ENERGY PARTNERS LTD
Form 10-Q
September 09, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2009

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Commission file number: 001-16179

ENERGY PARTNERS, LTD.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**72-1409562**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification Number)**
201 St. Charles Ave., Suite 3400 New Orleans, Louisiana	**70170**
(Address of principal executive offices)	**(Zip code)**

(504) 569-1875

(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

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

Large accelerated filer ¨	Accelerated filer x
Non-accelerated filer ¨ (Do not check if a smaller reporting company).	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of August 31, 2009, there were 32,287,082 shares of the Registrant s Common Stock, par value $0.01 per share, outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS.

ENERGY PARTNERS, LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(In thousands, except share data)	March 31, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 20,083	$ 1,991
Trade accounts receivable	25,621	29,264
Receivables from insurance	2,510	4,230
Fair value of commodity derivative instruments	4,682	5,415
Prepaid expenses	4,686	4,522
Total current assets	57,582	45,422
Property and equipment, at cost under the successful efforts method of accounting for oil and natural gas properties	1,648,704	1,646,805
Less accumulated depreciation, depletion and amortization	(995,689)	(958,438)
Net property and equipment	653,015	688,367
Other assets	27,775	23,041
Deferred tax assets	1,326	1,580
Deferred financing costs net of accumulated amortization of $5,112 at March 31, 2009 and $3,780 at December 31, 2008	7,024	8,356
	$ 746,722	$ 766,766
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 26,611	$ 39,517
Accrued expenses	35,128	54,467
Accrued interest on indebtedness	15,522	9,506
Asset retirement obligations	14,229	18,181
Current portion of long-term debt	537,501	497,501
Deferred tax liabilities	1,326	1,580
Fair value of commodity derivative instruments		28
Total current liabilities	630,317	620,780
Asset retirement obligations	88,540	87,506
Fair value of commodity derivative instruments		55
Other	896	1,306
Commitments and contingencies (Note 10)		
	719,753	709,647
Stockholders equity:		
Preferred stock, $1 par value. Authorized 1,700,000 shares; no shares issued and outstanding		

Common stock, par value $0.01 per share. Authorized 100,000,000 shares; issued: 2009 44,400,636 shares; 2008 44,323,293 shares; outstanding, net of treasury shares: 2009 32,160,650 and 2008 32,083,307 shares	445	444
Additional paid-in capital	383,952	382,232
Accumulated deficit	(99,072)	(67,201)
Treasury stock, at cost, 2009 and 2008 12,239,986 shares	(258,356)	(258,356)
Total stockholders equity	26,969	57,119
	$ 746,722	$ 766,766

See accompanying notes to condensed consolidated financial statements.

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ENERGY PARTNERS, LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

(In thousands, except per share data)	Three Months Ended March 31, 2009	2008
Revenue:		
Oil and natural gas	$ 42,650	$ 97,455
Other	50	41
	42,700	97,496
Costs and expenses:		
Lease operating	13,550	14,214
Transportation	136	406
Exploration expenditures and dry hole costs	572	23,284
Impairments of properties	5,113	(75)
Depreciation, depletion and amortization	32,140	28,810
Accretion of liability for asset retirement obligations	1,834	1,056
General and administrative	12,644	9,367
Taxes, other than on earnings	1,399	2,379
Gain on sale of assets		(6,674)
Other	344	1,096
Total costs and expenses	67,732	73,863
Business interruption recovery	1,185	
Income (loss) from operations	(23,847)	23,633
Other income (expense):		
Interest income	38	301
Interest expense	(11,713)	(11,912)
Gain (loss) on derivative instruments	3,651	(8,326)
	(8,024)	(19,937)
Income (loss) before income taxes	(31,871)	3,696
Income taxes		(1,381)
Net income (loss)	(31,871)	2,315
Basic earnings (loss) per share	$ (0.99)	$ 0.07
Diluted earnings (loss) per share	$ (0.99)	$ 0.07
Weighted average common shares used in computing earnings per share:		
Basic	32,106	31,772
Incremental common shares		
Stock options		
Restricted share units		
Performance shares		7
Diluted	32,106	31,779

See accompanying notes to condensed consolidated financial statements.

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ENERGY PARTNERS, LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(In thousands)	Three Months Ended March 31, 2009	2008
Cash flows from operating activities:		
Net income (loss)	$ (31,871)	$ 2,315
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion and amortization	32,140	28,810
Accretion of liability for asset retirement obligations	1,834	1,056
Unrealized loss on derivative contracts	649	3,096
Non cash compensation	1,175	1,466
Deferred income taxes		1,064
Gain on sale of oil and gas assets		(6,674)
Exploration expenditures	(12)	21,707
Impairments of properties	5,113	(75)
Amortization of deferred financing costs	1,332	407
Other	521	674
Changes in operating assets and liabilities:		
Trade accounts receivable	3,643	8,728
Other receivables	1,720	
Prepaid expenses	(164)	(321)
Other assets	(4,734)	(329)
Accounts payable and accrued expenses	(3,856)	3,080
Other liabilities	(5,239)	(2,583)
Net cash provided by operating activities	2,251	62,421
Cash flows used in investing activities:		
Property acquisitions	(29)	(15,341)
Exploration and development expenditures	(24,005)	(47,010)
Proceeds from sale of oil and gas assets		15,026
Other property and equipment additions	(125)	(216)
Net cash used in investing activities	(24,159)	(47,541)
Cash flows provided by (used in) financing activities:		
Repayments of indebtedness		(35,000)
Proceeds from indebtedness	40,000	25,000
Exercise of stock options and warrants		101
Net cash provided by (used in) financing activities	40,000	(9,899)
Net increase in cash and cash equivalents	18,092	4,981
Cash and cash equivalents at beginning of period	1,991	8,864
Cash and cash equivalents at end of period	$ 20,083	$ 13,845

See accompanying notes to condensed consolidated financial statements.

