, Texas
March 11, 1999

CLAYTON WILLIAMS ENERGY, INC.
CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS)

ASSETS

	DECEMBER 31,	
	1998	1997
CURRENT ASSETS		
Cash and cash equivalents.....	\$ 1,424	\$ 2,150
Accounts receivable:		
Trade, net.....	6,782	4,197
Affiliates.....	244	173
Oil and gas sales.....	3,628	9,126
Inventory.....	1,230	2,530
Property held for resale.....	7,521	-
Other.....	482	1,243
	-----	-----
	21,311	19,419
	-----	-----
PROPERTY AND EQUIPMENT		
Oil and gas properties, successful efforts method.....	424,360	412,352
Natural gas gathering and processing systems.....	8,292	7,869
Other.....	10,480	10,411
	-----	-----
	443,132	430,632
Less accumulated depreciation, depletion and amortization.....	(343,857)	(315,559)
	-----	-----
Property and equipment, net.....	99,275	115,073
	-----	-----
OTHER ASSETS.....	67	70
	-----	-----
	\$ 120,653	\$ 134,562
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable:		
Trade.....	\$ 16,384	\$ 16,480
Affiliates.....	65	603
Oil and gas sales.....	3,433	7,679
Current maturities of long-term debt.....	15,800	42
Accrued liabilities and other.....	1,477	984
	-----	-----
	37,159	25,788
	-----	-----
LONG-TERM DEBT.....	39,100	35,700
	-----	-----
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY:		
Preferred stock, par value \$.10 per share; authorized - 3,000,000 shares; issued and outstanding - none.....	-	-
Common stock, par value \$.10 per share; authorized - 15,000,000 shares; issued - 8,937,561 shares in 1998 and 8,980,539 shares in 1997.....	894	898
Additional paid-in capital.....	69,744	70,856
Retained earnings (deficit).....	(26,244)	2,840
	-----	-----
	44,394	74,594
Less treasury stock, at cost (95,000 shares in 1997).....	-	(1,520)
	-----	-----
	44,394	73,074
	-----	-----
	\$ 120,653	\$ 134,562
	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

CLAYTON WILLIAMS ENERGY, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE)

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
REVENUES			
Oil and gas sales.....	\$ 51,932	\$ 70,929	\$ 60,610
Natural gas services.....	3,795	4,559	4,281
Total revenues.....	55,727	75,488	64,891
COSTS AND EXPENSES			
Lease operations.....	14,237	16,205	14,776
Exploration:			
Abandonments and impairments.....	16,128	2,692	597
Seismic and other.....	4,501	7,629	1,036
Natural gas services.....	3,242	3,955	3,437
Depreciation, depletion and amortization.....	31,665	31,273	23,758
Impairment of property and equipment.....	8,493	236	1,186
General and administrative.....	4,299	4,181	3,266
Total costs and expenses.....	82,565	66,171	48,056
Operating income (loss).....	(26,838)	9,317	16,835
OTHER INCOME (EXPENSE)			
Interest expense.....	(2,384)	(1,767)	(3,440)
Other.....	138	217	335
Total other income (expense).....	(2,246)	(1,550)	(3,105)
INCOME (LOSS) BEFORE INCOME TAXES.....	(29,084)	7,767	13,730
INCOME TAX EXPENSE			
Current.....	-	-	-
Deferred.....	-	-	-
Total income tax expense.....	-	-	-
NET INCOME (LOSS).....	\$ (29,084)	\$ 7,767	\$ 13,730
Net income (loss) per common share:			
Basic.....	\$ (3.27)	\$.87	\$ 1.80
Diluted.....	\$ (3.27)	\$.85	\$ 1.76
Weighted average common shares outstanding:			
Basic.....	8,905	8,888	7,624
Diluted.....	8,905	9,094	7,800

The accompanying notes are an integral part of these consolidated financial statements.

CLAYTON WILLIAMS ENERGY, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(IN THOUSANDS)

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (DEFICIT)	TREASURY STOCK	TOTAL
	NO. OF SHARES	PAR VALUE				
BALANCE, December 31, 1995	7,410	\$ 741	\$ 52,912	\$ (18,657)	\$ -	\$ 34,996
Sale of stock through secondary public offering, net of offering costs	1,428	143	16,874	-	-	17,017
Issuance of stock through compensation plans	90	9	462	-	-	471
Net income	-	-	-	13,730	-	13,730
BALANCE, December 31, 1996	8,928	893	70,248	(4,927)	-	66,214
Repurchase of common stock for treasury	-	-	-	-	(1,520)	(1,520)
Issuance of stock through compensation plans	53	5	608	-	-	613
Net income	-	-	-	7,767	-	7,767
BALANCE, December 31, 1997	8,981	898	70,856	2,840	(1,520)	73,074
Cancellation of treasury stock Issuance of stock through compensation plans	(95)	(9)	(1,511)	-	1,520	-
Net loss	-	-	-	(29,084)	-	(29,084)
BALANCE, December 31, 1998	8,938	\$ 894	\$ 69,744	\$(26,244)	\$ -	\$ 44,394
	=====	=====	=====	=====	=====	=====

The accompanying notes are an integral part of these consolidated financial statements.

CLAYTON WILLIAMS ENERGY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss).....	\$ (29,084)	\$ 7,767	\$ 13,730
Adjustments to reconcile net income (loss) to cash provided by operating activities:			
Depreciation, depletion and amortization.....	31,665	31,273	23,758
Impairment of property and equipment.....	8,493	236	1,186
Exploration costs.....	16,128	2,692	597
Gain on sales of property and equipment.....	(53)	(155)	(293)
Other.....	375	582	445
Changes in operating working capital:			
Accounts receivable.....	2,842	(1,088)	(3,871)
Accounts payable.....	1,448	766	4,824
Other.....	1,691	(2,749)	(70)
Net cash provided by operating activities.....	33,505	39,324	40,306
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment.....	(53,720)	(56,167)	(33,100)
Proceeds from sales of property and equipment.....	260	303	3,862
Net cash used in investing activities.....	(53,460)	(55,864)	(29,238)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from long-term debt.....	19,200	17,700	-
Repayments of long-term debt.....	-	-	(26,935)
Repurchase of common stock for treasury.....	-	(1,520)	-
Proceeds from sale of common stock.....	29	31	17,043
Net cash provided by (used in) financing activities.....	19,229	16,211	(9,892)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS.....	(726)	(329)	1,176
CASH AND CASH EQUIVALENTS			
Beginning of period.....	2,150	2,479	1,303
End of period.....	\$ 1,424	\$ 2,150	\$ 2,479
=====			
SUPPLEMENTAL DISCLOSURES			
Cash paid for interest, net of amounts capitalized.....	\$ 2,291	\$ 1,668	\$ 3,434
=====			

The accompanying notes are an integral part of these consolidated financial statements.

CLAYTON WILLIAMS ENERGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS

Clayton Williams Energy, Inc. and its subsidiaries (collectively, the "Company") is an independent oil and gas company engaged in the exploration for and development and production of oil and natural gas primarily in South and East Texas, Southeastern New Mexico, the Texas Gulf Coast, Louisiana and Mississippi.

Substantially all of the Company's oil and gas production is sold under short-term contracts which are market-sensitive. Accordingly, the Company's financial condition, results of operations, and capital resources are highly dependent upon prevailing market prices of, and demand for, oil and natural gas. These commodity prices are subject to wide fluctuations and market uncertainties due to a variety of factors that are beyond the control of the Company. These factors include the level of global demand for petroleum products, foreign supply of oil and gas, the establishment of and compliance with production quotas by oil-exporting countries, weather conditions, the price and availability of alternative fuels, and overall economic conditions, both foreign and domestic. From time to time, the Company utilizes hedging transactions with respect to a portion of its oil and gas production to mitigate its exposure to price fluctuations (see Note 9).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ESTIMATES AND ASSUMPTIONS

The preparation of financial statements in conformity with generally accepted accounting principles requires management of the Company 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 period. Actual results could differ from those estimates.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of Clayton Williams Energy, Inc. and its subsidiaries. The Company accounts for its interests in joint ventures and partnerships (all of which are undivided) using the proportionate consolidation method, whereby its share of assets, liabilities, revenues and expenses are consolidated with other operations. All significant intercompany transactions and balances associated with the consolidated operations have been eliminated.

OIL AND GAS PROPERTIES

The Company follows the successful efforts method of accounting for its oil and gas properties, whereby costs of productive wells, developmental dry holes and productive leases are capitalized and amortized using the unit-of-production method based on estimated proved reserves. Sales proceeds from sales of individual properties are credited to property costs. No gain or loss is recognized until the entire amortization base is sold or abandoned.

Costs of acquisition of leaseholds are capitalized. Unproved oil and gas properties with individually significant acquisition costs are periodically assessed and any impairment in value is charged to exploration costs. The amount of impairment recognized on unproved properties which are not individually significant is determined by amortizing the costs of such properties within appropriate groups based on the Company's historical experience, acquisition dates and average lease terms. The costs of unproved properties which are determined to hold proved reserves are transferred to proved oil and gas properties.

Exploration costs, including geological and geophysical expenses and delay rentals, are charged to expense as incurred. Exploratory drilling costs, including the cost of stratigraphic test wells, are initially capitalized but charged to exploration expense if and when the well is determined to be unsuccessful.

CLAYTON WILLIAMS ENERGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NATURAL GAS AND OTHER PROPERTY AND EQUIPMENT

Natural gas gathering and processing systems consist primarily of gas gathering pipelines, compressors and gas processing plants. Other property and equipment consists primarily of field equipment and facilities, office equipment, leasehold improvements and vehicles. Major renewals and betterments are capitalized while the costs of repairs and maintenance are charged to expense as incurred. The costs of assets retired or otherwise disposed of and the applicable accumulated depreciation are removed from the accounts, and any gain or loss is included in other income in the accompanying consolidated statements of operations.

Depreciation of natural gas gathering and processing systems and other property and equipment is computed on the straight-line method over the estimated useful lives of the assets, which range from 3 to 39 years.

