

ENERGY PARTNERS LTD  
Form 10-Q  
May 06, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2010

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)

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**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**72-1409562**  
(I.R.S. Employer  
Identification Number)

**201 St. Charles Ave., Suite 3400 New Orleans, Louisiana**  
(Address of principal executive offices)

**70170**  
(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

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

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

As of April 30, 2010, there were 40,064,731 shares of the Registrant's Common Stock, par value \$0.001 per share, outstanding.

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**Table of Contents****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,<br>2010 | December 31,<br>2009 |
|--|-------------------|----------------------|
| <b>ASSETS</b>  |                   |                      |
| Current assets:  |                   |                      |
| Cash and cash equivalents  | \$ 50,214         | \$ 26,745            |
| Trade accounts receivable  | 28,595            | 27,958               |
| Receivables from insurance   | 4,051             | 5,464                |
| Fair value of commodity derivative instruments   | 672               | 914                  |
| Deferred tax assets  | 5,923             | 5,768                |
| Prepaid expenses   | 4,812             | 2,940                |
| Total current assets   | 94,267            | 69,789               |
| Property and equipment, under the successful efforts method of accounting for oil and natural gas properties       | 658,233           | 648,517              |
| Less accumulated depreciation, depletion and amortization  | (68,152)          | (37,535)             |
| Net property and equipment   | 590,081           | 610,982              |
| Restricted cash  | 21,757            | 22,147               |
| Other assets   | 3,588             | 3,647                |
| Deferred financing costs net of accumulated amortization of \$650 at March 31, 2010 and \$325 at December 31, 2009 | 2,338             | 2,663                |
|  | \$ 712,031        | \$ 709,228           |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |                   |                      |
| Current liabilities:   |                   |                      |
| Accounts payable   | \$ 12,992         | \$ 14,047            |
| Accrued expenses   | 31,759            | 32,822               |
| Asset retirement obligations   | 9,870             | 10,830               |
| Current portion of long-term debt  | 12,500            | 18,750               |
| Fair value of commodity derivative instruments   | 10,444            | 10,256               |
| Total current liabilities  | 77,565            | 86,705               |
| Long-term debt   | 61,995            | 58,590               |
| Asset retirement obligations   | 61,872            | 59,150               |
| Deferred tax liabilities   | 19,986            | 16,953               |
| Fair value of commodity derivative instruments   | 4,833             | 7,519                |
| Other  | 191               | 224                  |
| Commitments and contingencies (Note 7)   |                   |                      |
|  | 226,442           | 229,141              |
| Stockholders' equity:  |                   |                      |

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|  |             |             |
|--|-------------|-------------|
| Preferred stock, \$0.001 par value per share. Authorized 1,000,000 shares; no shares issued and outstanding at March 31, 2010 and December 31, 2009                                    |             |             |
| Common stock, \$0.001 par value per share. Authorized 75,000,000 shares; shares issued and outstanding 40,058,718 and 40,021,770 at March 31, 2010 and December 31, 2009, respectively | 40          | 40          |
| Additional paid-in capital   | 501,445     | 501,059     |
| Accumulated deficit  | (15,896)    | (21,012)    |
| <br>Total stockholders' equity   | <br>485,589 | <br>480,087 |
|  | \$ 712,031  | \$ 709,228  |

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****ENERGY PARTNERS, LTD. AND SUBSIDIARIES**

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

| <b>(In thousands, except per share data)</b>                                | <b>Successor<br/>Company<br/>Three Months<br/>Ended<br/>March 31, 2010</b> | <b>Predecessor<br/>Company<br/>Three Months<br/>Ended<br/>March 31, 2009</b> |
|---|--|--|
| Revenue:  |  |  |
| Oil and natural gas   | \$ 70,683  | \$ 42,650  |
| Other   | 36   | 50   |
|   | 70,719   | 42,700   |
| Costs and expenses:   |  |  |
| Lease operating   | 14,442   | 15,977   |
| Transportation  | 490  | 136  |
| Exploration expenditures and dry hole costs                                 | 1,854  | 572  |
| Impairments   | 769  | 5,113  |
| Depreciation, depletion and amortization                                    | 29,855   | 32,140   |
| Accretion of liability for asset retirement obligations                     | 3,222  | 1,834  |
| General and administrative  | 4,188  | 10,217   |
| Taxes, other than on earnings   | 2,037  | 1,399  |
| (Gain) loss on abandonment activities                                       | (197)  | 456  |
| Other   | (52)   | (112)  |
| Total costs and expenses  | 56,608   | 67,732   |
| Business interruption recovery  |  | 1,185  |
| Income (loss) from operations   | 14,111   | (23,847)   |
| Other income (expense):   |  |  |
| Interest income   | 9  | 38   |
| Interest expense  | (4,202)  | (11,713)   |
| Gain (loss) on derivative instruments                                       | (1,924)  | 3,651  |
|   | (6,117)  | (8,024)  |
| Income (loss) before income taxes   | 7,994  | (31,871)   |
| Deferred provision for income taxes   | (2,878)  |  |
| Net income (loss)   | \$ 5,116   | \$ (31,871)  |
| Basic earnings (loss) per share   | \$ 0.13  | \$ (0.99)  |
| Diluted earnings (loss) per share   | \$ 0.13  | \$ (0.99)  |
| Weighted average common shares used in computing earnings (loss) per share: |  |  |
| Basic   | 40,040   | 32,106   |
| Effect of dilutive stock options and restricted shares                      | 19   |  |
| Diluted   | 40,059   | 32,106   |

See accompanying notes to condensed consolidated financial statements.