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ENERGY PARTNERS, LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(1) BASIS OF PRESENTATION

Energy Partners, Ltd. (referred to herein as we, our, us, or the Company) was incorporated as a Delaware corporation on January 29, 1998. We operate as an independent oil and natural gas exploration and production company. Our current operations are concentrated in the shallow to moderate depth waters in the Gulf of Mexico focusing on the areas of offshore Louisiana as well as the deepwater Gulf of Mexico in depths less than 5,000 feet.

Certain information and footnote disclosures normally in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission; however, management believes the disclosures which are made are adequate to make the information presented not misleading. The condensed consolidated balance sheet at December 31, 2008 has been derived from the audited financial statements at that date. Certain reclassifications have been made to the prior period financial statements in order to conform to the classification adopted for reporting in the current period. These financial statements and footnotes should be read in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2008 filed August 5, 2009 (2008 Annual Report).

The financial information as of March 31, 2009 and for the three month periods ended March 31, 2009 and 2008 has not been audited. However, in the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position and results of operations for the periods presented have been included therein. The results of operations for the first three months of the year are not necessarily indicative of the results of operations which might be expected for the entire year.

Recent Events Bankruptcy

On May 1, 2009, we and certain of our subsidiaries (the Debtors) filed voluntary petitions (In re: Energy Partners, Ltd., et. al., Case No. 09-32957) for reorganization (the Chapter 11 Cases) under Chapter 11 of Title 11 of the United States Code, 11 U.S.C. §§ 101 et seq., as amended, in the United States Bankruptcy Court for the Southern District of Texas, Houston Division (the Bankruptcy Court). We continue to manage our properties and operate our business as debtors-in-possession under the jurisdiction of the Bankruptcy Court. The Chapter 11 filings and related matters are addressed in Note 3 Subsequent Events, Liquidity and Capital Resources. Important additional information regarding the Chapter 11 Cases is available in our 2008 Annual Report.

Included in the condensed consolidated financial statements for the period ended March 31, 2009, are subsidiaries which have not commenced Chapter 11 cases or other similar proceedings, and are not debtors in any bankruptcy or insolvency proceeding. The net assets of our non-debtor subsidiaries are not significant. The Debtors have been operating as debtors-in-possession pursuant to the Bankruptcy Code since May 1, 2009.

Our financial statements have been prepared on a going concern basis, which contemplates continuity of operations, realization of assets, and liquidation of liabilities in the ordinary course of business. On the effective date of the reorganization, which is subject to the closing of one or more loans and/or credit facilities that together would provide liquidity to us upon our exit from bankruptcy, among other things, we will adopt fresh-start accounting as required by the provisions of the American Institute of Certified Public Accountant s Statement of Position 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code (SOP 90-7). SOP 90-7 will require us to allocate the reorganization value to our assets and liabilities in relation to their fair values. Accordingly, the carrying values of assets and liabilities on the effective date of reorganization may differ materially from the amounts shown as of March 31, 2009. Additionally, amounts reported in subsequent financial statements may change materially due to the reorganization of our assets and liabilities, as well as the application of the fresh-start accounting provisions. We expect that our reorganization and fresh-start accounting adjustments will include conversion of the principal and accrued interest on our 9.75% Senior Unsecured Notes due 2014 (the Fixed Rate Notes), our Senior Floating Rate Notes due 2013 (the Floating Rate Notes and together with the Fixed Rate Notes, the Senior Unsecured Notes) and the 8.75% Senior Notes due 2010 into new common stock. Additionally, along with all of our assets and liabilities, our property and equipment assets and our asset retirement obligations will be reported at fair market values. As a result, our interest expense, accretion of liability for asset retirement obligations and our depreciation, depletion and amortization may be significantly different in periods after the effective date of the reorganization.

(2) EARNINGS PER SHARE

Basic earnings per share are computed by dividing income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed in the same manner as basic earnings per share except that the denominator is increased to include the number of additional common shares that could have been outstanding assuming the exercise of stock options and the potential shares associated with restricted share units and performance shares that would have a dilutive effect on earnings per share.

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(3) SUBSEQUENT EVENTS, LIQUIDITY AND CAPITAL RESOURCES

Background to the Chapter 11 Cases

Prior to our filing of the Chapter 11 Cases, a number of events and economic conditions which existed in 2008 negatively impacted our business and liquidity. These events included the following:

- hurricanes in August and September of 2008 damaged third-party production pipelines, causing us to shut-in a significant amount of our production from September 2008 and continuing into early 2009;
- oil and natural gas prices declined in the fourth quarter of 2008 and have remained at low levels during 2009 relative to the levels in 2008; and
- the worldwide credit and capital markets collapsed in 2008 and the availability of debt and equity financing became significantly more scarce, thus reducing financial flexibility for most companies, including us.