VALUATION OF PROPERTY AND EQUIPMENT

The Company follows the provisions of Statement of Financial Accounting Standards No. 121 "Accounting for Impairment of Long-Lived Assets" ("SFAS 121"), which requires that the Company's long-lived assets, including its oil and gas properties, be assessed for potential impairment in their carrying values whenever events or changes in circumstances indicate such impairment may have occurred.

SFAS 121 provides for future revenue from the Company's oil and gas production to be estimated at prices at which management predicts such products will be sold. In evaluating its oil and gas properties for impairment at December 31, 1998, management has estimated such future product prices at levels which it believes are reasonable and supportable, but which exceed the current market prices for oil and gas. Any downward revisions to management's estimates of product prices could result in additional impairments of its oil and gas properties in future periods.

INCOME TAXES

The Company follows the asset and liability method prescribed by Statement of Financial Accounting Standards No. 109 "Accounting for Income Taxes" ("SFAS 109"). Under this method of accounting for income taxes, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS 109, the effect on deferred tax assets and liabilities of a change in enacted tax rates is recognized in income in the period that includes the enactment date.

INVENTORY

Inventory consists primarily of tubular goods and other well equipment which the Company plans to utilize in its ongoing exploration and development activities and is carried at the lower of cost or market value.

CAPITALIZATION OF INTEREST

Interest costs associated with maintaining the Company's inventory of unproved oil and gas properties are capitalized. During the years ended December 31, 1998, 1997 and 1996, the Company capitalized interest totaling approximately \$967,000, \$346,000 and \$68,000, respectively.

STATEMENTS OF CASH FLOWS

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

CLAYTON WILLIAMS ENERGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NET INCOME (LOSS) PER COMMON SHARE

The Company computes net income (loss) per common share in accordance with Statement of Financial Accounting Standards No. 128 "Earnings Per Share" ("SFAS 128"). Basic net income (loss) per common share is based on the weighted average number of common shares outstanding during each period. Diluted net income (loss) per share gives further effect to the additional dilution, if any, related to outstanding employee stock options. Because the Company reported a net loss in 1998, the effects of outstanding employee stock options were anti-dilutive.

STOCK-BASED COMPENSATION

The Company accounts for stock-based compensation utilizing the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB 25").

REVENUE RECOGNITION AND GAS BALANCING

The Company utilizes the sales method of accounting for natural gas revenues whereby revenues are recognized based on the amount of gas sold to purchasers. The amount of gas sold may differ from the amount to which the Company is entitled based on its revenue interests in the properties. The Company did not have any significant imbalance positions at December 31, 1998, 1997 or 1996.

3. LONG-TERM DEBT

Long-term debt consists of the following:

	DECEMBER 31,	
	1998	1997
	(IN THOUSANDS)	
Secured Bank Credit Facility (matures July 31, 2001).....	\$ 54,900	\$ 35,700
Other.....	-	42
	54,900	35,742
Less current maturities.....	15,800	42
	\$ 39,100	\$ 35,700

Aggregate maturities of long-term debt at December 31, 1998 are as follows: 1999 - \$15,800,000; 2000 - \$7,800,000; and 2001 - \$31,300,000.

SECURED BANK CREDIT FACILITY

The Company's secured bank credit facility provides for a revolving loan facility in an amount not to exceed the lesser of the borrowing base, as established by the banks, or that portion of the borrowing base determined by the Company to be the elected borrowing limit. At December 31, 1998, the borrowing base was \$57 million and the outstanding advances were \$54.9 million. In January 1999, the borrowing base was reduced to \$53 million to give effect to the sale of certain assets in Matagorda County, Texas. The borrowing base, which is based on the discounted present value of future net revenues from oil and gas production, is subject to redetermination at any time, but at least semi-annually, and is made at the discretion of the banks. Substantially all of the Company's oil and gas properties are pledged to secure advances under the credit facility.

In March 1999, the banks completed a borrowing base review and elected to maintain the borrowing base at \$53 million until the Company consummates the sale of its Jalmat assets (see Note 4). Once the Jalmat sale is completed, the borrowing base will reduce to \$43 million and will also be subject to monthly commitment reductions of \$650,000 beginning in July 1999. The adjusted borrowing base will remain in effect until the next scheduled borrowing base redetermination in November 1999. Based on these amended terms, the Company will be required to repay \$15.8 million of indebtedness on the credit facility

CLAYTON WILLIAMS ENERGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

in 1999 and has reclassified that amount as a current liability in the accompanying consolidated balance sheet. However, if the Jalmat sale does not occur by May 1, 1999, the banks will cause the borrowing base to be redetermined. If the redetermined borrowing base is less than the amount of outstanding indebtedness, the Company will be required to (i) pledge additional collateral, (ii) prepay the excess in not more than five equal monthly installments, or (iii) elect to convert the entire amount of outstanding indebtedness to a term obligation based on amortization formulas set forth in the loan agreement.

If funds available from asset sales, combined with operating cash flow, are not sufficient to fund its debt repayments and anticipated levels of capital expenditures, the Company will be required to seek alternative forms of capital resources, including the sale of other assets and the issuance of debt or equity securities. Although the Company believes it will be able to obtain funds pursuant to one or more of these alternatives, if needed, management cannot be assured that any such capital resources will be available to the Company. If additional capital resources are needed, but the Company is unable to obtain such capital resources on a timely basis, the Company may not be able to maintain a level of liquidity sufficient to meet its obligations as they mature or remain in compliance with the required financial covenants contained in the credit facility.

All outstanding balances on the credit facility may be designated, at the Company's option, as either "Base Rate Loans" or "Eurodollar Loans" (as defined in the loan agreement), provided that not more than two Eurodollar tranches may be outstanding at any time. Base Rate Loans bear interest at the fluctuating Base Rate plus a Base Rate Margin ranging from 0% to 3/8% per annum, depending on levels of outstanding advances and letters of credit. Eurodollar Loans bear interest at the LIBOR rate plus a Eurodollar Margin ranging from 1.75% to 2.5% per annum (as amended in March 1999). At December 31, 1998, the Company's indebtedness under the credit facility consisted of \$48 million of Eurodollar Loans at a rate of 7.1% and \$6.9 million of Base Rate Loans at a rate of 8.1%.

In addition, the Company pays the banks a commitment fee equal to 1/4% per annum on the unused portion of the revolving loan commitment. Interest on the revolving loan and commitment fees are payable quarterly, and all outstanding principal and interest will be due July 31, 2001.

The loan agreement contains financial covenants that are computed quarterly and require the Company to maintain minimum levels of working capital, cash flow and net tangible assets. In March 1999, the Company and the banks amended the loan agreement with respect to the computations required for the fourth quarter of 1998 and all quarters in 1999. The Company was in compliance with all of the adjusted financial covenants at December 31, 1998.

4. PROPERTY HELD FOR RESALE

At December 31, 1998, the Company had identified two properties for sale in 1999. In January 1999, the Company completed the sale of its interest in eight non-operated oil and gas wells located in Matagorda County, Texas for \$5.2 million. In March 1999, the Company entered into a definitive agreement for the sale of its interests in the Jalmat Field located in Lea County, New Mexico for \$12.5 million. The Jalmat sale is scheduled to close in April 1999. Proceeds from these sales will be used to reduce indebtedness on the secured bank credit facility. The net book value of these properties aggregating \$7.5 million has been classified as a current asset in the accompanying consolidated balance sheet.

5. STOCKHOLDERS' EQUITY

In November 1996, the Company received \$17,017,000, net of underwriter's discounts and other offering costs totaling \$1,541,000, from the sale of 1,427,500 shares of common stock to the public at a

CLAYTON WILLIAMS ENERGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

price of \$13.00. Proceeds from the offering were used to repay indebtedness on the secured bank credit facility.

In January 1997, the Company repurchased shares of its common stock on the open market at a cost of \$1,520,000.

In June 1998, the Company cancelled the 95,000 shares of its common stock held as treasury stock. The cost of the cancelled shares, which totaled \$1,520,000, was reclassified as a reduction in common stock and additional paid-in capital.

6. EARNINGS PER SHARE

In 1997, the Company adopted SFAS 128, which changes the method of computing and disclosing earnings per share for periods ending after December 15, 1997. In accordance with SFAS 128, basic earnings per common share was computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per common share was computed by including the dilutive effect, if any, of outstanding employee stock options utilizing the treasury stock method. All prior periods have been restated to give effect to the adoption of SFAS 128, the impact of which was immaterial. For all periods presented, the differences between basic shares and diluted shares were attributable to the dilutive effect of employee stock options.

7. STOCK COMPENSATION PLANS

1993 PLAN

The Company has reserved 898,200 shares of common stock for issuance under the 1993 Stock Compensation Plan ("1993 Plan"). The 1993 Plan provides for the issuance of nonqualified stock options with an exercise price which is not less than the market value of the Company's common stock on the date of grant. All options granted through December 31, 1998 expire 10 years from the date of grant and become exercisable based on varying vesting schedules.

The following table reflects activity in the 1993 Plan for 1998, 1997 and 1996.

	1998		1997		1996	
	SHARES	WEIGHTED AVERAGE PRICE	SHARES	WEIGHTED AVERAGE PRICE	SHARES	WEIGHTED AVERAGE PRICE
Beginning of year.....	632,269	\$10.99	458,766	\$8.46	151,601	\$2.45
Granted (a).....	110,168	\$11.61	210,700	\$15.36	321,500	\$11.03
Exercised.....	(12,305)	\$2.39	(12,791)	\$2.53	(10,410)	\$2.38
Forfeited.....	(8,080)	\$11.69	(24,406)	\$5.53	(3,925)	\$2.82
End of year.....	722,052	\$11.23	632,269	\$10.99	458,766	\$8.46
Exercisable.....	261,089	\$7.72	194,357	\$6.00	104,449	\$2.47
Issuable.....	176,148		265,931		439,434	

(a) The Company granted new options as follows: 1998 - 102,168 shares at \$11.69 per share, 3,000 shares at \$9.06 per share, and 5,000 shares at \$11.50 per share; 1997 - 48,700 shares at \$14.00 per share, 12,000 shares at \$14.44 per share, and 150,000 shares at \$15.88 per share; and 1996 - 121,500 shares at \$3.25 per share and 200,000 shares at \$15.75 per share.