**Table of Contents****ENERGY PARTNERS, LTD. AND SUBSIDIARIES**

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

| <b>(In thousands)</b>   | <b>Successor<br/>Company<br/>Three Months<br/>Ended<br/>March 31, 2010</b> | <b>Predecessor<br/>Company<br/>Three Months<br/>Ended<br/>March 31, 2009</b> |
|---|--|--|
| <b>Cash flows from operating activities:</b>  |  |  |
| Net income (loss)   | \$ 5,116   | \$ (31,871)  |
| <b>Adjustments to reconcile net income (loss) to net cash provided by operating activities:</b> |  |  |
| Depreciation, depletion and amortization  | 29,855   | 32,140   |
| Accretion of liability for asset retirement obligations   | 3,222  | 1,834  |
| Unrealized (gain) loss on derivative contracts  | (1,736)  | 649  |
| Non cash compensation   | 165  | 1,367  |
| Deferred income taxes   | 2,878  |  |
| In-kind interest on PIK Notes   | 3,225  |  |
| Exploration expenditures  | 1,756  | (12)   |
| Impairments   | 769  | 5,113  |
| Amortization of deferred financing costs  | 504  | 1,332  |
| Other   | (197)  | 329  |
| <b>Changes in operating assets and liabilities:</b>   |  |  |
| Trade accounts receivable   | (637)  | 3,643  |
| Other receivables   | 1,413  | 1,720  |
| Prepaid expenses  | (1,872)  | (164)  |
| Other assets  | (71)   | (4,734)  |
| Accounts payable and accrued expenses   | (3,656)  | (3,856)  |
| Other liabilities   | (1,263)  | (5,239)  |
| <b>Net cash provided by operating activities</b>  | <b>39,471</b>  | <b>2,251</b>   |
| <b>Cash flows used in investing activities:</b>   |  |  |
| Property acquisitions   | (50)   | (29)   |
| Exploration and development expenditures  | (9,663)  | (24,005)   |
| Other property and equipment additions  | (39)   | (125)  |
| <b>Net cash used in investing activities</b>  | <b>(9,752)</b>   | <b>(24,159)</b>  |
| <b>Cash flows provided by (used in) financing activities:</b>                                   |  |  |
| Repayments of indebtedness  | (6,250)  |  |
| Proceeds from indebtedness  |  | 40,000   |
| <b>Net cash provided by (used in) financing activities</b>                                      | <b>(6,250)</b>   | <b>40,000</b>  |
| <b>Net increase in cash and cash equivalents</b>  | <b>23,469</b>  | <b>18,092</b>  |
| Cash and cash equivalents at beginning of period  | 26,745   | 1,991  |
| <b>Cash and cash equivalents at end of period</b>   | <b>\$ 50,214</b>   | <b>\$ 20,083</b>   |

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. ( 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 offshore Louisiana as well as the deepwater Gulf of Mexico in depths less than 5,000 feet.

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 ( Chapter 11 ), in the United States Bankruptcy Court for the Southern District of Texas, Houston Division (the Bankruptcy Court ). On September 21, 2009, we emerged from Chapter 11 reorganization (the Exit Date ) pursuant to the plan of reorganization confirmed by the Bankruptcy Court (the Plan ). In accordance with the Plan, the Company s 9.75% Senior Unsecured Notes due 2014 (the Fixed Rate Notes ), its Senior Floating Rate Notes due 2013 (the Floating Rate Notes ) and together with the Fixed Rate Notes, the Senior Unsecured Notes ) and its 8.75% Senior Notes due 2010 (collectively with the Senior Unsecured Notes, the Predecessor Company Notes ) and the related accrued interest were discharged in the reorganization. We converted the Predecessor Company Notes and outstanding Predecessor Company common stock into shares of our new common stock as of the Exit Date. In accordance with the terms of the Plan, the Predecessor Company Notes and related indentures, as well as the Predecessor Company s outstanding common shares, were cancelled. Each holder of these notes received, in exchange for such holder s respective claim (including principal and accrued interest), such holder s pro rata portion of approximately 95% of the common stock in the Successor Company, or 38 million shares. Each holder of the Predecessor Company s common stock received, in full satisfaction of and in exchange for such holder s respective common stock interests, such holder s pro rata portion of approximately 5% of the common stock in the Successor Company, or approximately 2 million shares. Additional information regarding our reorganization under Chapter 11 is available in our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the Securities and Exchange Commission on March 11, 2010 (the 2009 Annual Report ).

In accordance with Financial Accounting Standards Board Accounting Standards Codification ( ASC ) Topic 852 ( ASC 852 ), Reorganizations, we adopted fresh-start accounting as of September 30, 2009. Fresh-start accounting is required upon a substantive change in control and requires that the reporting entity allocate the reorganization value of the Company to its assets and liabilities in relation to their fair values. Under the provisions of fresh-start accounting, a new entity has been deemed created for financial reporting purposes. References to the Predecessor Company refer to reporting dates of the Company through September 30, 2009, including the effect of the reorganization and application of fresh-start accounting; subsequent thereto, the Company is referred to as the Successor Company in the condensed consolidated statements of operations and cash flows and the notes to the condensed consolidated financial statements. The statements of operations and cash flows for the three months ended March 31, 2009 do not reflect the effect of any changes in the Company s capital structure or changes in fair values of assets and liabilities as a result of fresh-start accounting.

The financial information as of March 31, 2010 and for the three-month periods ended March 31, 2010 and March 31, 2009 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. 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. The condensed consolidated balance sheet at December 31, 2009 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 2009 Annual Report. The results of operations and cash flows 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 and the financial information presented for the Predecessor Company will not be comparable to the financial information presented for the Successor Company.

**(2) EARNINGS PER SHARE**

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during each period. Diluted earnings per share includes the effect, if dilutive, of potential common shares associated with stock option and restricted share awards outstanding during each period.



**Table of Contents****(3) ASSET RETIREMENT OBLIGATIONS**

Changes in our asset retirement obligations for the three months ended March 31, 2010 were as follows:

|   | <b>Three Months Ended<br/>March 31, 2010<br/>(in thousands)</b> |
|---|---|
| Balance at December 31, 2009  | \$ 69,980   |
| Accretion expense   | 3,222   |
| Revisions   | (197)   |
| Liabilities settled   | (1,263)   |
| <b>Balance at March 31, 2010</b>  | <b>71,742</b>   |
| Less: Amount required to be settled within the next twelve months         | (9,870)   |
| <b>Balance at March 31, 2010, noncurrent asset retirement obligations</b> | <b>\$ 61,872</b>  |

**(4) INDEBTEDNESS**

On September 21, 2009, we entered into a senior secured credit facility with General Electric Capital Corporation, as administrative agent and the lender parties thereto (the Credit Facility). The Credit Facility provides for senior secured borrowings consisting of (a) a one-year, \$25 million term loan and (b) a three-year revolving credit facility that may be used for revolving credit loans and letters of credit from time to time up to a maximum principal amount of \$125 million, including the \$25 million term loan. The maximum amount of letters of credit that may be outstanding at any one time is \$20 million, and the amount available under the revolving credit facility is limited by the borrowing base. The initial borrowing base at closing was \$70 million, including the \$25 million term loan. The borrowing base is subject to semi-annual redeterminations based on the proved reserves of the oil and gas properties that serve as collateral for the Credit Facility. We were subject to our first borrowing base redetermination beginning in December 2009, and in January 2010 our borrowing base was reaffirmed at \$45 million plus the remaining balance on the term loan. At March 31, 2010, the borrowing base was \$57.5 million, including the \$12.5 million remaining balance on the term loan. Our obligations under the Credit Facility and under derivative contracts with the lenders are guaranteed by our material subsidiaries and secured by our real property assets and the oil and gas properties to which 90% of the present value of our proved reserves is attributable.