These factors negatively impacted our business, and led to several circumstances that significantly affected our liquidity, including:

MMS Order and Term Sheet. We received an order from the Minerals Management Service (MMS) dated March 23, 2009 (the MMS Order). The MMS is part of the United States Department of the Interior. The MMS Order demanded that we provide to the MMS bonds or other acceptable security in the aggregate amount of $34.7 million to secure plugging and abandonment liabilities associated with all of our properties on federal leases in the Gulf of Mexico, with the first installment payment of $1.2 million due no later than March 31, 2009, an additional installment payment of $1.2 million due no later than June 30, 2009 and the remaining $32.3 million due no later than July 31, 2009. The MMS Order also required us to immediately shut-in production from all of our wells and facilities located in South Pass Blocks 27 and 28 in the federal portion of our East Bay field, while properly maintaining these facilities and wells with essential personnel. We promptly completed the shut-in of our federal East Bay facilities before the end of March 2009. After further discussions with the MMS, the MMS has requested that three of our unit wells producing in East Bay be shut-in, further to compliance with the MMS Order affecting our federal leases in East Bay. This subsequent shut-in occurred on August 14, 2009. The MMS has acknowledged, however, that production from these three unit wells held the leases while they were producing. Because federal leases would normally terminate if there is no production for 180 consecutive days, the affected leases could expire if (1) we do not comply with the requirements set forth by applicable MMS regulations and restore production to the shut-in federal leases by February 10, 2010; (2) we and the MMS do not otherwise come to an agreement that would prevent the leases from expiring on such date; or (3) there is no other unitized production that would prevent the termination provisions in the affected leases from being triggered. The production from the wells and properties that we shut-in as a result of the MMS Order constituted less than 5% of our average daily production as of March 27, 2009. We also made two installment payments of approximately $1.2 million on March 30, 2009 and on April 29, 2009 in compliance with the MMS Order and the term sheet discussed below. We entered into a binding term sheet with the MMS on April 30, 2009 to establish terms for us to address our obligations under the MMS Order. Under the term sheet, we and the MMS have agreed to re-affirm the terms and conditions of the previously established trust account for the benefit of the MMS under the Decommissioning Trust Agreement dated December 23, 2008 among us, the MMS and JP Morgan Chase Bank, NA, and we had agreed to make monthly payments to the trust account in the amount of $1.2 million while the Chapter 11 Cases are pending and, on the effective date of the Plan to make a payment to the trust account equal to $21 million minus the aggregate amount of the monthly payments made into the trust account while the Chapter 11 Cases are pending (commencing with the payment made on April 29, 2009). The $1.2 million monthly payments to the trust account remain subject to approval by the Bankruptcy Court. All remaining amounts owed to the trust account to reach the full funding amount owed to the MMS of $36.1 million (after giving credit to all prior payments made by us) were payable in equal quarterly installments of approximately $1.2 million, commencing October 31, 2009, with quarterly payments continuing until full funding has occurred. On June 11, 2009, we received a letter from the MMS requesting an additional $10.95 million in financial assurance based on the actual costs for partial and completed well plugging and abandonment associated with our federal leases in the East Bay field. On June 24, 2009, we advised the MMS that we will provide the additional $10.95 million by increasing our quarterly payments identified in the term sheet such quarterly payments are presently contemplated to commence on October 31, 2009 which would increase the quarterly payments from approximately $1.2 million to approximately $1.8 million. The MMS has agreed to vote in favor of the Plan to the extent its treatment is consistent with the terms set forth in the term sheet. In addition, the MMS has granted a consensual stay of the MMS Order that will remain in place while the Chapter 11 Cases are pending. This stay, however, does not lift the requirement that our Federal wells and facilities located in South Pass Blocks 27 and 28 remain shut-in. The term sheet with the MMS contemplates that, on the effective date of the Plan, the MMS Order will be fully rescinded, and we will be allowed to resume production from these wells and facilities. However, the terms of the term sheet, as incorporated into the Plan, will only supersede the

MMS Order if the Bankruptcy Court confirms the Plan.

Reduction of Borrowing Base. In March 2009, we received a notice of redetermination from Bank of America, N.A., the Administrative Agent under our Credit Agreement dated as of April 23, 2007 (Credit Agreement), that our borrowing base under the Credit Agreement had been lowered from $150 million to $45 million, resulting in a borrowing base deficiency of $38 million. Following the receipt of this notice, we considered various alternatives provided for under the Credit Agreement to repay the borrowing base deficiency and presented to the Administrative Agent the proposal of an installment repayment plan. The Administrative Agent declined to approve our proposed repayment plan, and as a result, on March 24, 2009, we received a notice from the Administrative Agent requiring the lump-sum payment by us of $38 million to the bank lenders under the Credit Agreement (the

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Lenders) by April 3, 2009. On April 3, 2009, we obtained a consent from a majority of the outstanding commitments (the Required Lenders) under the Credit Agreement, extending the due date for the repayment of the borrowing base deficiency until April 14, 2009. On April 14, 2009, we and the Required Lenders entered into a letter agreement that further extended the due date for repayment of the borrowing base deficiency until May 1, 2009 and provided that the Lenders agree not to exercise any rights and remedies until May 1, 2009 with respect to all outstanding and certain anticipated defaults by us under the Credit Agreement in exchange for our compliance with specified conditions. On May 1, 2009, we filed the Chapter 11 Cases.

