

ENERGY PARTNERS LTD  
Form 10-Q  
November 03, 2011  
Table of Contents

**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 September 30, 2011

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

**72-1409562**  
(I.R.S. Employer

**Incorporation or Organization)**

**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 November 1, 2011, there were 39,647,907 shares of the Registrant's Common Stock, par value \$0.001 per share, outstanding.

**Table of Contents**

**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>PART I FINANCIAL INFORMATION</u></b>	
Item 1. <u>Financial Statements:</u>	1
<u>Condensed Consolidated Balance Sheets (Unaudited) as of September 30, 2011 and December 31, 2010</u>	1
<u>Condensed Consolidated Statements of Operations (Unaudited) for the three and nine months ended September 30, 2011 and 2010</u>	2
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) for the nine months ended September 30, 2011 and 2010</u>	3
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	4
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	28
Item 4. <u>Controls and Procedures</u>	29
<b><u>PART II OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	29
Item 1A. <u>Risk Factors</u>	29
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	31
Item 3. <u>Defaults Upon Senior Securities</u>	31
Item 5. <u>Other Information</u>	31
Item 6. <u>Exhibits</u>	32

**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)	September 30, 2011	December 31, 2010
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 87,268	\$ 33,553
Trade accounts receivable net	27,264	21,443
Receivables from insurance	805	2,088
Fair value of commodity derivative instruments	12,588	186
Deferred tax assets		2,693
Prepaid expenses	8,630	3,303
Total current assets	136,555	63,266
Property and equipment, under the successful efforts method of accounting for oil and natural gas properties	1,005,229	719,147
Less accumulated depreciation, depletion and amortization	(260,326)	(168,055)
Net property and equipment	744,903	551,092
Restricted cash	6,022	8,489
Fair value of commodity derivative instruments	6,400	
Other assets	2,675	1,814
Deferred financing costs net of accumulated amortization of \$730 and \$1,656 at September 30, 2011 and December 31, 2010, respectively	5,603	2,245
	\$ 902,158	\$ 626,906
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 18,225	\$ 18,358
Accrued expenses	47,679	28,394
Asset retirement obligations	23,676	16,902
Fair value of commodity derivative instruments		12,320
Deferred tax liabilities	6,537	
Total current liabilities	96,117	75,974
Long-term debt	204,216	
Asset retirement obligations	64,302	54,681
Deferred tax liabilities	33,339	22,469
Other	663	666
Commitments and contingencies (Note 9)		
	398,637	153,790
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 September 30, 2011 and December 31, 2010		
Common stock, \$0.001 par value per share. Authorized 75,000,000 shares; shares issued 40,244,252 and 40,091,664 at September 30, 2011 and December 31, 2010, respectively; shares outstanding 39,777,907 and 40,091,664 at September 30, 2011 and December 31, 2010, respectively	40	40
Additional paid-in capital	504,540	502,556
Retained Earnings (Accumulated deficit)	4,472	(29,480)
Treasury stock, at cost, 466,345 shares at September 30, 2011	(5,531)	
 Total stockholders' equity	 503,521	 473,116
	 \$ 902,158	 \$ 626,906

See accompanying notes to condensed consolidated financial statements.