**(5) DERIVATIVE TRANSACTIONS**

We enter into derivative transactions to reduce exposure to fluctuations in the price of oil and natural gas for a portion of our production. Our put contracts limit our exposure to declines in the sales price of oil for a limited amount of our production. Our fixed-price swaps fix the sales price for a limited amount of our production and, for the contracted volumes, eliminate our ability to benefit from increases in the sales price of the related production. Derivative contracts are carried at their fair value on the condensed consolidated balance sheets as Fair value of commodity derivative instruments and in Other assets, and all unrealized and realized gains and losses are recorded in Gain (loss) on derivative instruments in Other income (expense) in the condensed consolidated statements of operations.

As of March 31, 2010, the following derivative instruments were outstanding:

**Oil Contracts**

|                         | Fixed-Price Swaps                    |                                      |                   | Puts                                 |                            |
|-------------------------|--------------------------------------|--------------------------------------|-------------------|--------------------------------------|----------------------------|
|                         | Daily<br>Average<br>Volume<br>(Bbls) | Average<br>Swap<br>Volumes<br>(Bbls) | Price<br>(\$/Bbl) | Daily<br>Average<br>Volume<br>(Bbls) | Floor<br>Price<br>(\$/Bbl) |
| Remaining Contract Term |                                      |                                      |                   |                                      |                            |

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|               |               |       |         |          |       |         |          |
|---------------|---------------|-------|---------|----------|-------|---------|----------|
| April 2010    | July 2010     | 2,887 | 352,200 | \$ 68.22 | 502   | 61,200  | \$ 60.00 |
| August 2010   | November 2010 | 625   | 76,200  | \$ 69.65 | 1,673 | 204,150 | \$ 60.00 |
| December 2010 |               | 1,200 | 37,200  | \$ 70.37 | 1,302 | 40,350  | \$ 60.00 |
| January 2011  | July 2011     | 2,261 | 479,250 | \$ 71.13 | 502   | 106,500 | \$ 60.00 |
| August 2011   | November 2011 | 502   | 61,200  | \$ 72.18 | 1,301 | 158,700 | \$ 60.00 |
| December 2011 |               | 948   | 29,400  | \$ 72.64 | 1,302 | 40,350  | \$ 60.00 |

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## Natural Gas Contracts

| Remaining Contract Term | Puts    |         |            |
|-------------------------|---------|---------|------------|
|                         | Daily   |         | Floor      |
|                         | Average | Volume  | Price      |
|                         | Volume  | Volume  | (\$/Mmbtu) |
|                         | (Mmbtu) | (Mmbtu) |            |
| April 2010              | 25,000  | 750,000 | \$ 4.00    |
| May 2010                | 23,000  | 713,000 | \$ 4.00    |
| June 2010               | 22,000  | 660,000 | \$ 4.00    |

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

|   | Three Months Ended |           |
|---|--------------------|-----------|
|   | March 31,          | March 31, |
|   | 2010               | 2009      |
|   | (in thousands)     |           |
| Derivative contracts:                                     |                    |           |
| Unrealized gain (loss) due to change in fair market value | \$ 1,736           | \$ (649)  |
| Realized gain (loss) on settlement                        | (3,660)            | 4,300     |
| Total gain (loss) on derivative instruments               | \$ (1,924)         | \$ 3,651  |

**(6) FAIR VALUE MEASUREMENTS**

ASC Topic 820, Fair Value Measurements and Disclosures, establishes a fair value hierarchy with three levels based on the reliability of the inputs used to determine fair value. These levels include: Level 1, defined as inputs such as unadjusted quoted prices in active markets for identical assets and liabilities; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs for use when little or no market data exists, therefore requiring an entity to develop its own assumptions.

As of March 31, 2010, we held certain financial assets and liabilities that are required to be measured at fair value on a recurring basis, primarily our commodity derivative instruments. The fair values of derivative instruments were measured using price inputs published by NYMEX. These price inputs are quoted prices for assets and liabilities similar to those held by us and meet the definition of Level 2 inputs within the fair value hierarchy. The following tables present our assets and liabilities that are measured at fair value on a recurring basis:

|  | As of March 31, 2010           |                  |                                    |                                   |                               |
|--|--------------------------------|------------------|------------------------------------|-----------------------------------|-------------------------------|
|  | Fair Value Measurements Using: |                  |                                    |                                   |                               |
|  | Carrying Amount                | Total Fair Value | Quoted                             | Significant                       | Significant                   |
|  |                                |                  | Prices in Active Markets (Level 1) | Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) |
| Financial Assets (Liabilities) (in thousands): |                                |                  |                                    |                                   |                               |
| Derivative instruments                         | \$ 1,379                       | \$ 1,379         | \$                                 | \$ 1,379                          | \$                            |
| Derivative instruments                         | \$ (15,277)                    | \$ (15,277)      | \$                                 | \$ (15,277)                       | \$                            |

The fair value of our variable rate debt under our Credit Facility approximated the carrying amount at March 31, 2010. As of March 31, 2010, we estimate that the fair value of our 20% Senior Subordinated Secured PIK Notes due 2014 ( PIK Notes ) approximates the carrying amount.

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The PIK Notes are not traded and therefore quoted prices were not available.

We evaluate our capitalized costs of proved oil and natural gas properties for potential impairment when circumstances indicate that the carrying values may not be recoverable. Our assessment of possible impairment of proved oil and natural gas properties is based on our best estimate of future prices, costs and expected net future cash flows by property. An impairment loss is indicated if undiscounted net future cash flows are less than the carrying value of a property. The impairment expense is measured as the shortfall between the net book value of the property and its estimated fair value measured based on the discounted net future cash flows from the property.

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**(7) COMMITMENTS AND CONTINGENCIES**

We maintain restricted escrow funds in a trust for future plugging, abandonment and other decommissioning costs at our East Bay field. The trust was originally funded with \$15 million and, with accumulated interest, increased to \$16.7 million at December 31, 2008. We may draw from the trust upon the authorization, and subsequent completion, of qualifying abandonment activities at our East Bay field. At March 31, 2010, we had \$12.9 million remaining in restricted escrow funds for decommissioning work in our East Bay field, \$6.9 million of which will be available for draw upon authorization, and subsequent completion, of additional qualifying decommissioning activities as that work progresses. The remaining \$6.0 million will remain restricted until substantially all required decommissioning in the East Bay field is complete. Through March 31, 2010, we had made draws of \$3.8 million. During April 2010, we made an additional draw of \$0.7 million. Amounts on deposit in the trust account are reflected in Restricted cash on our consolidated balance sheets.

We record liabilities when we deliver production that is in excess of our interest in certain properties. 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, 2010, based on information available to us, the amount that may be subject to claim by one purchaser of our production of \$5.0 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.