CLAYTON WILLIAMS ENERGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

DIRECTORS PLAN

The Company has reserved 86,300 shares of common stock for issuance under the Outside Directors Stock Option Plan ("Directors Plan"). Since inception of the Directors Plan, the Company has issued options covering 18,000 shares of common stock (3,000 per year from 1993 through 1998) at option prices ranging from \$3.25 to \$18.50 per share. All options expire 10 years from the date of grant and are fully exercisable upon issuance. At December 31, 1998, options to purchase 18,000 shares were outstanding, and 68,300 shares remain available for future grants.

BONUS INCENTIVE PLAN

The Company has reserved 115,500 shares of common stock for issuance under the Bonus Incentive Plan. The plan provides that the Board of Directors each year may award bonuses in cash, common stock of the Company, or a combination thereof. In November 1997, cash awards totaling \$31,500 and stock awards totaling 9,310 shares of common stock at a market price of \$16.00 per share were granted to certain employees and officers. At December 31, 1998, 106,190 shares remain available for issuance under this plan.

STOCK COMPENSATION PLANS

In May 1995, the Company's Board of Directors adopted two stock compensation plans, one for selected officers and one for outside directors of the Company, permitting the Company to pay all or part of selected executives' salaries and all outside director's fees in shares of common stock in lieu of cash. The Company reserved an aggregate of 650,000 shares of common stock for issuance under these plans. During 1998, 1997 and 1996, the Company issued 28,789, 30,808 and 67,785 shares, respectively, of common stock to one officer in lieu of cash compensation aggregating \$278,000, \$421,000 and \$384,000, respectively. Three outside directors were issued 690 shares in 1997 and 11,581 shares in 1996 in lieu of cash compensation aggregating \$12,000 and \$61,000, respectively. The amounts of such compensation are included in general and administrative expense in the accompanying consolidated financial statements. The Company terminated the outside directors stock compensation plan in January 1997.

SUPPLEMENTAL DISCLOSURE

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" ("SFAS 123"). SFAS 123 establishes a fair value method and disclosure standards for stock-based employee compensation arrangements, such as stock option plans. As permitted by SFAS 123, the Company has elected to continue following the provisions of APB 25 for such stock-based compensation, under which no compensation expense has been recognized. Had compensation expense for these plans been determined consistent with SFAS 123, the Company's net income (loss) and net income (loss) per share would have been as follows:

	1998	1997	1996
	(IN THOUSANDS, EXCEPT PER SHARE)		
Net income (loss):			
As reported.....	\$ (29,084)	\$ 7,767	\$ 13,730
Pro forma.....	\$ (30,172)	\$ 7,175	\$ 13,558
Net income (loss) per share:			
Basic:			
As reported.....	\$ (3.27)	\$.87	\$ 1.80
Pro forma.....	\$ (3.39)	\$.81	\$ 1.78
Diluted:			
As reported.....	\$ (3.27)	\$.85	\$ 1.76
Pro forma.....	\$ (3.39)	\$.79	\$ 1.74

CLAYTON WILLIAMS ENERGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

SFAS 123 requires the use of option valuation models which were generally developed for use in estimating the fair value of traded options which have no vesting restrictions, are fully transferable and generally have shorter life expectancies. These valuation models also require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's stock option plans have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of the above pro forma disclosures, the fair value of each option grant is estimated as of the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions for grants in 1998, 1997, and 1996, respectively: risk-free interest rates of 5.2%, 6.1%, and 5.8%; dividend yields of 0%; volatility factors of the expected market price of the Company's common stock of .55, .575, and .561; and a life expectancy of each option of 10, 7, and 5.1 years.

8. TRANSACTIONS WITH AFFILIATES

During the periods presented, the Company and various entities controlled by the Company's principal stockholder provided certain general and administrative services to one another. General and administrative expenses in the accompanying financial statements are net of charges by the Company to affiliates for services aggregating \$664,000, \$684,000, and \$615,000 for the years ended December 31, 1998, 1997 and 1996, respectively, and include charges to the Company by affiliates for rents and services aggregating \$102,000, \$200,000 and \$235,000 for the years ended December 31, 1998, 1997 and 1996, respectively.

Accounts receivable from affiliates and accounts payable to affiliates include, among other things, amounts for charges whereby the Company is the operator of certain wells in which affiliates own an interest. These charges are on terms which are consistent with the terms offered to unaffiliated third parties which own interests in wells operated by the Company.

9. COMMITMENTS AND CONTINGENCIES

LEASES

The Company leases office space from affiliates and nonaffiliates under noncancelable operating leases. Rental expense pursuant to the office leases amounted to \$345,000, \$337,000 and \$398,000 for the years ended December 31, 1998, 1997 and 1996, respectively. Included in property and equipment are assets under capital leases aggregating \$33,000 and \$133,000, net of accumulated depreciation, at December 31, 1997 and 1996, respectively.

Future minimum payments under noncancelable leases at December 31, 1998, are as follows:

		OPERATING LEASES
		----- (IN THOUSANDS) -----
1999.....	\$	550
2000.....		500
2001.....		434
Thereafter.....		72

Total minimum lease payments.....	\$	1,556
		=====

CLAYTON WILLIAMS ENERGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

CONCENTRATION OF CREDIT RISK

The Company's revenues are derived principally from uncollateralized sales to customers in the oil and gas industry. The concentration of credit risk in a single industry affects the Company's overall exposure to credit risk because customers may be similarly affected by changes in economic and other conditions. The Company has not experienced significant credit losses on such receivables.

HEDGING ACTIVITIES

From time to time, the Company utilizes forward sale and other financial option arrangements, such as swaps and collars, to reduce price risks on the sale of its oil and gas production. The Company accounts for such arrangements as hedging activities and, accordingly, records all realized gains and losses as oil and gas revenues in the period the hedged production is sold. Included in oil and gas revenues are net gains totaling \$9,871,000 in 1998 (comprised of gains of \$10,024,000, partially offset by losses of \$153,000), gains totaling \$252,000 in 1997, and net losses totaling \$1,156,000 in 1996 (comprised of losses of \$1,299,000 partially offset by gains of \$143,000). As of December 31, 1998, the Company had realized losses aggregating \$102,000 on early terminations of swap arrangements covering 750,000 MMBtu of its gas production from January 1999 to May 1999. These losses will be recognized during 1999 as the hedged production is sold. The Company also had options to sell an aggregate of 800,000 barrels of oil production for the period from January 1999 through June 1999 at a price of \$10.00. The cost of these options of \$208,000 will be recognized during 1999 as the hedged production is sold.

LEGAL PROCEEDINGS

The Company is a defendant in a suit styled The State of Texas, et al v. Union Pacific Resources Company et al, presently pending in Lee County, Texas. The suit attempts to establish a class action consisting of unidentified royalty and working interest owners throughout the State of Texas. Among other things, the plaintiffs are seeking actual and exemplary damages for alleged violation of various statutes relating to common carriers and common purchasers of crude oil including discrimination in the purchase of oil by giving preferential treatment to defendants' own oil and conspiring to keep the posted price or sales price of oil below market value. A general denial has been filed. Because the Company is neither a common purchaser nor common carrier of oil, management of the Company believes there is no merit to the allegations as they relate to the Company or its operations.

The Company is involved in various legal proceedings arising in the normal course of its business, including actions for which insurance coverage is available. While the ultimate results of these proceedings cannot be predicted with certainty, the Company does not believe that the outcome of any of these matters will have, individually or in the aggregate, a material adverse effect on its financial condition; however, they could have a material impact on results of operations in an annual or interim period.

10. IMPAIRMENT OF PROPERTY AND EQUIPMENT

During 1996, the Company recorded a provision for impairment of property and equipment under SFAS 121 totaling \$1.2 million resulting from a revision in reserve estimates subsequent to December 31, 1995, attributable to a proved undeveloped location in the Texas Gulf Coast area. In 1997, the Company recorded an additional provision for impairment under SFAS 121 of \$236,000 attributable to certain minor-value properties.

During 1998, the Company recorded a provision for impairment under SFAS 121 of \$8.5 million attributable to certain oil and gas properties in east central Texas, south Texas, the Texas Gulf Coast and Louisiana. The impairment was caused primarily by a decline in forecasted oil and gas prices. Fair market value of the impaired assets was estimated to be the present value of expected future cash flows at an appropriate discount rate.

CLAYTON WILLIAMS ENERGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. PURCHASES AND SALES OF ASSETS

In January 1996, the Company sold its rights to the Buda and Georgetown formations under approximately 28,000 net acres in Robertson County, Texas for \$3.5 million. The net proceeds were used to repay indebtedness on the secured bank credit facility. No gain or loss was recognized on the sale.

In October 1998, the Company purchased certain oil and gas properties in north Texas for \$1.8 million with an effective date of September 1, 1998.

In November 1998, the Company and an affiliated limited partnership acquired certain oil and gas properties in east Texas for an aggregate purchase price of \$41.2 million, net of closing adjustments. The effective date for accounting purposes was December 1, 1998. All revenues and expenses subsequent to the stated effective date of April 1, 1998 but prior to December 1, 1998 were accounted for as adjustments to the purchase price. The Company acquired an undivided 10% interest in the purchased assets for \$4.9 million of the adjusted purchase price. In addition, the Company serves as general partner of the limited partnership which acquired the remaining 90%. After the limited partner receives an agreed-upon rate of return, the Company's general partnership interest will increase from 1% to 35%.

12. INCOME TAXES

Since the Company's consolidation in May 1993, the Company has incurred net losses for financial reporting purposes aggregating \$26.2 million and has recognized cumulative tax losses of approximately \$35 million which can be carried forward and used to offset future taxable income. Tax loss carryforwards begin to expire in 2008. Due to the uncertainty of realizing the related future benefits from tax loss carryforwards, valuation allowances have been recorded to the extent net deferred tax assets exceed net deferred tax liabilities at December 31, 1998, 1997 and 1996.