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

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

(In thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
<b>Revenue:</b>				
Oil and natural gas	\$ 84,853	\$ 56,237	\$ 244,866	\$ 185,083
Other	31	34	97	104
	84,884	56,271	244,963	185,187
<b>Costs and expenses:</b>				
Lease operating	19,266	12,857	52,505	40,974
Transportation	119	251	490	1,053
Exploration expenditures and dry hole costs	973	1,291	2,343	3,928
Impairments	5,523	12,366	19,197	24,020
Depreciation, depletion and amortization	26,496	25,323	73,081	81,284
Accretion of liability for asset retirement obligations	4,793	3,200	12,172	9,644
General and administrative	4,461	4,807	14,544	13,870
Taxes, other than on earnings	3,493	3,106	10,506	7,419
Other	4,108	256	6,140	747
<b>Total costs and expenses</b>	<b>69,232</b>	<b>63,457</b>	<b>190,978</b>	<b>182,939</b>
<b>Income (loss) from operations</b>	<b>15,652</b>	<b>(7,186)</b>	<b>53,985</b>	<b>2,248</b>
<b>Other income (expense):</b>				
Interest income	37	8	64	105
Interest expense	(5,036)	(726)	(12,480)	(8,873)
Gain (loss) on derivative instruments	26,571	(3,918)	14,877	1,115
Loss on early extinguishment of debt			(2,377)	(5,627)
	21,572	(4,636)	84	(13,280)
<b>Income (loss) before income taxes</b>	<b>37,224</b>	<b>(11,822)</b>	<b>54,069</b>	<b>(11,032)</b>
Deferred income tax benefit (expense)	(13,766)	3,976	(20,117)	3,692
<b>Net income (loss)</b>	<b>23,458</b>	<b>(7,846)</b>	<b>33,952</b>	<b>(7,340)</b>
<b>Basic earnings (loss) per share</b>	<b>\$ 0.59</b>	<b>\$ (0.20)</b>	<b>\$ 0.85</b>	<b>\$ (0.18)</b>
<b>Diluted earnings (loss) per share</b>	<b>\$ 0.58</b>	<b>\$ (0.20)</b>	<b>\$ 0.84</b>	<b>\$ (0.18)</b>
<b>Weighted average common shares used in computing earnings (loss) per share:</b>				
Basic	40,093	40,078	40,094	40,059
Effect of dilutive stock options and restricted shares	82		107	
<b>Diluted</b>	<b>40,175</b>	<b>40,078</b>	<b>40,201</b>	<b>40,059</b>

See accompanying notes to condensed consolidated financial statements.

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

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(In thousands)	Nine Months Ended September 30,	
	2011	2010
Cash flows from operating activities:		
Net income (loss)	\$ 33,952	\$ (7,340)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	73,081	81,284
Accretion of liability for asset retirement obligations	12,172	9,644
Unrealized gain on derivative contracts	(31,122)	(8,298)
Non-cash compensation	1,833	995
Deferred income taxes	20,117	(3,692)
Repayment of PIK Notes issued for payment of in-kind interest		(3,395)
Exploration expenditures	147	2,813
Impairments	19,197	24,020
Amortization of deferred financing costs and discount on debt	1,152	748
Loss on early extinguishment of debt	2,377	
Other	4,611	853
Changes in operating assets and liabilities:		
Trade accounts receivable	(6,430)	4,587
Other receivables	1,283	3,376
Prepaid expenses	(5,207)	(1,533)
Other assets	(862)	342
Accounts payable and accrued expenses	5,563	3,661
Other liabilities	(25,929)	(11,073)
Net cash provided by operating activities	105,935	96,992
Cash flows provided by (used in) investing activities:		
Decrease in restricted cash	2,467	12,166
Property acquisitions	(196,533)	(623)
Exploration and development expenditures	(49,246)	(43,032)
Other property and equipment additions	(833)	
Net cash used in investing activities	(244,145)	(31,489)
Cash flows provided by (used in) financing activities:		
Proceeds from indebtedness	203,794	20,394
Repayments of indebtedness		(82,382)
Deferred financing costs	(6,465)	(33)
Purchase of shares into treasury	(5,523)	
Exercise of stock options	119	
Net cash provided by (used in) financing activities	191,925	(62,021)
Net increase in cash and cash equivalents	53,715	3,482
Cash and cash equivalents at beginning of period	33,553	26,745
Cash and cash equivalents at end of period	\$ 87,268	\$ 30,227

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Debt incurred to pay deferred financing costs

737

See accompanying notes to condensed consolidated financial statements.