**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.**

*Statements we make in this Quarterly Report on Form 10-Q (the "Quarterly Report") which express a belief, expectation or intention, as well as those that are not historical fact, may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Our forward-looking statements are subject to various risks, uncertainties and assumptions, including those to which we refer under the headings "Cautionary Statement Concerning Forward-Looking Statements" and "Risk Factors" in Items 1 and 1A of Part 1 of our 2009 Annual Report.*

**OVERVIEW**

The Company was incorporated as a Delaware corporation in January 1998 and operates 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 offshore Louisiana as well as the deepwater Gulf of Mexico in depths less than 5,000 feet.

We maintain a website at [www.eplweb.com](http://www.eplweb.com) that contains information about us, including links to our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all related amendments as soon as reasonably practicable after providing such reports to the Securities and Exchange Commission (the "SEC").

We use the successful efforts method of accounting for oil and natural gas producing activities. Under this method, we capitalize lease acquisition costs, costs to drill and complete exploration wells in which proven reserves are discovered and costs to drill and complete development wells. Exploratory drilling costs are charged to expense if and when activities result in no reserves in commercial quantities. Seismic, geological and geophysical, and delay rental expenditures are expensed as they are incurred. We conduct various exploration and development activities jointly with others and, accordingly, recorded amounts for our oil and natural gas properties reflect only our proportionate interest in such activities. Our 2009 Annual Report includes a discussion of our critical accounting policies, which have not changed significantly since the end of the last fiscal year.

We produce both oil and natural gas. Throughout this Quarterly Report, when we refer to total production, total reserves, percentage of production, percentage of reserves, or any similar term, we have converted our natural gas reserves or production into barrel equivalents. For this purpose, six thousand cubic feet of natural gas is equal to one barrel of oil, which is based on the relative energy content of natural gas and oil. Natural gas liquids are aggregated with oil in this Quarterly Report.

**Outlook**

Our reorganization under Chapter 11 in 2009 restructured our balance sheet and substantially reduced our indebtedness. During the course of our Chapter 11 reorganization, we continued to operate in the ordinary course of business without the sale of any assets and continued to meet our business obligations to our vendors and joint interest owners in the ordinary course of business. As a result of our reorganization, the Company



now has an improved capital structure and enhanced financial flexibility.

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We entered 2010 with a continuing focus on achieving meaningful cost reductions in general and administrative ( G&A ) expenses and lease operating expenses ( LOE ), converting non-producing reserves to cash flow, developing a core competency in plugging, abandonment and decommissioning operations and evaluating opportunities while allocating capital in a rigorous and disciplined manner intended to achieve an overall lower risk capital expenditure profile. Our process for allocating capital focuses on maximizing rate of return and requires projects to compete on that basis.

We believe that we have identified sufficient exploitation opportunities such that our 2010 average oil production levels will equal or exceed our 2009 levels. However, we expect our overall natural gas production to decline in 2010 as a result of natural gas production declines that occurred in the second half of 2009 and are expected to continue during 2010. Prior to 2010, we defined an initial low-risk capital budget oriented towards stabilizing production at the levels experienced in the quarter ended December 31, 2009 and have since continued to develop additional production enhancing opportunities to be considered in 2010 and 2011. We will consider additional capital projects, including those that may help us achieve more balance between exploration and exploitation, which we expect could move us from forecasted production declines in 2010 toward the maintenance of current production levels.

Longer term, as we continue to assess development opportunities and target areas for future growth, we are focused primarily on pursuing opportunities that may be generated from within our existing development portfolio. However, we will evaluate strategic opportunities to take advantage of our improved capital structure and enhanced financial flexibility for the purposes of acquiring assets, purchasing interests in undeveloped leaseholds (both through lease sales and otherwise) and participating in third party drilling opportunities to complement our existing asset base. We will strive to balance these potential growth opportunities against opportunities to reduce our overall indebtedness and/or maintain a ratio of debt-to-capital that is significantly lower than our recent historical experience.

We are also focused on the development of a core competency in plugging, abandonment and decommissioning operations in an attempt to reduce our overall costs in that area of operations, which will enable us to achieve our objectives of prudently removing idle infrastructure throughout the remaining productive lives of our fields and, over time, reducing ongoing LOE associated with maintaining idle infrastructure.

We continue to generate prospects, strive to maintain an extensive inventory of drillable prospects in-house and maintain exposure to new opportunities through relationships with industry partners. Generally, we attempt to fund any exploration and development expenditures with internally generated cash flows.

Our drilling program will be more active in 2010 compared to 2009. Our longer term operating strategy is to increase our oil and natural gas reserves and production while focusing on reducing exploration and development costs and operating costs to be competitive with our offshore Gulf of Mexico industry peers. The 2010 drilling program contemplated by our initial capital budget of approximately \$45 million for exploration and development expenditures is comprised predominantly of lower-risk development and exploitation opportunities in order to stabilize production. As the year progresses, and as we evaluate the initial results of our capital expenditure program, our budget may be increased to fund additional development or exploration opportunities to the extent we have cash available in excess of that contemplated by the initial capital budget.

Our revenue, profitability and future growth rate depend substantially on factors beyond our control, such as oil and natural gas prices, tropical weather, economic, political and regulatory developments and availability of other sources of energy. Oil and natural gas prices historically have been volatile and may fluctuate widely in the future. Sustained periods of low prices for oil and natural gas could materially adversely affect our financial position, our results of operations, the quantities of oil and natural gas reserves that we can economically produce and our access to capital. See **Risk Factors** in Item 1A of our 2009 Annual Report for a more detailed discussion of these risks.

### ***Results of Operations***

*Our Chapter 11 reorganization did not result in the disposition of any of our oil and natural gas properties. As a result, the comparability of certain components of our operating results and key operating performance measures, specifically those related to production, average oil and natural gas selling prices, revenues and LOE, was not significantly impacted by the reorganization. For accounting purposes, the Predecessor Company's operations are deemed to have ceased on September 30, 2009, and a new entity is deemed to have begun operations as of that date. As a result, the condensed consolidated financial statements of the Predecessor Company are not comparable to those of the Successor Company. For those items that are not comparable, we have included additional analysis to supplement the discussion. The following line items in our condensed consolidated statements of operations for the three months ended March 31, 2010 are not comparable to the three months ended March 31, 2009 due to our reorganization and application of fresh-start accounting:*

*Depreciation, depletion and amortization;*

*Accretion of liability for asset retirement obligations;*

*Interest expense;*

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*Income (loss) from operations; and*

*Net income (loss).*

During the three months ended March 31, 2010, we completed five (5) recompletion operations, four (4) of which were successful, and two (2) exploratory drilling operations, one (1) of which was successfully completed in the Western offshore area in early January 2010.