The tax effected temporary differences and tax loss carryforwards which comprise net deferred tax assets and liabilities are as follows:

	DECEMBER 31,		
	1998	1997	1996
	(IN THOUSANDS)		
Deferred tax assets (liabilities):			
Depreciable and depletable property.....	\$ (2,394)	\$ (12,828)	\$ (10,216)
Tax loss carryforwards.....	12,295	12,584	12,737
Other.....	970	936	929
Valuation allowance.....	(10,871)	(692)	(3,450)
Net deferred tax asset (liability).....	\$ -	\$ -	\$ -

All of the differences between the statutory income tax rates and the effective income tax rates are attributable to the change in the valuation allowance.

13. RECENT ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130 "Reporting Comprehensive Income" ("SFAS 130"). SFAS 130 establishes standards for reporting and displaying of comprehensive income and its components (revenue, expenses, gains and losses) in a full set of general-purpose financial statements. For the years ended December 31, 1998, 1997 and 1996, the Company reported no differences between comprehensive income and net income.

CLAYTON WILLIAMS ENERGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 establishes accounting and reporting standards for derivative instruments and hedging activities. It requires that derivatives be recognized as assets or liabilities and measured at their fair value. SFAS 133 will be adopted in 2000 and is not expected to have a material effect on the Company's financial condition or operations.

14. COSTS OF OIL AND GAS PROPERTIES

The following table sets forth certain information with respect to costs incurred in connection with the Company's oil and gas producing activities:

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
	(IN THOUSANDS)		
Property acquisitions:			
Proved.....	\$ 7,077	\$ -	\$ 1,375
Unproved.....	10,602	14,042	5,002
Developmental costs.....	7,285	32,656	20,931
Exploratory costs.....	22,319	13,813	6,306
	-----	-----	-----
Total.....	\$ 47,283	\$ 60,511	\$ 33,614
	=====	=====	=====

The following table sets forth the capitalized costs for oil and gas properties:

	DECEMBER 31,	
	1998	1997
	(IN THOUSANDS)	
Proved properties.....	\$ 415,471	\$ 393,672
Unproved properties.....	8,889	18,680
	-----	-----
Total capitalized costs.....	424,360	412,352
Accumulated depreciation, depletion and amortization.....	(328,231)	(300,569)
	-----	-----
Net capitalized costs.....	\$ 96,129	\$ 111,783
	=====	=====

15. OIL AND GAS RESERVE INFORMATION (UNAUDITED)

The estimates of proved oil and gas reserves utilized in the preparation of the consolidated financial statements were prepared by independent petroleum engineers. Such estimates are in accordance with guidelines established by the Securities and Exchange Commission and the Financial Accounting Standards Board, which require that reserve reports be prepared under economic and operating conditions existing at the registrant's year end with no provision for price and cost escalations except by contractual arrangements. The Company's reserves are substantially located onshore in the United States.

The Company emphasizes that reserve estimates are inherently imprecise. Accordingly, the estimates are expected to change as more current information becomes available. In addition, a portion of the Company's proved reserves is undeveloped, which increases the imprecision inherent in estimating reserves which may ultimately be produced.

CLAYTON WILLIAMS ENERGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The following table sets forth proved oil and gas reserves together with the changes therein (oil in MBbls, gas in MMcf, gas converted to MBOE at one MBbl per six MMcf):

	YEAR ENDED DECEMBER 31,								
	1998			1997			1996		
	Oil	Gas	MBOE	Oil	Gas	MBOE	Oil	Gas	MBOE
Proved reserves									
Beginning of period	8,410	32,861	13,887	8,507	35,798	14,474	5,963	39,496	12,546
Revisions	(744)	(3,248)	(1,285)	(726)	1,020	(556)	457	(2,359)	64
Extensions and discoveries ...	254	8,768	1,716	3,532	1,134	3,721	4,077	113	4,096
Purchases of minerals-in-place	349	5,306	1,233	-	-	-	213	4,132	902
Production	(2,528)	(4,833)	(3,334)	(2,903)	(5,091)	(3,752)	(2,203)	(5,584)	(3,134)
End of period	5,741	38,854	12,217	8,410	32,861	13,887	8,507	35,798	14,474
Proved developed reserves									
Beginning of period	7,826	27,392	12,392	7,199	30,496	12,282	5,381	31,668	10,659
End of period	5,504	32,215	10,873	7,826	27,392	12,392	7,199	30,496	12,282

The standardized measure of discounted future net cash flows relating to proved reserves was as follows:

	DECEMBER 31,		
	1998	1997	1996
Future cash inflows.....	\$ 128,149	\$ 219,528	\$ 342,576
Future costs:			
Production.....	(43,647)	(67,207)	(93,359)
Development.....	(9,999)	(13,445)	(15,543)
Income taxes.....	-	(10,445)	(50,508)
Future net cash flows.....	74,503	128,431	183,166
10% discount factor.....	(22,442)	(36,028)	(47,453)
Standardized measure of discounted future net cash flows.....	\$ 52,061	\$ 92,403	\$ 135,713

Changes in the standardized measure of discounted future net cash flows relating to proved reserves were as follows:

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
		(IN THOUSANDS)	
Standardized measure, beginning of period.....	\$ 92,403	\$ 135,713	\$ 88,830
Net changes in sales prices, net of production costs.....	(31,210)	(49,024)	56,812
Revisions of quantity estimates.....	(6,103)	(4,376)	811
Accretion of discount.....	9,992	16,067	8,883
Changes in future development costs, including development costs incurred that reduced future development costs.....	8,415	8,622	5,713
Changes in timing and other.....	(2,758)	(874)	(887)
Net change in income taxes.....	7,515	17,442	(24,957)
Extensions and discoveries.....	7,165	23,557	38,703
Sales, net of production costs.....	(37,695)	(54,724)	(45,834)
Purchases of minerals-in-place.....	4,337	-	7,639
Standardized measure, end of period.....	\$ 52,061	\$ 92,403	\$ 135,713

INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT
10.2	First Amendment to Sixth Restated Loan Agreement dated as of November 20, 1998, among Clayton Williams Energy, Inc., Warrior Gas Co., CWEI Acquisitions, Inc., Bank One, Texas, N.A., Paribas, Union Bank of California, N.A., and Compass Bank
10.3	Second Amendment to the Sixth Restated Loan Agreement dated as of March 26, 1999, among Clayton Williams Energy, Inc., Warrior Gas Co., CWEI Acquisitions, Inc., Bank One, Texas, N.A., Paribas and Union Bank of California, N.A.
23.1	Consent of Arthur Andersen LLP
23.2	Consent of Williamson Petroleum Consultants, Inc.
24.1	Power of Attorney
24.2	Certified copy of resolution of Board of Directors of Clayton Williams Energy, Inc. authorizing signature pursuant to Power of Attorney
27	Financial Data Schedules for the year ended December 31, 1998

EXHIBIT 10.2

First Amendment to Sixth Restated Loan Agreement dated as of November 20, 1998, among Clayton Williams Energy, Inc., Warrior Gas Co., CWEI Acquisitions, Inc., Bank One, Texas, N.A., Paribas, Union Bank of California, N.A., and Compass Bank

FIRST AMENDMENT TO SIXTH RESTATED LOAN AGREEMENT

THIS FIRST AMENDMENT TO SIXTH RESTATED LOAN AGREEMENT (hereinafter referred to as the "First Amendment") executed as of the 20th day of November, 1998, by and among CLAYTON WILLIAMS ENERGY, INC., a Delaware corporation (the "CWE"), WARRIOR GAS CO., a Texas corporation ("Warrior") (CWE and Warrior being hereinafter sometimes collectively referred to as "Borrower"), CWEI ACQUISITIONS, INC., a Delaware corporation (hereinafter referred to as "Guarantor"), BANK ONE, TEXAS, N.A., a national banking association ("Bank One"), PARIBAS, a French banking corporation ("Paribas"), Union Bank of California, N.A. ("Union") and Compass Bank, an Alabama state bank ("Compass"), Bank One, Paribas, Union Bank and Compass each in their capacity as a lender hereunder together with each and every future holder of any note issued pursuant to this Agreement are hereinafter collectively referred to as "Banks", and individually as a "Bank") and Bank One, as "Agent".

WITNESSETH:

WHEREAS, on July 16, 1998 Borrower, Guarantor, Bank One, Paribas and Agent entered into a Sixth Restated Loan Agreement (the "Sixth Restated"); and

WHEREAS, the Borrower and the Banks have agreed to make certain changes to the Sixth Restated and in order to facilitate certain of such changes Bank One has agreed to assign a portion of its interest in the rights and obligations under the Sixth Restated to Union and Compass (together the "New Banks") making the New Banks parties to, and "Banks" under the Sixth Restated.

NOW, THEREFORE, the parties hereto agree as follows:

1. Unless otherwise defined herein, all defined terms used herein shall have the same meaning ascribed to such terms in the Restated Loan Agreement.
2. Section 13(k) of the Sixth Restated Loan Agreement is hereby amended by striking the words "and" after Section 13(k)(v) thereof, striking the "." at the end of Section 13(k)(vi) and substituting "; and" in lieu thereof and by adding the following new Subsection 13(k)(vii) thereto as follows:

"(vii) Guarantor's initial investment of \$425,000 in Clayton Williams Acquisition Partnership, Ltd. ("Acquisition") and additional investments in Acquisition equal to one percent (1%) of all capital contributions made to Acquisition by its general and limited partners, but only to the extent such contributions are required by the partnership agreement of Acquisition, provided that immediately before and after giving effect to such additional investments no default or Event of Default shall exist."

3. This First Amendment shall be effective as of the date first above written, but only upon satisfaction of the conditions precedent set forth in Paragraph 6 hereto (the "First Amendment Effective Date").

4. As of the First Amendment Effective Date, the Borrowing Base shall be \$57,000,000 and the Monthly Commitment Reduction shall be \$0 per month until both the Borrowing Base and the Monthly Commitment Reduction are redetermined pursuant to Section 7(b) of the Sixth Restated; provided, however, that once the JC Fazzino No. 1 Well in Robertson County, Texas (the "Well") is tested to the satisfaction of Borrower and Bank, the Borrowing Base shall be increased to \$60,000,000.