Default on Senior Unsecured Notes. We were required to make annual interest payments of approximately $45.0 million each year on the Senior Unsecured Notes, of which $17 million was due on April 15, 2009, and remains unpaid. Our failure to make these interest payments within 30 days of the due date was an event of default under the indenture governing the Senior Unsecured Notes and under the cross-default provision of the Credit Agreement.

Surety Obligations. As of August 31, 2009, we had outstanding $60.0 million in surety bonds with four different indemnity companies. Our agreements with these indemnity companies allow them to demand cash reserves or letters of credit to support our outstanding surety bonds. In December 2008 and the first quarter of 2009, we posted cash collateral to restricted accounts for the benefit of certain of these indemnity companies totaling $5.7 million in response to requests to provide reserves against our surety bonds with them. If we default on some or all of these surety bonds, the indemnity companies may cancel our surety bonds. The cancelation of some or all of our surety bonds may result in violations of other agreements or obligations. As a result, we could be forced to shut in our production or lose our ability to continue to perform our business operations.

Plan of Reorganization; Plan Support and Lock-Up Agreement

On April 30, 2009, we entered into a Plan Support and Lock-Up Agreement (the Plan Support Agreement) with the holders of more than 66⅔% (the Consenting Holders) of the outstanding principal amount of our Senior Unsecured Notes. The parties to the Plan Support Agreement had agreed, following receipt of the Disclosure Statement, to vote in favor of and support a plan or reorganization that is consistent in all material respects with the term sheet attached to the Plan Support Agreement (Term Sheet).

The Plan Support Agreement may be terminated under certain circumstances by the Majority Consenting Holders, including if (1) we fail to file the Plan or the Disclosure Statement with the Bankruptcy Court on or prior to May 15, 2009; (2) the Bankruptcy Court does not approve the Disclosure Statement on or prior to June 30, 2009; (3) the Bankruptcy Court does not confirm the Plan on or prior to August 15, 2009; (4) we do not consummate the restructuring transactions provided for in the Plan on or prior to September 10, 2009, or under certain circumstances, a later date; (5) we or any of our officers or directors fail to take any action required by the Plan Support Agreement in order to comply with our fiduciary obligations under applicable law or otherwise; (6) we file or support a plan of reorganization that is different from the Plan or withdraw or revoke the Plan; (7) we materially breach any of our obligations or fail to satisfy in any material respect any of the terms or conditions under the Plan Support Agreement; (8) our aggregate liabilities as of the dates specified in the Term Sheet (excluding those liabilities that would be extinguished by the Plan or otherwise do not survive the consummation of the Plan) materially exceed the amounts we represented in the Term Sheet; (9) an examiner with expanded powers relating to our business or trustee is appointed in any of the Chapter 11 Cases, any of the Chapter 11 Cases are converted to a case under Chapter 7 of the Bankruptcy Code or any of the Chapter 11 Cases are dismissed by the Bankruptcy Court; or (10) any definitive documents executed by us in connection with the Chapter 11 Cases in order to implement the Plan are not consistent in all material respects with the terms set forth in the Term Sheet and otherwise are not reasonably satisfactory in all material respects to the Majority Consenting Holders. In any event, the Plan Support Agreement terminates on September 15, 2009.

Bankruptcy Proceedings, Plan of Reorganization, Exit Facility and Expected Emergence from Bankruptcy

On May 1, 2009, we and certain of our subsidiaries filed voluntary petitions (In re: Energy Partners, Ltd., et. al., Case No. 09-32957) for reorganization under Chapter 11 of Title 11 of the United States Code, 11 U.S.C. §§ 101 et seq., as amended, in the Bankruptcy Court. We continue to manage our properties and operate our business as debtors-in-possession under the jurisdiction of the Bankruptcy Court. On June 11, 2009, as part of the Chapter 11 Cases, we filed with the Bankruptcy Court the Plan and the Disclosure Statement, pursuant to which we solicited votes for the confirmation of the Plan. On July 31, 2009, we filed with the Bankruptcy Court our Second Amended Joint Plan of Reorganization, as modified as of July 31, 2009 (Plan). The Plan was formulated after extensive negotiations with committees representing holders of the Senior Unsecured Notes and holders of our common stock interests. The primary purpose of the Plan is to effectuate a restructuring of our capital structure to strengthen our balance sheet by reducing our overall indebtedness and improve cash flow.