Our operating results for the three months ended March 31, 2010, compared to the three months ended March 31, 2009, reflect significantly higher average selling prices for our oil and slightly higher natural gas sales prices. Additionally, our product mix reflects an increase in oil production and a decline in natural gas production.

For the three months ended March 31, 2010, our revenues increased 66% as compared to the three months ended March 31, 2009 due primarily to significantly higher average selling prices for our oil production and the increase in oil production. Our overall production volumes increased by 4% for the three months ended March 31, 2010 when compared to the three months ended March 31, 2009.

Our Gulf of Mexico shelf production increased in the three months ended March 31, 2010, as compared to the quarter ended March 31, 2009, due primarily to our development operations in the second half of 2009 and continuing into the first quarter of 2010. This increase in production offset a 27% decline in our deepwater production, primarily natural gas, for the quarter ended March 31, 2010, as compared to the quarter ended March 31, 2009, which was due primarily to natural reservoir decline from our deepwater well. We expect that our deepwater production will continue to decline in 2010.

In addition to the items addressed above, our net income for the three months ended March 31, 2010 as compared to the net loss for the three months ended March 31, 2009 reflects significant reductions in G&A expenses and interest expense due primarily to our reorganization.

Our effective tax rate for the three months ended March 31, 2010 was 36%. Our effective tax rate for the three months ended March 31, 2009 was zero because we provided a valuation allowance against the net deferred tax assets generated during the three months ended March 31, 2009.

**Table of Contents****RESULTS OF OPERATIONS**

The following table presents information about our oil and natural gas operations:

|  | <b>Successor Company</b> | <b>Predecessor Company</b> |
|--|--------------------------|----------------------------|
|  | <b>Three Months</b>      | <b>Three Months</b>        |
|  | <b>Ended</b>             | <b>Ended</b>               |
|  | <b>March 31,</b>         | <b>March 31,</b>           |
|  | <b>2010</b>              | <b>2009</b>                |
| Net production (per day):  |                          |                            |
| Oil (Bbls)   | 7,227                    | 5,223                      |
| Natural gas (Mcf)  | 50,932                   | 59,386                     |
| Total (Boe)  | 15,716                   | 15,121                     |
| Average sales prices:  |                          |                            |
| Oil (per Bbl)  | \$ 71.44                 | \$ 36.83                   |
| Natural gas (per Mcf)  | 5.28                     | 4.74                       |
| Total (per Boe)  | 49.97                    | 31.34                      |
| Oil and natural gas revenues (in thousands):                               |                          |                            |
| Oil  | \$ 46,467                | \$ 17,316                  |
| Natural gas  | 24,216                   | 25,334                     |
| Total  | 70,683                   | 42,650                     |
| Impact of derivatives instruments settled during the period (1):           |                          |                            |
| Oil (per Bbl)  | \$ (5.63)                | \$ 7.54                    |
| Natural gas (per Mcf)  | \$                       | \$ 0.14                    |
| Average costs (per Boe):   |                          |                            |
| LOE  | \$ 10.21                 | \$ 11.74                   |
| Depreciation, depletion and amortization ( DD&A )                          | 21.11                    | 23.62                      |
| Accretion of liability for asset retirement obligations                    | 2.28                     | 1.35                       |
| Taxes, other than on earnings  | 1.44                     | 1.03                       |
| G&A expenses   | 2.96                     | 7.51                       |
| Increase (decrease) in oil and natural gas revenues due to (in thousands): |                          |                            |
| Changes in prices of oil   | \$ 16,267                |                            |
| Changes in production volumes of oil                                       | 12,884                   |                            |
| Total increase in oil sales  | 29,151                   |                            |
| Changes in prices of natural gas   | \$ 2,853                 |                            |
| Changes in production volumes of natural gas                               | (3,971)                  |                            |
| Total decrease in natural gas sales  | (1,118)                  |                            |

(1) See Other Income and Expense section for further discussion of the impact of derivative instruments.

**Three Months Ended March 31, 2010 Compared to Three Months Ended March 31, 2009****Revenue and Net Income (Loss)**

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|                              | <b>Successor<br/>Company<br/>Three<br/>Months<br/>Ended<br/>March 31, 2010</b> | <b>Predecessor<br/>Company<br/>Three Months<br/>Ended<br/>March 31, 2009</b> |                  |                 |
|------------------------------|--|--|------------------|-----------------|
|                              |  | (in<br>thousands)  | <b>\$ Change</b> | <b>% Change</b> |
| Oil and natural gas revenues | \$ 70,683  | \$ 42,650  | \$ 28,033        | 66%             |
| Net income (loss)            | 5,116  | (31,871)   | NM               | NM              |

NM Not Meaningful

Our oil and natural gas revenues increased primarily as a result of the 94% increase in average selling prices for our oil in the three months ended March 31, 2010, as compared to the three months ended March 31, 2009. In addition, oil production increased by 38% in the three months ended March 31, 2010 as compared to the three months ended March 31, 2009, while gas production declined 14%. The percentage of production represented by oil has increased for us. Oil represented 46% of total production for the three months ended March 31, 2010, as compared to 35% of total production for the three months ended March 31, 2009.

**Table of Contents****Operating Expenses**

Our operating expenses primarily consist of the following:

|   | <b>Successor<br/>Company<br/>Three<br/>Months<br/>Ended<br/>March 31,<br/>2010</b> | <b>Predecessor<br/>Company<br/>Three<br/>Months<br/>Ended<br/>March 31,<br/>2009</b> | <b>\$ Change</b> | <b>% Change</b> |
|---|--|--|------------------|-----------------|
|   |  | (in thousands)   |                  |                 |
| LOE   | \$ 14,442  | \$ 15,977  | \$ (1,535)       | (10)%           |
| Exploration expenditures and dry hole costs | 1,854  | 572  | 1,282            | NM              |
| Impairments                                 | 769  | 5,113  | (4,344)          | NM              |
| DD&A, including accretion expense           | 33,077   | 33,974   | NM               | NM              |
| G&A expenses                                | 4,188  | 10,217   | (6,029)          | (59)%           |
| Taxes, other than on earnings               | 2,037  | 1,399  | 638              | 46%             |

NM Not Meaningful

We drilled one (1) exploratory dry hole in the three months ended March 31, 2010, resulting in \$1.8 million of dry hole costs.

G&A expenses, which include cash and non-cash stock based compensation of \$0.2 million and \$1.5 million in the three months ended March 31, 2010 and 2009, respectively, decreased in the three months ended March 31, 2010, as compared to the three months ended March 31, 2009, primarily as a result of legal and financial advisory fees associated with our balance sheet restructuring efforts in the 2009 quarter and the impact of cost reduction efforts on the 2010 quarter.