5. Subject to the satisfaction of the conditions set forth herein and the execution and delivery of an Assignment and Acceptance Agreement in the form of Exhibit "A" attached hereto and incorporated herein by reference for all purposes, Bank One shall sell and assign to the New Banks, without recourse or warranty, and each New Bank shall purchase and assume from Bank One, the interest set forth in the Assignment and Acceptance Agreement. By executing this First Amendment, Borrower and Agent are each consenting to the assignment to the New Banks of the interest specified in the Assignment and Acceptance Agreement, such consent being required by the provisions of Section 28 of the Sixth Restated.

6. The obligations of Banks under this First Amendment shall be subject to the satisfaction of the following conditions precedent:

(a) EXECUTION AND DELIVERY. The Borrower shall have executed and delivered this First Amendment, and other required documents, all in form and substance satisfactory to the Banks;

(b) GUARANTOR'S EXECUTION AND DELIVERY. The Guarantor shall have executed and delivered this First Amendment and other required documents, all in form and substance satisfactory to the Banks;

(c) CORPORATE RESOLUTIONS. Banks shall have received appropriate certified corporate resolutions of each Borrower and the Guarantor;

(d) GOOD STANDING AND EXISTENCE. The Banks shall have received evidence of existence and good standing for Borrower and the Guarantor;

(e) REPRESENTATIONS AND WARRANTIES. The representations and warranties of Borrower under the Sixth Restated are true and correct in all material respects as of such date, as if then made (except to the extent that such representations and warranties related solely to an earlier date);

(f) NO EVENT OF DEFAULT. No Event of Default shall have occurred and be continuing nor shall any event have occurred or failed to occur which, with the passage of time or service of notice, or both, would constitute an Event of Default;

(g) OTHER DOCUMENTS. Each Bank shall have received such other instruments and documents incidental and appropriate to the transaction provided for herein as such Bank or its counsel may reasonably request, and all such documents shall be in form and substance satisfactory to such Bank; and

(h) LEGAL MATTERS SATISFACTORY. All legal matters incident to the consummation of the transactions contemplated hereby shall be satisfactory to special counsel for Bank retained at the expense of Borrower.

7. Except to the extent its provisions are specifically amended, modified or superseded by this First Amendment, the representations, warranties and affirmative and negative covenants of the Borrower contained in the Sixth Restated are incorporated herein by reference for all purposes as if copied herein in full. The Borrower hereby restates and reaffirms each and every term and provision of the Sixth Restated, as amended, including, without limitation, all representations, warranties and affirmative and negative covenants. Except to the extent its provisions are specifically amended, modified or superseded by this First Amendment, the Sixth Restated, as amended, and all terms and provisions thereof shall remain in full force and effect, and the same in all respects are confirmed and approved by the Borrower and the Banks.

8. This First Amendment may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same instrument.

9. The Guarantor hereby consents to the execution of this First Amendment by the Borrower and reaffirms its guaranty of all of the obligations of the Borrower to the Bank. Borrower and Guarantor acknowledge and agree that the renewal, extension and amendment of the Loan Agreement shall not be considered a novation of account or new contract but that all existing rights, titles, powers, Liens, security interests and estates in favor of the Banks constitute valid and existing obligations and Liens and security interests as against the Collateral in favor of the Banks. Borrower and Guarantor confirm and agree that

(a) neither the execution of this First Amendment or any other Loan Document nor the consummation of the transactions described herein and therein shall in any way effect, impair or limit the covenants, liabilities, obligations and duties of the Borrower and under the Loan Documents and (b) the obligations evidenced and secured by the Loan Documents continue in full force and effect. Guarantor hereby further confirms that it unconditionally guarantees to the extent set forth in its Guaranty the due and punctual payment and performance of any and all amounts and obligations owed by the Banks under the Sixth Restated or the other Loan Documents.

IN WITNESS WHEREOF, the parties have caused this First Amendment to Sixth Restated to be duly executed as of the date first above written.

BORROWER:

CLAYTON WILLIAMS ENERGY, INC.
a Delaware corporation

By: /s/ L. Paul Latham

L. Paul Latham, Executive Vice President

WARRIOR GAS CO.
a Delaware corporation

By: /s/ L. Paul Latham

L. Paul Latham, Vice President

GUARANTOR:

CWEI ACQUISITIONS, INC.
a Delaware corporation

By: /s/ L. Paul Latham

L. Paul Latham, Vice President

AGENT:

BANK ONE, TEXAS, N.A.
a national banking association

By: /s/ Wm. Mark Cranmer

Wm. Mark Cranmer, Vice President

BANKS:

BANK ONE, TEXAS, N.A.
a national banking association

By: /s/ Wm. Mark Cranmer

Wm. Mark Cranmer, Vice President

PARIBAS
a French banking corporation

By: /s/ Brian M. Malone

Name: Brian M. Malone

Title: Director

By: /s/ A. David Dodd

Name: A. David Dodd

Title: Vice President

UNION BANK OF CALIFORNIA, N.A.

By: /s/ John A. Clark

Name: John A. Clark

Title: Vice President

COMPASS BANK
an Alabama state bank

By: /s/ Curtis R. Burchard

Name: Curtis R. Burchard

Title: Sr. Vice President

EXHIBIT "A"

ASSIGNMENT AND ACCEPTANCE AGREEMENT

This ASSIGNMENT AND ACCEPTANCE AGREEMENT (this "Assignment and Acceptance") dated as of November 20, 1998 is made between BANK ONE, TEXAS, N.A. ("Bank One") (Bank One hereinafter sometimes referred to as the Assignor) and UNION BANK OF CALIFORNIA, N.A. ("Union") and COMPASS BANK, an Alabama state bank ("Compass") (Union and Compass are hereinafter referred to as the "Assignees").

RECITALS

WHEREAS, the Assignor is a party to that certain Sixth Restated Loan Agreement dated as of July 16, 1998 by and among CLAYTON WILLIAMS ENERGY, INC. (the "Company"), the "Guarantors", the Banks signatory thereto (the "Banks") and BANK ONE, TEXAS, N.A., as Agent (in such capacity the "Agent") (unless otherwise defined herein, capitalized terms used herein have the respective meanings ascribed to them in the Credit Agreement);

WHEREAS, effective as of the date hereof the Company, the Guarantors, the Banks and the Agent entered into a First Amendment to Loan Agreement to amend certain provisions of the Loan Agreement.

WHEREAS, as provided under the Loan Agreement, Bank One and Paribas have committed to make Revolving Loans and issue letters of credit (the "Committed Loans") to the Company in aggregate amounts not to exceed \$100,000,000 (the "Revolving Commitment"), such Revolving Commitment being evidenced by two Revolving Notes, one in the face amount of \$75,000,000, payable to the order of Bank One and one in the face amount of \$25,000,000 payable to the order of Paribas (the "Revolving Notes");

WHEREAS, Bank One and Paribas have made Committed Loans to the Company in the aggregate principal amount of \$48,700,000 on the Revolving Commitment; and

WHEREAS, the Assignor wishes to assign to the Assignees part of the rights and obligations of the Assignor under the Loan Agreement in respect of its Revolving Commitment, in an amount equal to \$33,333,400 in total on the Revolving Commitment (the "ASSIGNED AMOUNT") on the terms and subject to the conditions set forth herein and the Assignees wish to accept assignment of such rights and assume such obligations from the Assignor on such terms and subject to such conditions;

NOW, THEREFORE, in consideration of the foregoing and the mutual agreements contained herein, the parties hereto agree as follows:

1. ASSIGNMENT AND ACCEPTANCE.

(a) Subject to the terms and conditions of this Assignment and Acceptance, (i) the Assignor hereby sells, transfers and assigns to Union, and (ii) Union hereby purchases, assumes and

undertakes from the Assignor, without recourse and without representation or warranty (except as provided in this Assignment and Acceptance) 16.6667% ("Union's Percentage Share") of (A) the Revolving Commitment and the Committed Loans of the Assignor, (B) the Note, and (C) all related rights, benefits, obligations, liabilities and indemnities of the Assignor under and in connection with the Loan Agreement and the Loan Documents.

(b) Subject to the terms and conditions of this Assignment and Acceptance, (i) the Assignor hereby sell, transfer and assign to the Compass, and (ii) Compass hereby purchases, assumes and undertake from the Assignor, without recourse and without representation or warranty (except as provided in this Assignment and Acceptance) 16.6667% (the "Compass' Percentage Share") of (A) the Revolving Commitment and the Committed Loans of the Assignor, (B) the Note, and (C) all related rights, benefits, obligations, liabilities and indemnities of the Assignor under and in connection with the Loan Agreement and the Loan Documents. Union's Percentage Share and Compass' Percentage Share are hereinafter referred to collectively as the "Assignees' Percentage Share".

(c) With effect on and after the Effective Date (as defined in Section 5 hereof), each Assignee shall be a party to the Loan Agreement and succeed to all of the rights and be obligated to perform all of the obligations of a Bank under the Loan Agreement, including the requirements concerning confidentiality and the payment of indemnification, with a Revolving Commitment in an amount equal to the Assigned Amount. Each Assignee agrees that it will perform in accordance with its terms all of the obligations which by the terms of the Loan Agreement are required to be performed by it as a Bank. It is the intent of the parties hereto that the Revolving Commitment of the Assignor shall, as of the Effective Date, be reduced by an amount equal to the Assigned Amount and the Assignor shall relinquish their rights and be released from their obligations under the Loan Agreement to the extent such obligations have been assumed by the Assignees.

(d) After giving effect to the assignment and assumption set forth herein, on the Effective Date, Union's Revolving Commitment will be \$16,666,700 and Compass' Revolving Commitment shall be \$16,666,700.

(e) After giving effect to the assignment and assumption set forth herein, on the Effective Date, the Bank One's Commitment will be \$41,666,600 and Paribas' Commitment will be \$25,000,000.

(f) On the Effective Date, the Bank One's Commitment shall be evidenced by a Revolving Note in the face amount of \$41,666,600 and Paribas' Commitment shall be evidenced by a Revolving Note in the face amount of \$25,000,000.

(g) On the Effective Date, Union's Commitment shall be evidenced by a Revolving Note in the face amount of \$16,666,700 and Compass' Commitment shall be evidenced by a Revolving Note in the face amount of \$16,666,700.