On July 23, 2009, we announced that the Plan had received the affirmative vote of the holders of our Senior Unsecured Notes and our 8.75% Senior Notes due 2010 and we consequently proceeded to request confirmation of the Plan from the Bankruptcy Court. On August 3, 2009, after a confirmation hearing in which the Bankruptcy Court considered the Plan and all objections thereto, it entered a confirmation order (the Confirmation Order) and confirmed the Plan as of August 3, 2009. The effectiveness of the Plan and our emergence from bankruptcy is subject to several conditions, including the successful closing of one or more loans and/or credit facilities that together would provide liquidity to us upon our exit from bankruptcy (together, the Exit Facility). We are currently in negotiations with lenders on structuring the Exit Facility. For more information on the conditions to the final effectiveness of the Plan see Item 1A Risk Factors in our 2008 Annual Report.

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The material terms of the Plan as confirmed by the Bankruptcy Court on August 3, 2009 include, among other things, that:

- each holder of the Senior Unsecured Notes and our 8.75% Senior Notes due 2010 would receive, in exchange for their total claim (including principal and interest), their pro rata share of 95% of the common stock to be issued pursuant to the Plan New EPL Common Stock in us upon our emergence from bankruptcy;

- each holder of our common stock interests would receive, in exchange for their total claim, their pro rata share of 5% of the New EPL Common Stock;

- upon the Effective Date, we shall have access to the Exit Facility in form and substance acceptable to us and a majority in interest of the Consenting Holders (the Majority Consenting Holders);

- we may adopt the 2009 Long Term Incentive Plan under which we may issue shares of restricted new EPL common stock and new EPL stock options to certain of our employees and certain members of management; and

- following the effective date of the reorganization, the sole equity interests in us would consist of (1) New EPL Common Stock issued to the holders of our Senior Unsecured Notes, the 8.75% Senior Notes due 2010, and holders of our common stock interests, (2) restricted new EPL common stock issued to certain members of our management, if any, and (3) new EPL stock options to be issued to certain key employees pursuant to the 2009 Long Term Incentive Plan, if any, which would be exercisable for new EPL common stock. Collectively, the restricted new EPL common stock issued pursuant to subparagraph (2) and the shares reserved for the exercise of new EPL stock options pursuant to subparagraph (3) above would in no event exceed 3% of the new EPL common stock on a fully diluted basis.

The timing and ultimate outcome of the Chapter 11 proceedings remain uncertain. Issues and matters to be resolved prior to emergence from the proceedings include negotiation of the Exit Facility.

Consummation of the Plan is conditioned upon, among other things, the closing of the Exit Facility. There can be no assurance that any or all of the foregoing conditions will be met (or waived) or that the other conditions to consummation, if any, will be satisfied. Accordingly, there can be no assurance that the Plan will be consummated and the restructuring completed.

The above events and circumstances, together with the worldwide credit markets collapse in 2008 and the scarcity of available credit from most major commercial financial institutions, as well as the low trading price of our common stock, make it extremely difficult to find additional financing, either to refinance our Credit Agreement or our Senior Unsecured Notes or to provide additional liquidity during 2009.

Restructure of Prepetition Employee Arrangements

Prior to May 1, 2009, various incentive and retention plans and agreements existed for certain of our employees (collectively, the Arrangements) that provided for such employees to receive cash payments and/or settlement of equity compensation awards either upon specified future vesting dates or in connection with a termination of employment. The Plan Support Agreement contains certain provisions that provide that such Arrangements must be amended, renegotiated, and/or restructured prior to the effective date of a confirmed plan of reorganization.

As a result of the Plan Support Agreement, the Board of Directors amended the provisions of the Energy Partners, Ltd. Change of Control Severance Plan (the Severance Plan) in a manner such that the protected employment period initiated by our change of control under such plans, as well as the severance benefits potentially payable in connection with certain terminations of employment during that protected period, would not be triggered by the restructuring contemplated by the Plan Support Agreement.

We also established two programs, a non-insider employee retention program and a senior management employee program (collectively, the Retention Programs). In order for an office employee who participates in either of these programs to receive his or her retention payments, the participant has to waive and release any and all potential claims against the Company under the prepetition Arrangements.

Finally, the written change of control severance agreements (each a Severance Agreement) with two of our executives were terminated by the Company and each of such executives in exchange for the executives receiving an unsecured claim for the rejection damages.

The total cost of the Retention Programs and the termination of the two Severance Agreements is approximately $2 million of which approximately $0.5 million has been paid during the bankruptcy proceedings and approximately $1.5 million will be paid when we emerge from bankruptcy.

NYSE Delisting

In March 2009, the New York Stock Exchange (the NYSE) notified us that our common stock had been suspended from trading and was subsequently delisted for failure to maintain the required market capitalization minimum criteria. Our common stock is being quoted for public trading on the Pink Sheets quotations system, an over-the-counter market, under the symbol ERPLQ.PK. This significantly impairs our ability to raise additional equity financing.

***Changes to Production Level*s**

Due to our current liquidity situation and lower commodity prices, we expect to significantly reduce capital expenditures during 2009. As a result, we do not expect to be able to maintain our current production levels and we expect our production to decline significantly during the second half of 2009 primarily due to natural reservoir declines combined with minimal investment in reserve

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replacement activities. At our current and anticipated production levels, combined with the current and expected lower sales prices, we do not expect to have sufficient cash flows to fully fund our operations and meet all of our financial obligations in 2009 as discussed above.