Taxes, other than on earnings, increased in the three months ended March 31, 2010 as compared to the three months ended March 31, 2009, due primarily to higher average sales prices for oil (which is taxed based on value).

**Other Income and Expense**

Our interest expense was impacted by our reorganization and is not comparable for the periods presented. Interest expense decreased in the three months ended March 31, 2010, as compared to the three months ended March 31, 2009, primarily because the Predecessor Company Notes were converted into common stock and discharged in the reorganization. We expect our effective interest rate on borrowings will be higher in 2010 than in prior years due to the higher interest rate applicable to the PIK Notes.

Other income (expense) in the three months ended March 31, 2010 includes a net loss of \$1.9 million consisting of an unrealized gain of \$1.7 million due to the change in fair market value of derivative instruments which are to be settled in the future and a loss of \$3.6 million on derivative instruments settled during the quarter primarily from the impact of an increase in oil selling prices during 2010. Other income (expense) in the three months ended March 31, 2009 includes a net gain of \$3.7 million consisting of an unrealized loss of \$0.6 million due to the change in fair market value of derivative instruments which were to be settled in the future and a gain of \$4.3 million on derivative instruments settled during the quarter primarily from the impact of a decline in oil and natural gas selling prices during 2009.

**LIQUIDITY AND CAPITAL RESOURCES****Liquidity and Capital Resources**

As of March 31, 2010, we had Cash and cash equivalents of \$50.2 million and no borrowings outstanding under the Credit Facility. The undrawn commitment under the Credit Facility was \$45 million as of that date. We had total indebtedness of \$74.5 million (net of \$5.7 million of unamortized original issue discount on the PIK Notes) consisting of \$12.5 million remaining on the term loan component of the Credit

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Facility and \$62.0 million related to the PIK Notes. As of April 30, 2010, the Cash and cash equivalents on our balance sheet has increased and we have continued to reduce the amounts outstanding under the Credit Facility as we amortize the term loan portion thereof.

As of March 31, 2010, the Credit Facility had a borrowing base of \$57.5 million, consisting of \$45 million plus the \$12.5 million remaining principal balance on the term loan. The borrowing base is subject to semi-annual redeterminations based on the proved reserves of the oil and gas properties that serve as collateral for the Credit Facility. We were subject to our first borrowing base redetermination beginning in December 2009, and our borrowing base was reaffirmed at \$45 million plus the remaining principal balance on the term loan. Monthly scheduled repayments of the term loan, each in the amount of \$2.1 million, reduce the borrowing base by the principal amount of each such repayment.

A key focus of management in 2010 is seeking to reduce our cost of financing. Among other things, we are seeking to refinance the PIK Notes and/or the Credit Facility in order to achieve this objective. In the event we are able to repay the PIK Notes prior to maturity, we would record a loss on debt extinguishment equal to the total of the unamortized original issue discount and unamortized deferred financing costs associated with the PIK Notes. At March 31, 2010, these amounts totaled approximately \$5.8 million.



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We entered 2010 with a capital budget of approximately \$57 million, of which approximately \$45 million was allocated for exploration and development expenditures and \$12 million for plugging, abandonment and other decommissioning expenditures. This initial capital budget focuses on maximizing the return from existing development opportunities and converting nonproducing reserves, primarily oil reserves, to production and positive cash flow. Our near-term goal through these efforts is to stabilize existing production levels that are subject to natural reservoir declines. These activities have been more heavily weighted toward the first half of the year. As the year progresses, and as we evaluate the initial results of our capital expenditure program, our budget may be increased to fund additional development or exploration opportunities to the extent we have cash available in excess of that contemplated by the initial capital budget.

Our capital expenditure budget does not include any acquisitions, for which we do not budget, or deepwater activities. Capital expenditures on our deepwater portfolio do not currently fit with our near-term strategy and may not fit with our longer term strategy, given the significant capital requirements and long lead times from initial investment to first production associated with deepwater oil and gas exploration and development activities. We are currently evaluating our deepwater portfolio and may monetize or trade assets in that portfolio. However, we maintain our rights to participate in the development of our deepwater discoveries until we elect not to proceed with such development plans as may be proposed by the operator of the properties in accordance with the applicable joint operating agreements.

We expect our 2010 cash flows from operations to increase as compared with our operating cash flows for the year ended December 31, 2009, primarily as a result of higher anticipated sales prices for oil and natural gas. We expect our cash used in investing activities for 2010 will increase as compared with our investing cash flows for the year ended December 31, 2009, as a result of our planned increase in capital expenditures in 2010.

At March 31, 2010, our working capital is \$16.7 million compared to a working capital deficit of \$16.9 million at December 31, 2009. We have experienced and may experience in the future substantial working capital deficits. Our working capital deficits have historically resulted from increased accounts payable and accrued expenses related to ongoing exploration and development costs, which may be capitalized as noncurrent assets.

We maintain restricted escrow funds in a trust for future plugging, abandonment and other decommissioning costs at our East Bay field. The trust was originally funded with \$15 million and, with accumulated interest, had increased to \$16.7 million at December 31, 2008. We have made draws to date through April 2010 of \$4.5 million, with \$1.1 million drawn in 2010. We may draw from the trust upon the authorization, and subsequent completion, of qualifying abandonment activities at our East Bay field. As of April 30, 2010, we had \$12.2 million remaining in restricted escrow funds for decommissioning work in our East Bay field, \$6.2 million of which will be available for draw upon authorization, and subsequent completion, of additional qualifying decommissioning activities as that work progresses. The remaining \$6.0 million will remain restricted until substantially all required decommissioning in the East Bay field is complete. Amounts on deposit in the trust account are reflected in Restricted cash on our condensed consolidated balance sheets.

Shortly following our emergence from Chapter 11 reorganization, we provided the Minerals Management Service ( MMS ) with surety bonds in support of decommissioning obligations on certain federal leases in the Gulf of Mexico, and we resumed production from the federal portion of the East Bay field. During April 2010, we regained supplemental waiver status, and we are no longer required to post these surety bonds. We expect that the cash held as collateral for these surety bonds totaling approximately \$5.5 million will be released during the second quarter of 2010, which will reduce the Restricted cash on our condensed consolidated balance sheet and will provide us with additional liquidity. We expect the cancellation of these surety bonds will reduce our surety bonding costs. In addition, we believe that we may realize the release of an additional \$3.3 million of cash held as collateral for other surety bonding obligations, which would further reduce our Restricted cash and provide additional liquidity.

The MMS and other regulatory bodies, including those regulating the decommissioning of our pipelines and facilities under the jurisdiction of the state of Louisiana, may change their requirements or enforce requirements in a manner inconsistent with our expectations, which could materially increase the cost of such activities and/or accelerate the timing of cash expenditures and could have a material adverse effect on our financial position, results of operations and cash flows. See the Risk Factor *A change in the jurisdictional characterization of some of our assets by federal, state or local regulatory agencies or a change in policy by those agencies may result in increased regulation of our assets, which may cause our revenues to decline and operating expenses to increase* in Part I, Item 1A of our 2009 Annual Report.