2. PAYMENTS.

(a) As consideration for the sale, assignment and transfer contemplated in Section 1 hereof, the Union shall pay to the Bank One on the Effective Date in immediately available funds an amount equal to \$8,116,682.90, representing Union's Pro Rata Part of the principal amount of all Committed Loans.

(b) As consideration for the sale, assignment and transfer contemplated in Section 1 hereof, the Compass shall pay to the Bank One on the Effective Date in immediately available funds an amount equal to \$8,116,682.90, representing Compass' Pro Rata Part of the principal amount of all Committed Loans.

3. REALLOCATION OF PAYMENTS. Any interest, fees and other payments accrued to the Effective Date with respect to the Revolving Commitment, the Committed Loans and the Notes shall be for the account of the Assignor. Any interest, fees and other payments accrued on and after the Effective Date with respect to the Assigned Amount shall be for the account of the Assignees. Each Assignor and each Assignee agrees that it will hold in trust for the other party any interest, fees and other amounts which it may receive to which the other party is entitled pursuant to the preceding sentence and pay to the other party any such amounts which it may receive promptly upon receipt.

4. INDEPENDENT CREDIT DECISION. Each Assignee (a) acknowledges that it has received a copy of the Loan Agreement and the Schedules and Exhibits thereto, together with copies of the most recent financial statements referred to in Section 12(a) of the Loan Agreement, and such other documents and information as it has deemed appropriate to make its own credit and legal analysis and decision to enter into this Assignment and Acceptance; and (b) agrees that it will, independently and without reliance upon the Assignor, the Agent or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit and legal decisions in taking or not taking action under the Loan Agreement.

5. EFFECTIVE DATE; NOTICES.

(a) As between the Assignor and the Assignee, the effective date for this Assignment and Acceptance shall be November 20, 1998 (the "EFFECTIVE DATE"); PROVIDED that the following conditions precedent have been satisfied on or before the Effective Date:

(i) this Assignment and Acceptance shall be executed and delivered by the Assignor and the Assignees, together with the Notes;

(ii) the consent of the Agent and the Company required for an effective assignment of the Assigned Amount by the Assignor to the Assignee under Section 28 of the Loan Agreement shall have been duly obtained and shall be in full force and effective as of the Effective Date (the consent of the Company shall be evidenced by the execution and delivery of a Revolving Note payable to the order of Assignees);

(iii) the Assignee shall pay to the Assignor all amounts due to the Assignor under this Assignment and Acceptance; and

(iv) the Assignor shall have assigned and the Assignees shall have assumed a percentage equal to the each Assignee's Percentage Share of the rights and obligations of the Assignor under the Loan Agreement (if such agreement exists).

6. AGENT

(a) Each Assignee hereby appoints and authorizes Bank One to take such action as agent on its behalf and to exercise such powers under the Loan Agreement as are delegated to the Agent by the Banks pursuant to the terms of the Loan Agreement.

(b) The Assignee shall assume no duties or obligations held by Bank One in its capacity as Agent under the Loan Agreement.

7. WITHHOLDING TAX. Each Assignee (a) represents and warrants to the Assignor, Agent and the Company that under applicable law and treaties no tax will be required to be withheld by the Company with respect to any payments to be made to either Assignee hereunder, (b) agrees to furnish (if it is organized under the laws of any jurisdiction other than the United States or any State thereof) to the Agent and the Company prior to the time that the Agent or Company is required to make any payment of principal, interest or fees hereunder, duplicate executed originals of either U.S. Internal Revenue Service Form 4224 or U.S. Internal Revenue Service Form 101 (wherein the Assignee claims entitlement to the benefits of a tax treaty that provides for a complete exemption from U.S. federal income withholding tax on all payments hereunder) and Form W-8 and agrees to provide new Forms 4224 or 1001 and Form W-8 upon the expiration of any previously delivered form or comparable statements in accordance with applicable U.S. law and regulations and amendments thereto, duly executed and completed by each Assignee, and (c) agrees to comply with all applicable U.S. laws and regulations with regard to such withholding tax exemption.

8. REPRESENTATIONS AND WARRANTIES.

(a) Each Assignor represents and warrants that (i) it is the legal and beneficial owner of the interest being assigned by it hereunder and that such interest is free and clear of any Lien or other adverse claim; (ii) it is duly organized and existing and it has the full power and authority to take, and has taken, all action necessary to execute and deliver this Assignment and Acceptance and any other documents required or permitted to be executed or delivered by it in connection with this Assignment and Acceptance and to fulfill its obligations hereunder; (iii) no notices to, or consents, authorizations or approvals of, any Person are required (other than any already given or obtained) for its due execution, delivery and performance of this Assignment and Acceptance, and apart from any agreements or undertakings or filings required by the Loan Agreement, no further action by, or notice to, or filing with, any Person is required of it for such execution, delivery or performance; and (iv) this Assignment and Acceptance has been duly executed and delivered by it and constitutes the

legal, valid and binding obligation of the Assignor, enforceable against the Assignor in accordance with the terms hereof, subject, as to enforcement, to bankruptcy, insolvency, moratorium, reorganization and other laws of general application relating to or affecting creditors' rights and to general equitable principles.

(b) The Assignor make no representation or warranty and assume no responsibility with respect to any statements, warranties or representations made in or in connection with the Loan Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Agreement or any other instrument or document furnished pursuant thereto. The Assignor make no representation or warranty in connection with, and assume no responsibility with respect to, the solvency, financial condition or statements of the Company, or the performance or observance by the Company, of any of its respective obligations under the Loan Agreement or any other instrument or document furnished in connection therewith.

(c) Each Assignee represents and warrants that (i) it is duly organized and existing and it has full power and authority to take, and has taken, all action necessary to execute and deliver this Assignment and Acceptance any other documents required or permitted to be executed or delivered by it in connection with this Assignment and Acceptance, and to fulfill its obligations hereunder; (ii) no notices to, or consents, authorizations or approvals of, any Person are required (other than any already given or obtained) for its due execution, delivery and performance of this Assignment and Acceptance; and apart from any agreements or undertakings or filings required by the Loan Agreement, no further action by, or notice to, or filing with, any Person is required of it for such execution, delivery or performance; (iii) this Assignment and Acceptance has been duly executed and delivered by it and constitutes the legal, valid and binding obligation of each Assignee, enforceable against each such Assignee in accordance with the terms hereof, subject, as to enforcement, to bankruptcy, insolvency, moratorium, reorganization and other laws of general application relating to or affecting creditors' rights and to general equitable principles; and (iv) it is an Eligible Assignee.

9. FURTHER ASSURANCES. The Assignor and the Assignees each hereby agree to execute and deliver such other instruments, and take such other action, as either party may reasonably request in connection with the transactions contemplated by this Assignment and Acceptance, including the delivery of any notices or other documents or instruments to the Company or the Agent, which may be required in connection with the assignment and assumption contemplated hereby.

10. MISCELLANEOUS.

(a) Any amendment or waiver of any provision of this Assignment and Acceptance shall be in writing and signed by the parties hereto. No failure or delay by either party hereto in exercising any right, power or privilege hereunder shall operate as a waiver thereof and any waiver of any breach of the provisions of this Assignment and Acceptance shall be without prejudice to any rights with respect to any other or further breach thereof.

(b) All payments made hereunder shall be made without any set-off or counterclaim.

(c) The Assignor and each Assignee shall each pay its own costs and expenses incurred in connection with the negotiation, preparation, execution and performance of this Assignment and Acceptance.

(d) This Assignment and Acceptance may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same instrument.

(e) THIS ASSIGNMENT AND ACCEPTANCE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAW OF THE STATE OF TEXAS. The Assignor and each Assignee each irrevocably submit to the non-exclusive jurisdiction of any State or Federal court sitting in Texas over any suit, action or proceeding arising out of or relating to this Assignment and Acceptance and irrevocably agree that all claims in respect of such action or proceeding may be heard and determined in such Texas State or Federal court. Each party to this Assignment and Acceptance hereby irrevocably waives, to the fullest extent it may effectively do so, the defense of an inconvenient forum to the maintenance of such action or proceeding.

(f) THE Assignor AND THE ASSIGNEES EACH HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE ANY RIGHTS THEY MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION BASED HEREON, OR ARISING OUT OF, UNDER, OR IN CONNECTION WITH THIS ASSIGNMENT AND ACCEPTANCE, THE LOAN AGREEMENT, ANY RELATED DOCUMENTS AND AGREEMENTS OR ANY COURSE OF CONDUCT, COURSE OF DEALING OR STATEMENTS (WHETHER ORAL OR WRITTEN).

(g) Each Assignee hereby provides the administrative detail on Addendum 1 hereto.

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IN WITNESS WHEREOF, the Assignor and the Assignees have caused this Assignment and Acceptance to be executed and delivered by their duly authorized officers as of the date first above written.

ASSIGNOR:

BANK ONE, TEXAS, N.A.

By:

Wm. Mark Cranmer, Vice President

PARIBAS

By:

Name:

Title:

Address:

ASSIGNEES:

UNION BANK OF CALIFORNIA, N.A.

By:

Name:

Title:

Address:

**COMPASS BANK,
an Alabama state bank**

By:

Name:

Title:

Address:

The undersigned hereby consent to the assignment and assumption described in this Assignment and Acceptance.

AGENT:

BANK ONE, TEXAS, N.A.

By:

Wm. Mark Cranmer, Vice President

BORROWER:

CLAYTON WILLIAMS ENERGY, INC.

By:

Name:

Title:

ADDENDUM 1 TO

ASSIGNMENT AND ACCEPTANCE AGREEMENT

The following administrative details apply to Union:

(A) Notice Address: _____

Assignee name: _____
Address: _____

Attention: _____
Telephone: _____()_____
Telecopier: _____()_____
Telex (Answerback): _____

(B) Payment Instructions:

Account No.: _____
At: _____

Reference: _____
Attention: _____

The following administrative details apply to Compass:

(A) Notice Address: _____

Assignee name: _____
Address: _____

Attention: _____
Telephone: _____ () _____
Telecopier: _____ () _____
Telex (Answerback): _____

(B) Payment Instructions:

Account No.: _____
At: _____

Reference: _____
Attention: _____

EXHIBIT 10.3

Second Amendment to Sixth Restated Loan Agreement dated as of March 26, 1999, among Clayton Williams Energy, Inc., Warrior Gas Co., CWEI Acquisitions, Inc., Bank One, Texas, N.A., Paribas and Union Bank of California, N.A.