Changes in the Board of Directors and Management

Commencing in the first half of fiscal 2009 and continuing through the date of this filing, we have experienced major changes in the management of our company. Our Board of Directors declined from eleven to five members during the first quarter of 2009. In addition, on March 1, 2009, Joseph T. Leary resigned as our Executive Vice President and Chief Financial Officer. On March 15, 2009, Richard A. Bachmann resigned as our Chairman and Chief Executive Officer and we engaged Alan D. Bell as our Chief Restructuring Officer. In July 2009, we announced the designation of Alan D. Bell as principal executive officer and Tiffany J. Thom as principal financial officer.

(4) ACQUISITIONS AND DIVESTITURES

On March 26 and 27, 2008, respectively, we completed the sale of two Gulf of Mexico properties located in the Western offshore area for $15.0 million after giving effect to preliminary closing adjustments and recorded a gain on the sale of $7.1 million in the three months ended March 31, 2008.

(5) DERIVATIVE TRANSACTIONS

Derivative contracts are carried at their fair value in the condensed consolidated balance sheets as Fair value of commodity derivative instruments and all realized and unrealized gains and losses are recorded in Gain (loss) on derivative instruments in Other income (expense). Recently, we have agreed to termination of certain of these contracts as requested by our lenders or as required by the terms of our agreements with them. We had the following derivative contracts as of March 31, 2009:

Natural Gas Contracts

				Volume (Mmbtu)	
		Contract Type	**Floor/Ceiling-Floor ($/Mmbtu)**	**Daily**	**Total**
04/09	06/09	Synthetic Put	$ 5.00/$10.00-11.00	10,000	610,000
11/09	01/10	Synthetic Put	$ 6.00/$10.00-11.00	5,000	920,000
11/09	01/10	Synthetic Put	$ 5.83/$10.00-11.00	15,000	1,380,000

Oil Contracts

			Volume (Bbls)	
Remaining Contract Term	**Contract Type**	**Floor/Ceiling ($/Bbl)**	**Daily**	**Total**
4/09 06/09	Collar	$ 55.00/$86.88	1,000	182,000

The following table presents information about the components of gain (loss) on derivative instruments:

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
	(in thousands)	
Derivative contracts:		
Unrealized loss due to change in fair market value	$ (649)	$ (3,096)
Realized gain (loss) on settlement	4,300	(5,230)
Total gain (loss) on derivative instruments	$ 3,651	$ (8,326)

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(6) ASSET RETIREMENT OBLIGATIONS

Changes in our asset retirement obligations for the three months ended March 31, 2009, were as follows:

	Three Months Ended March 31, 2009 (in thousands)
Balance at December 31, 2008	$ 105,687
Accretion expense	1,834
Revisions	196
Liabilities settled	(4,948)
Balance at March 31, 2009	102,769
Less: Amount required to be settled within the next twelve months	(14,229)
Balance at March 31, 2009, noncurrent asset retirement obligations	$ 88,540

(7) INDEBTEDNESS

See Note 3 Subsequent Events, Liquidity and Capital Resources for additional information on our indebtedness and the impact of the Chapter 11 Cases on the Credit Agreement, the Senior Unsecured Notes and the 8.75% Senior Notes due 2010.

Currently, we are in default on our Credit Agreement, Senior Unsecured Notes and our 8.75% Senior Notes due 2010. Total indebtedness was as follows:

	March 31, 2009	December 31, 2008
	(in thousands)	
Fixed Rate Notes, annual interest of 9.75%, payable May 15, 2014	$ 300,000	$ 300,000
Floating Rate Notes, with weighted average interest on March 31, 2009 of 6.22%, payable April 15, 2013	150,000	150,000
Senior Notes, annual interest of 8.75%, payable August 1, 2010	4,501	4,501
Credit Agreement, interest rate based on LIBOR borrowing rates plus a floating spread payable April 23, 2011, with weighted average interest on March 31, 2009 of 3.16%	83,000	43,000
Total indebtedness, all amounts are current	$ 537,501	$ 497,501

(8) FAIR VALUE MEASUREMENTS

The following table provides fair value measurement information for our financial instruments. The carrying values of cash and cash equivalents, trade accounts receivable and accounts payable (including income taxes payable and accrued expenses) approximated fair value at March 31 2009, and are not presented in the following table.

	As of March 31, 2009				
			Fair Value Measurements Using:		
	Carrying Amount	Total Fair Value	Quoted Prices in Active Markets	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)

			(Level 1)		
Financial Assets (Liabilities) (in thousands):					
Oil and natural gas puts and collars	$ 4,682	$ 4,682	$	$ 4,682	$
Debt	$ (537,501)	$ (194,035)	$	$ (194,035)	$

Statement of Financial Accounting Standards (SFAS) No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. As presented in the table above, this hierarchy consists of three broad levels. Level 1 inputs on the hierarchy consist of unadjusted quoted prices in active markets for identical assets and liabilities and have the highest priority. Level 2 inputs are other than quoted prices in active markets included in Level 1, and Level 3 inputs have the lowest priority and include significant inputs that are generally less observable from objective sources. When available, we measure fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. We currently do not use Level 3 inputs to measure fair value.