**Table of Contents****Analysis of Cash Flows Three Months Ended March 31, 2010**

The following table sets forth our cash flows (in thousands):

|   | <b>Successor<br/>Company<br/>Three<br/>Months<br/>Ended<br/>March 31, 2010</b> | <b>Predecessor<br/>Company<br/>Three<br/>Months<br/>Ended<br/>March 31, 2009</b> |
|---|--|--|
| Cash flows provided by operating activities           | \$ 39,471  | \$ 2,251   |
| Cash flows used in investing activities               | (9,752)  | (24,159)   |
| Cash flows provided by (used in) financing activities | (6,250)  | 40,000   |

The increase in our 2010 cash flows from operations primarily reflects the impact of the increase in oil and natural gas sales prices realized during the three months ended March 31, 2010 as compared to the three months ended March 31, 2009.

Net cash used in investing activities declined in the three months ended March 31, 2010 as compared to the three months ended March 31, 2009 as a result of lower capital expenditures reflecting our disciplined capital allocation approach in 2010.

Net cash used in financing activities during the three months ended March 31, 2010 reflects the payments on the term loan component of our Credit Facility. Net cash provided by financing activities during the three months ended March 31, 2009 reflects increased utilization of the Predecessor Company's credit facility to fund working capital shortfalls caused by the decline in production and the precipitous decline in oil and natural gas sales prices in 2009.

We have not paid any cash dividends in the past on our common stock. The covenants in certain debt instruments to which we are a party, including the Credit Facility and the indenture related to the PIK Notes, place certain restrictions and conditions on our ability to pay dividends. Any future cash dividends would depend on contractual limitations, future earnings, capital requirements, our financial condition and other factors determined by our board of directors.

**Cautionary Statement Concerning Forward Looking Statements**

This Quarterly Report contains certain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). When used herein, the words will, would, should, likely, estimates, thinks, strives, may, and believes, intends, goals, plans, or projects and similar expressions are intended to identify forward-looking statements, which are generally historical in nature. While our management considers the expectations and assumptions to be reasonable when and as made, they are inherently subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties, most of which are difficult to predict and many of which are beyond our control. These risks, contingencies and uncertainties relate to, among other matters, the following:

our ability to retain and motivate key executives and other necessary personnel;

changes in general economic conditions;

uncertainties in reserve and production estimates;

unanticipated recovery or production problems;

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hurricane and other weather-related interference with business operations;

the effects of delays in completion of, or shut-ins of, gas gathering systems, pipelines and processing facilities;

oil and natural gas prices and competition;

the impact of derivative positions;

production expense estimates;

cash flow estimates;

future financial performance;

planned and unplanned capital expenditures;

volatility in the financial and credit markets or in oil and natural gas prices; and

other matters that are discussed in our filings with the SEC.

These statements are based on current expectations and projections about future events and involve known and unknown risks, uncertainties, and other factors that may cause actual results and performance to be materially different from any future results or performance expressed or implied by these forward-looking statements. Investors are cautioned that all such statements involve risks and uncertainties. Our actual decisions, performance and results may differ materially. Important trends or factors that could cause

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actual results to differ materially from those in the forward-looking statements include, but are not limited to, those described in the section Risk Factors in Part 1, Item 1A and elsewhere in our 2009 Annual Report, elsewhere in this Quarterly Report, and in our reports and registration statements filed from time to time with the SEC, and other announcements we make from time to time.

Although we believe that the assumptions on which any forward-looking statements are based in this Quarterly Report and other periodic reports filed by us are reasonable when and as made, no assurance can be given that such assumptions will prove correct. All forward-looking statements in this Quarterly Report are expressly qualified in their entirety by the cautionary statements in this section and elsewhere in this Quarterly Report and we undertake no obligation to publicly update or revise any forward-looking statements, except as required by applicable securities laws and regulations.

**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The primary objective of the following information is to provide forward-looking quantitative and qualitative information about our potential exposure to market risks. The term market risk refers to the risk of loss arising from adverse changes in oil and gas prices and interest rates. The disclosures are not meant to be precise indicators of expected future losses, but rather indicators of reasonably possible losses. This forward-looking information provides indicators of how we view our ongoing market-risk exposure.

***Interest Rate Risk***

We are exposed to changes in interest rates which affect the interest earned on our interest-bearing deposits and the interest paid on borrowings under our Credit Facility. Currently, we do not use interest rate derivative instruments to manage exposure to interest rate changes. At March 31, 2010, we had total indebtedness outstanding of \$74.5 million (net of unamortized original issue discount of \$5.7 million), of which \$62.0 million, or approximately 83%, bears interest at fixed rates. The remaining \$12.5 million of indebtedness bears interest at floating rates and consists of borrowings outstanding under the Credit Facility. At March 31, 2010, the weighted average interest rate under the Credit Facility was approximately 6.5%. If market interest rates were to average 1% higher in the second quarter of 2010, interest expense for the period on floating-rate debt would be expected to increase by approximately \$25,000.

***Commodity Price Risk***

Our revenues, profitability and future growth depend substantially on prevailing prices for oil and natural gas. Prices also affect the amount of cash flow available for capital expenditures and our ability to borrow and raise additional capital. The amount we can borrow under our Credit Facility is subject to periodic redetermination based in part on changing expectations of future prices. Lower prices may reduce the amount of oil and natural gas that we can economically produce. We currently sell all of our oil and natural gas production under price sensitive or market price contracts.

Historically, we have used commodity derivative instruments to manage commodity price risks associated with future oil and natural gas production. As a result of our liquidity challenges that led to our filing for reorganization under Chapter 11, we had settled all of our outstanding derivative contracts during March and May of 2009. In compliance with requirements contained in the Credit Facility, we have entered into the following derivative instruments, which were outstanding as of March 31, 2010:

**Oil Contracts**

| Remaining Contract Term     | Fixed-Price Swaps           |               |                             |                | Puts                        |               |                      |            |
|-----------------------------|-----------------------------|---------------|-----------------------------|----------------|-----------------------------|---------------|----------------------|------------|
|                             | Daily Average Volume (Bbls) | Volume (Bbls) | Average Swap Price (\$/Bbl) | Fair Value     | Daily Average Volume (Bbls) | Volume (Bbls) | Floor Price (\$/Bbl) | Fair Value |
| April 2010 - July 2010      | 2,887                       | 352,200       | \$ 68.22                    | \$ (5,652,389) | 502                         | 61,200        | \$ 60.00             | \$ 4,614   |
| August 2010 - November 2010 | 625                         | 76,200        | \$ 69.65                    | \$ (1,162,301) | 1,673                       | 204,150       | \$ 60.00             | \$ 162,231 |
| December 2010               | 1,200                       | 37,200        | \$ 70.37                    | \$ (547,275)   | 1,302                       | 40,350        | \$ 60.00             | \$ 53,952  |
| January 2011 - July 2011    | 2,261                       | 479,250       | \$ 71.13                    | \$ (6,738,030) | 502                         | 106,500       | \$ 60.00             | \$ 218,956 |
| August 2011 - November 2011 | 502                         | 61,200        | \$ 72.18                    | \$ (803,877)   | 1,301                       | 158,700       | \$ 60.00             | \$ 463,830 |

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December 2011

948 29,400 \$ 72.64 \$ (373,296) 1,302 40,350 \$ 60.00 \$ 100,713

**Table of Contents****Natural Gas Contracts**

| Remaining Contract Term | Puts                                  |                   |                               |               |
|-------------------------|---------------------------------------|-------------------|-------------------------------|---------------|
|                         | Daily<br>Average<br>Volume<br>(Mmbtu) | Volume<br>(Mmbtu) | Floor<br>Price<br>(\$/ Mmbtu) | Fair<br>Value |
| April 2010              | 25,000                                | 750,000           | \$ 4.00                       | \$            |
| May 2010                | 23,000                                | 713,000           | \$ 4.00                       | \$ 189,449    |
| June 2010               | 22,000                                | 660,000           | \$ 4.00                       | \$ 184,945    |

All of our commodity derivative instruments are with one counterparty that is a lender under our Credit Facility.

**Item 4. CONTROLS AND PROCEDURES.****(a) Quarterly Evaluation of Disclosure Controls and Procedures**

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. This information is also accumulated and communicated to management, including our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Our management, under the supervision and with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the most recent fiscal quarter reported on herein. Based on that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of March 31, 2010.

Because of their inherent limitations, disclosure controls and procedures may not prevent or detect misstatements. Furthermore, projections of any evaluation of effectiveness to future periods are subject to the risk that such controls and procedures may become inadequate because of changes in conditions or deterioration in the degree of compliance with the controls or procedures. Accordingly, even effective disclosure controls and procedures can provide only reasonable assurance of achieving their control objectives.

**(b) Changes in Internal Control Over Financial Reporting**

There were no changes in our system of internal control over financial reporting during the three months ended March 31, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II - OTHER INFORMATION****Item 1. LEGAL PROCEEDINGS.**

For information regarding legal proceedings, see the information in Note 7, Commitments and Contingencies in the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report.

**Item 1A. RISK FACTORS.**

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our 2009 Annual Report that could materially affect our business, financial condition or future results. The risks described in this Form 10-Q and in our 2009 Annual Report are not the only risks facing the Company. Additional risks and uncertainties not currently known to us, or that we currently deem to be immaterial, also may materially adversely affect our business, financial condition and future results.

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The following two risk factors from our 2009 Annual Report are deleted:

*We may not regain exempt status from MMS regulations requiring bonds or other surety in support of our offshore decommissioning obligations.*

*Our common stock is thinly traded and ownership is primarily concentrated in a few holders.*

**Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.**

None

**Item 3. DEFAULTS UPON SENIOR SECURITIES.**

None

**Table of Contents****Item 5. OTHER INFORMATION.**

None

**Item 6. EXHIBITS.**

The exhibits marked with the cross symbol ( ) are management contracts or compensatory plans or arrangements filed pursuant to Item 601(b)(10)(iii) of Regulation S-K. We have not filed with this Quarterly Report copies of the instruments defining rights of all holders of the long-term debt of us and our consolidated subsidiaries based upon the exception set forth in Item 601(b)(4)(iii)(A) of Regulation S-K. Copies of such instruments will be furnished to the SEC upon request.

| Exhibit<br>Number | Exhibit Description  | Incorporated by<br>Reference |           | SEC File |             | Filed/<br>Furnished |
|-------------------|--|------------------------------|-----------|----------|-------------|---------------------|
|                   |  | Form                         | Number    | Exhibit  | Filing Date | Herewith            |
| 2.0               | Second Amended Joint Plan of Reorganization of Energy Partners, Ltd. and certain of its Subsidiaries Under Chapter 11 of the Bankruptcy Code, as Modified as of September 16, 2009 |                              |           |          |             | X                   |
| 3.1               | Amended and Restated Certificate of Incorporation of Energy Partners, Ltd. dated as of September 21, 2009  | 8-K/A                        | 001-16179 | 3.1      | 09/21/2009  |                     |
| 3.2               | Second Amended and Restated Bylaws of Energy Partners, Ltd.  | 8-K/A                        | 001-16179 | 3.2      | 09/21/2009  |                     |
| 4.1               | Indenture by and among Energy Partners, Ltd., as Issuer, the Guarantors named therein and The Bank of New York Mellon Trust Company, N.A. as Trustee dated September 21, 2009      | 8-K                          | 001-16179 | 10.2     | 09/25/2009  |                     |
| 10.1              | Summary of 2010 Amendments to the Energy Partners, Ltd. Change of Control Severance Plan   | 8-K                          | 001-16179 | 10.1     | 04/16/2010  |                     |
| 10.2              | Summary of 2010 Amendments to the Employment Agreement, dated as of October 1, 2009, between Energy Partners, Ltd. and Gary Hanna  | 8-K                          | 001-16179 | 10.2     | 04/16/2010  |                     |
| 10.3              | Employment Agreement, dated as of October 1, 2009, between Energy Partners, Ltd. and Gary Hanna  | 8-K                          | 001-16179 | 10.1     | 10/6/2009   |                     |
| 10.4              | Option Award Agreement, dated as of September 30, 2009, between Energy Partners, Ltd. and Gary Hanna   | 8-K                          | 001-16179 | 10.2     | 10/6/2009   |                     |
| 31.1              | Certification of Principal Executive Officer of Energy Partners, Ltd. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |                              |           |          |             | X                   |
| 31.2              | Certification of Principal Financial Officer of Energy Partners, Ltd. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |                              |           |          |             | X                   |
| 32.1              | Section 1350 Certification of Principal Executive Officer of Energy Partners, Ltd. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                      |                              |           |          |             | X                   |
| 32.2              | Section 1350 Certification of Principal Financial Officer of Energy Partners, Ltd. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.                                      |                              |           |          |             | X                   |



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**SIGNATURE**

Pursuant to the requirements 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.

**ENERGY PARTNERS, LTD.**

Date: May 6, 2010

By: /s/ Gary C. Hanna  
Gary C. Hanna

Chief Executive Officer

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