SECOND AMENDMENT TO SIXTH RESTATED LOAN AGREEMENT

THIS SECOND AMENDMENT TO SIXTH RESTATED LOAN AGREEMENT (hereinafter referred to as the "First Amendment") executed as of the 26th day of March, 1999, by and among CLAYTON WILLIAMS ENERGY, INC., a Delaware corporation (the "CWE"), WARRIOR GAS CO., a Texas corporation ("Warrior") (CWE and Warrior being hereinafter sometimes collectively referred to as "Borrower"), CWEI ACQUISITIONS, INC., a Delaware corporation (hereinafter referred to as "Guarantor"), BANK ONE, TEXAS, N.A., a national banking association ("Bank One"), PARIBAS, a French banking corporation ("Paribas") and UNION BANK OF CALIFORNIA, N.A. ("Union"), Bank One, Paribas and Union Bank each in their capacity as a lender hereunder together with each and every future holder of any note issued pursuant to this Agreement are hereinafter collectively referred to as "Banks", and individually as a "Bank") and Bank One, as "Agent".

WITNESSETH:

WHEREAS, on July 16, 1998 Borrower, Guarantor, Bank One, Paribas and Agent entered into a Sixth Restated Loan Agreement (the "Sixth Restated"); and

WHEREAS, as of November 20, 1998, Bank One assigned to Union and Compass Bank ("Compass") a part of its rights and obligations under the Sixth Restated and as of such date Union and Compass became parties to the Sixth Restated; and

WHEREAS, as of November 20, 1998, Borrower, Guarantor, Bank One, Paribas, Union, Compass and Agent entered into a First Amendment to Sixth Restated Loan Agreement (the "First Amendment"); and

WHEREAS, Union has acquired all of Compass' rights and obligations under the Sixth Restated; and

WHEREAS, the Borrower and the Banks have agreed to make certain additional changes to the Sixth Restated.

NOW, THEREFORE, the parties hereto agree as follows:

1. Unless otherwise defined herein, all defined terms used herein shall have the same meaning ascribed to such terms in the Sixth Restated.
2. Section 1 of the Sixth Restated is hereby amended in the following respects:
 - (a) Subsection 1(k) of the Sixth Restated is hereby deleted in its entirety and the following substituted in lieu thereof:

"(k) DEBT SERVICE - At the end of each fiscal quarter, the sum of

(i) the current portion of all notes payable as defined by GAAP (excluding amounts outstanding on the Revolving Commitment), plus
(ii) the average Revolving Commitment during such quarter divided by twenty-two plus (iii) the sum of all amounts paid or payable by Borrower during such fiscal quarter as a result of its election made pursuant to Section 9(b)(C) hereof."

(b) Subsection 1(v) of the Sixth Restated is hereby deleted in its entirety and the following substituted in lieu thereof:

"(v) EURODOLLAR MARGIN - The fluctuating Eurodollar Margin in effect from day to day shall be:

(i) two and one-half percent (2.50%) per annum whenever the Total Outstandings are greater than 75% of the Elected Borrowing Limit in effect at the time in question;

(ii) two and one-quarter percent (2.25%) per annum whenever the Total Outstandings are greater than 50%, but less than or equal to 75%, of the Elected Borrowing Limit in effect at the time in question;

(iii) two percent (2%) per annum whenever the Total Outstandings are greater than 25%, but less than or equal to 50%, of the Elected Borrowing Limit in effect at the time in question;

(iv) one and three-quarters percent (1.75%), whenever the Total Outstandings are 25% or less of the Elected Borrowing Limit in effect at the time in question.

3. Section 13 of the Sixth Restated is hereby amended in the following respects:

(a) By deleting Subsection (c) thereof in its entirety and substituting the following in lieu thereof:

"(c) CURRENT RATIO. The Borrower will not allow the Williams Consolidated Entities' ratio of Current Assets to Current Liabilities to be less than (i) .70 to 1.0 for the calendar quarter ending December 31, 1998; (ii) .80 to 1.0 for the calendar quarter ending March 31, 1999; (iii) .90 to 1.0 for the calendar quarter ending June 30, 1999; and (iv) 1.0 to 1.0 for the calendar quarter ending September 30, 1999 and thereafter as of the end of each calendar quarter."

(b) By deleting Subsection (d) thereof in its entirety and substituting the following in lieu thereof:

"(d) RATIO OF CASH FLOW TO DEBT SERVICE. The Borrower will not allow the Williams Consolidated Entities' ratio of Net Cash Flow (less cash distributions paid pursuant to Section 13(j) hereof) to Debt Service, (i) for the calendar quarters ending December 31, 1998, March 31, 1999 and June 30, 1999 to be less than 1.0 to 1.0; and
(ii) for the calendar quarter ending September 30, 1999 and the end of each calendar quarter thereafter, 1.10 to 1.0."

(c) By deleting the third sentence of Section 13(e) thereof in its entirety and substituting the following in lieu thereof:

"The term "Release Price" as used herein shall mean 100% of the proceeds (net of the direct costs of sale) received by the Borrower or Guarantor as a result of such sale, conveyance or assignment."

(d) By deleting Subsection (m) thereof in its entirety and substituting the following in lieu thereof:

"(m) MINIMUM TANGIBLE NET WORTH. For the calendar quarter ending December 31, 1998 and each calendar quarter thereafter during the remaining term of the Revolving Commitment, the Williams Consolidated Entities' Tangible Net Worth shall never be less than \$40,000,000 plus an amount equal to 50% of the Williams Consolidated Entities' Net Income (without reduction for losses) for each calendar quarter ending after December 31, 1998 on a cumulative basis."

4. Section 17 of the Credit Agreement is hereby amended by deleting the first sentence of the fourth unnumbered paragraph of subsection (f) thereof and substituting the following sentence in lieu thereof:

"Agent shall have the right to exercise or refrain from exercising, without notice or liability to the Banks, any and all rights afforded to Agent by the Loan Documents or which Agent may have as a matter of law; PROVIDED, HOWEVER, that Agent shall not (A) without the consent of all Banks (i) amend the Loan Documents to (x) change the method of computing interest so as to decrease the interest payable on the Notes, (y) increase or decrease the principal amount of the Notes, (z) extend the Maturity Date; or (ii) waive any default under the Loan Documents; or (iii) make a redetermination of the Borrowing Base; or (iv) defer the date for payment of

principal interest or any fee; or (v) make any changes in the fees payable hereunder (except the Agency fee which does not require the consent of the Banks other than the Agent); or (vi) release any guaranty; or (vii) make any change in the definition of Majority Banks; or (viii) make any change in the number of Banks required to take any action under this Agreement; or (ix) make any change in Sections 7(b), 13(e) or 13(n) of this Agreement; and (B) without the consent of Majority Banks (i) make any other amendment to the Loan Documents; or (ii) accelerate the outstanding balance due on the Notes.

5. This Second Amendment shall be effective as of the date first above written, but only upon satisfaction of the conditions precedent set forth in Paragraph 7 hereto (the "Second Amendment Effective Date").

6. As of the Second Amendment Effective Date, the Borrowing Base shall be \$53,000,000 and the Monthly Commitment Reduction shall be \$650,000 per month beginning July 1, 1999; provided, however, that once the Jalmat Divestiture closes, the Borrowing Base will automatically reduce to \$43,000,000. For the purposes hereof, the term "Jalmat Divestiture" shall mean the sale by the Borrower of certain of its oil and gas properties located in the State of New Mexico subject to a purchase and sale agreement with Dervish Energy, L.L.C. dated as of March 8, 1999 (the "Purchase and Sale Agreement"). If the Jalmat Divestiture occurs on or before May 1, 1999, the next scheduled Borrowing Base redetermination shall be November 1, 1999 as provided in the Sixth Restated. If the Jalmat Divestiture does not close by May 1, 1999, then the Borrowing Base will be redetermined on or before May 1, 1999.

7. The Borrower hereby agrees to make every reasonable effort to outsource the cost of stimulating the JC Fazzino Unit No. 1 and the cost of constructing the pipeline and plant associated with the JC Fazzino Unit No. 1, said outsourcing to be on terms and conditions acceptable to Agent and Borrower.

8. The obligations of Banks under this Second Amendment shall be subject to the satisfaction of the following conditions precedent:

(a) EXECUTION AND DELIVERY. The Borrower shall have executed and delivered this Second Amendment, and other required documents, all in form and substance satisfactory to the Banks;

(b) GUARANTOR'S EXECUTION AND DELIVERY. The Guarantor shall have executed and delivered this Second Amendment and other required documents, all in form and substance satisfactory to the Banks;

(c) CORPORATE RESOLUTIONS. Banks shall have received appropriate certified corporate resolutions of each Borrower and the Guarantor;

(d) **GOOD STANDING AND EXISTENCE.** The Banks shall have received evidence of existence and good standing for Borrower and the Guarantor;

(e) **PURCHASE AND SALE AGREEMENT.** The Banks shall have received a copy of the executed Purchase and Sale Agreement, said Purchase and Sale Agreement to be in form and substance satisfactory to the Banks;

(f) **REVIEW OF FINANCIALS.** The Banks shall have received copies of the Borrower's draft 12-31 financial statements including payables and a proforma income statement for calendar year 1999. Said financial information to be in form and substance satisfactory to the Banks;

(g) **REPRESENTATIONS AND WARRANTIES.** The representations and warranties of Borrower under the Sixth Restated are true and correct in all material respects as of such date, as if then made (except to the extent that such representations and warranties related solely to an earlier date);

(h) **NO EVENT OF DEFAULT.** No Event of Default shall have occurred and be continuing nor shall any event have occurred or failed to occur which, with the passage of time or service of notice, or both, would constitute an Event of Default;

(i) **OTHER DOCUMENTS.** Each Bank shall have received such other instruments and documents incidental and appropriate to the transaction provided for herein as such Bank or its counsel may reasonably request, and all such documents shall be in form and substance satisfactory to such Bank; and

(j) **LEGAL MATTERS SATISFACTORY.** All legal matters incident to the consummation of the transactions contemplated hereby shall be satisfactory to special counsel for Bank retained at the expense of Borrower.