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The following methods and assumptions were used to estimate the fair values of the assets and liabilities in the table above.

Level 2 Fair Value Measurements

Debt At March 31, 2009, the Fixed Rate Notes and the Floating Rate Notes were not actively traded in an established market. Therefore, quoted prices were not available. However, we estimated the fair values of these debt instruments based on prices reflected by trades which occurred near March 31, 2009 as obtained through financial information services. The fair value of the Credit Agreement is estimated to approximate the carrying amount because the interest rates paid on such debt are generally set for periods of three months or less.

Oil and natural gas puts and collars The fair values of the oil and natural gas puts and collars are estimated using similar, observable NYMEX published settlements.

(9) NEW ACCOUNTING PRONOUNCEMENTS

In May 2009, the FASB issued SFAS No. 165, Subsequent Events. SFAS No. 165 modifies the definition of subsequent events and requires disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. SFAS No. 165 became effective for us on June 15, 2009. We evaluated subsequent events through September 8, 2009, which represents the date our financial statements were issued. Our significant subsequent events are addressed in Note 3 Subsequent Events, Liquidity and Capital Resources.

(10) COMMITMENTS AND CONTINGENCIES

As described in Note 3 Subsequent Events, Liquidity and Capital Resources, on May 1, 2009, we and certain of our subsidiaries filed the Chapter 11 Cases. See Note 3 for additional information on legal proceedings related to the Chapter 11 Cases. In addition to the matters described in Note 3, we may become subject to claims asserted during or subsequent to the Chapter 11 proceedings. However, we do not anticipate that our exposure to these additional claims, individually or in the aggregate, to have a material adverse effect on our financial position, results of operations or liquidity.

We generate liabilities related to production that is delivered to us in excess of our interest in certain properties, often referred to as production imbalances. Additionally, we may, from time to time, receive cash in excess of amounts that we estimate are due to us for our interest in production, which amounts may be subject to further review, may require more information to resolve or may be in dispute. At March 31, 2009, based on information available to us, the amount that may be subject to claim by one purchaser of our production of $4.4 million is included in accrued expenses.

In the ordinary course of business, we are a defendant in various other legal proceedings. We do not expect our exposure in these other proceedings, individually or in the aggregate, to have a material adverse effect on our financial position, results of operations or liquidity.

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(11) SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION

In connection with the sale of the Senior Unsecured Notes, all of our current active subsidiaries (the Guarantor Subsidiaries) jointly, severally and unconditionally guaranteed the payment obligations under the Senior Unsecured Notes. The following supplemental financial information sets forth, on a consolidating basis, the balance sheet, statement of operations and cash flow information for Energy Partners, Ltd. (Parent Company Only) and for the Guarantor Subsidiaries. We have not presented separate financial statements and other disclosures concerning the Guarantor Subsidiaries because management has determined that such information is not material to investors.

The supplemental condensed consolidating financial information has been prepared pursuant to the rules and regulations for condensed financial information and does not include all disclosures included in annual financial statements, although we believe that the disclosures made are adequate to make the information presented not misleading. Certain reclassifications were made to conform all of the financial information to the financial presentation on a consolidated basis. The principal eliminating entries eliminate investments in subsidiaries, intercompany balances and intercompany revenues and expenses.

Supplemental Condensed Consolidating Balance Sheet

As of March 31, 2009

	Parent Company Only	Guarantor Subsidiaries	Eliminations	Consolidated
		(in thousands)		
ASSETS				
Current assets:				
Cash and cash equivalents	$ 20,083	$	$	$ 20,083
Accounts receivable	31,141	1,672		32,813
Other current assets	4,623	63		4,686
Total current assets	55,847	1,735		57,582
Property and equipment	1,377,719	270,985		1,648,704
Less accumulated depreciation, depletion and amortization	(851,713)	(143,976)		(995,689)
Net property and equipment	526,006	127,009		653,015
Investment in affiliates	81,212		(81,212)	
Notes receivable, long-term		120,431	(120,431)	
Other assets	36,035	90		36,125
	699,100	249,265	(201,643)	746,722
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities:				
Accounts payable and accrued expenses	$ 84,452	$ 7,038	$	$ 91,490
Deferred tax liability	1,326			1,326
Current maturities of long-term debt	537,501			537,501
Total current liabilities	623,279	7,038		630,317
Long-term debt		120,431	(120,431)	
Other liabilities	48,852	40,584		89,436
	672,131	168,053	(120,431)	719,753

Stockholders equity:				
Preferred stock		3	(3)	
Common stock	445	98	(98)	445
Additional paid-in capital	383,952	310	(310)	383,952
Retained earnings	(99,072)	80,801	(80,801)	(99,072)
Treasury stock	(258,356)			(258,356)
Total stockholders equity	26,969	81,212	(81,212)	26,969
	699,100	249,265	(201,643)	746,722

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Supplemental Condensed Consolidating Balance Sheet

As of December 31, 2008

	Parent Company Only	Guarantor Subsidiaries	Eliminations	Consolidated
		(in thousands)		
ASSETS				
Current assets:				
Cash and cash equivalents	$ 1,991	$	$	$ 1,991
Accounts receivable	37,665	1,244		38,909
Other current assets	4,459	63		4,522
Total current assets	44,115	1,307		45,422
Property and equipment	1,376,387	270,418		1,646,805
Less accumulated depreciation, depletion and amortization	(818,234)	(140,204)		(958,438)
Net property and equipment	558,153	130,214		688,367
Investment in affiliates	84,697	(66)	(84,631)	
Notes receivable, long-term		120,431	(120,431)	
Other assets	32,887	90		32,977
	719,852	251,976	(205,062)	766,766
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities:				
Accounts payable and accrued expenses	$ 114,510	$ 7,161	$	$ 121,671
Deferred tax liability	1,580			1,580
Fair value of commodity derivative instruments	28			28
Current maturities of long-term debt	497,501			497,501
Total current liabilities	613,619	7,161		620,780
Long-term debt		120,431	(120,431)	
Other liabilities	49,114	39,753		88,867
	662,733	167,345	(120,431)	709,647
Stockholders equity:				
Preferred stock		3	(3)	
Common stock	444	98	(98)	444
Additional paid-in capital	382,232	310	(310)	382,232
Retained earnings	(67,201)	84,220	(84,220)	(67,201)
Treasury stock	(258,356)			(258,356)
Total stockholders equity	57,119	84,631	(84,631)	57,119
	719,852	251,976	(205,062)	766,766

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Supplemental Condensed Consolidated Statement of Operations

Three Months Ended March 31, 2009

	Parent Company Only	Guarantor Subsidiaries	Eliminations	Consolidated
		(in thousands)		
Revenue:				
Oil and natural gas	$ 32,536	$ 10,114	$	$ 42,650
Other	280	47	(277)	50
	32,816	10,161	(277)	42,700
Costs and expenses:				
Lease operating expenses	9,718	3,832		13,550
Exploration expenditures, dry hole costs and impairments	5,685			5,685
Depreciation, depletion, amortization and accretion	29,384	4,590		33,974
General and administrative	12,325	4,069	(3,750)	12,644
Taxes, other than on earnings	256	1,143		1,399
Other expenses	480			480
Total costs and expenses	57,848	13,634	(3,750)	67,732
Business interruption recovery	1,185			1,185
Loss from operations	(23,847)	(3,473)	3,473	(23,847)
Other income (expense):				
Interest expense, net	(11,675)			(11,675)
Gain on derivative instruments	3,651			3,651
	(8,024)			(8,024)
Loss before income taxes	(31,871)	(3,473)	3,473	(31,871)
Income taxes				
Net loss	$ (31,871)	$ (3,473)	$ 3,473	$ (31,871)

Supplemental Condensed Consolidated Statement of Operations

Three Months Ended March 31, 2008

	Parent Company Only	Guarantor Subsidiaries	Eliminations	Consolidated
		(in thousands)		
Revenue:				
Oil and natural gas	$ 75,131	$ 22,324	$	$ 97,455
Other	8,755	40	(8,754)	41
	83,886	22,364	(8,754)	97,496
Costs and expenses:				
Lease operating	8,564	5,650		14,214
Exploration expenditures, dry hole costs and impairments	22,473	736		23,209
Depreciation, depletion, amortization and accretion	25,273	4,593		29,866
Taxes, other than on earnings	52	2,327		2,379
General and administrative	9,063	4,054	(3,750)	9,367
Gain on sale of assets	(6,674)			(6,674)
Other expenses	1,502			1,502
Total costs and expenses	60,253	17,360	(3,750)	73,863
Income from operations	23,633	5,004	(5,004)	23,633
Other income (expense):				
Interest expense, net	(11,611)			(11,611)
Loss on derivative instruments	(8,326)			(8,326)
	(19,937)			(19,937)
Income before income taxes	3,696	5,004	(5,004)	3,696
Income taxes	(1,381)			(1,381)
Net income	$ 2,315	$ 5,004	$ (5,004)	$ 2,315

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Supplemental Condensed Consolidating Statement of Cash Flows

Three Months Ended March 31, 2009

	Parent Company Only	Guarantor Subsidiaries	Eliminations	Consolidated
		(in thousands)		
Net cash provided by operating activities	$ 1,405	$ 846	$	$ 2,251
Cash flows used in investing activities:				
Property acquisitions	(29)			(29)
Exploration and development expenditures	(23,159)	(846)		(24,005)
Other property and equipment additions	(125)			(125)
Net cash used in investing activities	(23,313)	(846)		(24,159)
Cash flows provided by financing activities:				
Proceeds from long-term debt	40,000			40,000
Net cash provided by financing activities	40,000			40,000
Net increase in cash and cash equivalents	18,092			18,092
Cash and cash equivalents at beginning of period	1,991			1,991
Cash and cash equivalents at end of period	$ 20,083	$	$	$ 20,083

Supplemental Condensed Consolidating Statement of Cash Flows

Three Months Ended March 31, 2008

	Parent Company Only	Guarantor Subsidiaries	Eliminations	Consolidated
		(in thousands)		
Net cash provided by operating activities	$ 58,994	$ 3,427	$	$ 62,421
Cash flows used in investing activities:				
Property acquisitions				