9. Except to the extent its provisions are specifically amended, modified or superseded by this Second Amendment, the representations, warranties and affirmative and negative covenants of the Borrower contained in the Sixth Restated are incorporated herein by reference for all purposes as if copied herein in full. The Borrower hereby restates and reaffirms each and every term and provision of the Sixth Restated, as amended, including, without limitation, all representations, warranties and affirmative and negative covenants. Except to the extent its provisions are specifically amended, modified or superseded by this Second Amendment, the Sixth Restated, as amended, and all terms and provisions thereof shall remain in full force and effect, and the same in all respects are confirmed and approved by the Borrower and the Banks.

10. This Second Amendment may be executed in any number of counterparts and all of such counterparts taken together shall be deemed to constitute one and the same instrument.

11. The Guarantor hereby consents to the execution of this Second Amendment by the Borrower and reaffirms its guaranty of all of the obligations of the Borrower to the Bank. Borrower and Guarantor acknowledge and agree that the renewal, extension and amendment of the Loan Agreement shall not be considered a novation of account or new contract but that all existing rights, titles, powers, Liens, security interests and estates in favor of the Banks constitute valid and existing obligations and Liens and security interests as against the Collateral in favor of the Banks. Borrower and Guarantor confirm and agree that (a) neither the execution of this Second Amendment or any other Loan Document nor the consummation of the transactions described herein and therein shall in any way effect, impair or limit the covenants, liabilities, obligations and duties of the Borrower and under the Loan Documents and (b) the obligations evidenced and secured by the Loan Documents continue in full force and effect. Guarantor hereby further confirms that it unconditionally guarantees to the extent set forth in its Guaranty the due and punctual payment and performance of any and all amounts and obligations owed by the Banks under the Sixth Restated or the other Loan Documents.

IN WITNESS WHEREOF, the parties have caused this Second Amendment to Sixth Restated to be duly executed as of the date first above written.

BORROWER:

CLAYTON WILLIAMS ENERGY, INC.
a Delaware corporation

By: /s/ L. Paul Latham

L. Paul Latham, Executive Vice President

WARRIOR GAS CO.
a Delaware corporation

By: /s/ L. Paul Latham

L. Paul Latham, Executive Vice President

GUARANTOR:

CWEI ACQUISITIONS, INC.
a Delaware corporation

By: /s/ L. Paul Latham

L. Paul Latham, Executive Vice President

AGENT:

BANK ONE, TEXAS, N.A.
a national banking association

By: /s/ Wm. Mark Cranmer

Wm. Mark Cranmer, Vice President

BANKS:

BANK ONE, TEXAS, N.A.
a national banking association

By: /s/ Wm. Mark Cranmer

Wm. Mark Cranmer, Vice President

PARIBAS
a French banking corporation

By: /s/ Brian M. Malone

Name: Brian M. Malone

Title: Director

By: /s/ Betsy R. Jocher

Name: Betsy R. Jocher

Title: Assistant Vice President

UNION BANK OF CALIFORNIA, N.A.

By: /s/ John A. Clark

Name: John A. Clark

Title: Vice President

By: /s/ Gary Shekerjian

Name: Gary Shekerjian

Title: Assistant Vice President

EXHIBIT 23.1

Consent of Arthur Andersen LLP

EXHIBIT 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report included in this Form 10-K into the Company's previously filed Registration Statements on Form S-8 File Numbers 33-68320, 33-68318, 33-68316, 33-69688, and 33-92834.

ARTHUR ANDERSEN LLP

Dallas, Texas
March 29, 1999

EXHIBIT 23.2

Consent of Williamson Petroleum Consultants, Inc.

EXHIBIT 23.2

CONSENT OF INDEPENDENT ENGINEERS

As independent engineering consultants, we hereby consent to the use of our report entitled "Evaluation of Oil and Gas Reserves to the Interests of Clayton Williams Energy, Inc. in Domestic Oil and Gas Properties and to the Interests of Warrior Gas Company in the Gataga Gas Unit No. 5A, Vermejo (Ellenburger) Field, Loving County, Texas, Effective December 31, 1998, for Disclosure to the Securities and Exchange Commission, Utilizing Aries Software, Williamson Project 8.8656" dated March 19, 1999 and data extracted therefrom (and all references to our Firm) included in or made a part of this Form 10-K Annual Report to be filed on or about March 31, 1999 and to the incorporation by reference of this Form 10-K Annual Report (including the use of our report and references to our Firm herein) into those certain Registration Statements on Form S-8 filed by Clayton Williams Energy, Inc. with the Securities and Exchange Commission, file numbers 33-68320, 33-68318, 33-68316, 33-69688, and 33-92834 covering the Bonus Incentive Plan of Clayton Williams Energy, Inc., 1993 Stock Compensation Plan of Clayton Williams Energy, Inc., Outside Directors Stock Option Plan of Clayton Williams Energy, Inc., Clayton Williams Energy, Inc. 401(k) Plan & Trust, and the Executive Incentive Stock Compensation Plan of Clayton Williams Energy, Inc., respectively.

WILLIAMSON PETROLEUM CONSULTANTS, INC.

Houston, Texas
March 29, 1999

EXHIBIT 24.1

Power of Attorney

EXHIBIT 24.1

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, the undersigned, being Officers and Directors of Clayton Williams Energy, Inc. (the "Company"), a Delaware corporation, do hereby constitute and appoint Mel G. Riggs and L. Paul Latham, or either of them, with full power of substitution, our true and lawful attorneys and agents, to do any and all acts and things in our names in the capacities indicated which Mel G. Riggs and L. Paul Latham, or either of them, may deem necessary or advisable to enable the Company to comply with the Securities Exchange Act of 1934, as amended, and any rules, regulations and requirements of the Securities and Exchange Commission in connection with the Company's Annual Report on Form 10-K for the year ended December 31, 1998, including specifically, but not limited to, the power and authority to sign such Form 10-K for us, or any of us, in our names in the capacities indicated, and any and all amendments thereto; and we do hereby ratify and confirm all that Mel G. Riggs and L. Paul Latham or either of them, shall do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto set my hand this twenty-third day of March, 1999.

/s/ CLAYTON W. WILLIAMS, JR.

CLAYTON W. WILLIAMS, JR.
President, Chairman of the Board,
Chief Executive Officer and a Director

/s/ L. PAUL LATHAM

L. PAUL LATHAM
Executive Vice President, Chief Operating
Officer and a Director

/s/ MEL G. RIGGS

MEL G. RIGGS
Senior Vice President - Finance and Secretary
(Principal Financial and Accounting Officer)

/s/ WILLIAM P. CLEMENTS

WILLIAM P. CLEMENTS
Director

/s/ STANLEY S. BEARD

STANLEY S. BEARD
Director

/s/ ROBERT L. PARKER

ROBERT L. PARKER
Director

EXHIBIT 24.2

Certified copy of resolution of Board of Directors of Clayton Williams Energy, Inc. authorizing signature pursuant to Power of Attorney

EXHIBIT 24.2

CERTIFICATE OF RESOLUTION

I, Mel G. Riggs, Secretary of Clayton Williams Energy, Inc., a Delaware corporation, do hereby certify that the Board of Directors of Clayton Williams Energy, Inc. acting by unanimous consent duly adopted the following resolutions as of March 23, 1999.

RESOLVED, that the Directors and proper officers of this corporation be and they are hereby authorized and directed to execute and deliver a Power of Attorney to MEL G. RIGGS and L. PAUL LATHAM in the following form:

KNOW ALL MEN BY THESE PRESENTS, the undersigned, being Officers and Directors of Clayton Williams Energy, Inc. (the "Company"), a Delaware corporation, do hereby constitute and appoint Mel G. Riggs and L. Paul Latham, or either of them, with full power of substitution, our true and lawful attorneys and agents, to do any and all acts and things in our names in the capacities indicated which Mel G. Riggs and L. Paul Latham, or either of them, may deem necessary or advisable to enable the Company to comply with the Securities Exchange Act of 1934, as amended, and any rules, regulations and requirements of the Securities and Exchange Commission in connection with the Company's Annual Report on Form 10-K for the year ended December 31, 1998, including specifically, but not limited to, the power and authority to sign such Form 10-K for us, or any of us, in our names in the capacities indicated, and any and all amendments thereto; and we do hereby ratify and confirm all that Mel G. Riggs and L. Paul Latham or either of them, shall do or cause to be done by virtue hereof.

RESOLVED FURTHER, that the proper officers of this corporation be and they are hereby authorized and directed to take all such other action as they may deem advisable in order to carry out the intent and purposes of the foregoing resolution.

IN WITNESS WHEREOF, I have hereunto set my hand on behalf of this corporation on this twenty-third day of March, 1999.

/s/ MEL G. RIGGS

MEL G. RIGGS, Secretary

ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	YEAR
FISCAL YEAR END	DEC 31 1998
PERIOD START	JAN 01 1998
PERIOD END	DEC 31 1998
CASH	1,424
SECURITIES	0
RECEIVABLES	10,654
ALLOWANCES	0
INVENTORY	1,230
CURRENT ASSETS	21,311
PP&E	443,132
DEPRECIATION	343,857
TOTAL ASSETS	120,653
CURRENT LIABILITIES	37,159
BONDS	39,100
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	894
OTHER SE	43,500
TOTAL LIABILITY AND EQUITY	120,653
SALES	51,932
TOTAL REVENUES	55,727
CGS	14,237
TOTAL COSTS	82,565
OTHER EXPENSES	(138)
LOSS PROVISION	0
INTEREST EXPENSE	2,384
INCOME PRETAX	(29,084)
INCOME TAX	0
INCOME CONTINUING	(29,084)
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	(29,084)
EPS PRIMARY	(3.27)
EPS DILUTED	(3.27)

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