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**Table of Contents**

**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 are an independent oil and natural gas exploration and production company. Our current operations are concentrated in the U.S. Gulf of Mexico shelf focusing on state and federal waters offshore Louisiana.

The financial information as of September 30, 2011 and for the three- and nine-month periods ended September 30, 2011 and September 30, 2010 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 SEC ). The condensed consolidated balance sheet at December 31, 2010 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, 2010, as amended (the 2010 Annual Report ). The results of operations and cash flows for the first nine months of the year are not necessarily indicative of the results of operations which might be expected for the entire year.

**(2) ACQUISITIONS**

On February 14, 2011, we acquired an asset package consisting of certain shallow-water Gulf of Mexico shelf oil and natural gas interests surrounding the Mississippi River delta and a related gathering system (the ASOP Properties ) from Anglo-Suisse Offshore Partners, LLC ( ASOP ) for \$200.7 million in cash, subject to purchase price adjustments to reflect an economic effective date of January 1, 2011 (the ASOP Acquisition ). As of December 31, 2010, the ASOP Properties had estimated proved reserves of approximately 8.1 Mmboe, of which 84% were oil and 76% were proved developed reserves. The primary factors considered by management in acquiring the ASOP Properties include the belief that the ASOP Acquisition provides an opportunity to significantly increase our reserves, production volumes and drilling portfolio, while maintaining our focus on oil-weighted assets in our core area of expertise in the Gulf of Mexico shelf.

The ASOP Acquisition was financed with the proceeds from the sale of \$210 million in aggregate principal amount of 8.25% senior notes due 2018 (the 8.25% Notes ), which were offered in a private placement only to qualified institutional buyers under Rule 144A promulgated under the Securities Act of 1933, as amended (the Securities Act ), or to persons outside of the United States in compliance with Regulation S promulgated under the Securities Act. After deducting the initial purchasers' discount and offering expenses, we realized net proceeds of approximately \$202 million. See Note 6, Indebtedness for more information regarding our 8.25% Notes.

We have accounted for the ASOP Acquisition using the purchase method of accounting for business combinations, and therefore we have estimated the fair value of the ASOP Properties as of the February 14, 2011 acquisition date. In the estimation of fair value, management uses various valuation methods including (i) comparable company analysis, which estimates the value of the ASOP Properties based on the implied valuations of other similar operations; (ii) comparable asset transaction analysis, which estimates the value of the acquired operations based upon publicly announced transactions of assets with similar characteristics; (iii) comparable merger transaction analysis, which, much like comparable asset transaction analysis, estimates the value of operations based upon publicly announced transactions with similar characteristics, except that merger analysis analyzes public to public merger transactions rather than solely asset transactions; and (iv) discounted cash flow analysis, which estimates the value of the ASOP Properties by determining the present value of estimated future cash flows. The fair value is based on subjective estimates and assumptions, which are inherently subject to significant uncertainties which are beyond our control. These assumptions represent Level 3 inputs, as further discussed in Note 8, Fair Value Measurements.

The following allocation of the purchase price as of February 14, 2011 is preliminary and includes significant estimates. This preliminary allocation is based on information that was available to management at the time these consolidated financial statements were prepared and is subject to revision as management finalizes key assumptions in the fair value models, primarily finalization of the oil and natural gas reserve analysis. Accordingly, the allocation may change as additional information becomes available and is assessed by management, and the impact of such changes may be material.



**Table of Contents**

The following table summarizes the estimated values of assets acquired and liabilities assumed and reflects management's current estimate of adjustments to purchase price provided for by the purchase and sale agreement of approximately \$4.2 million to reflect an economic effective date of January 1, 2011.

<b>(In thousands)</b>	<b>February 14, 2011</b>
Oil and natural gas properties	\$ 220,743
Asset retirement obligations	(24,225)
<b>Net assets acquired</b>	<b>\$ 196,518</b>

Revenues attributable to the ASOP Properties for the three and nine months ended September 30, 2011 were \$33.6 million and \$85.6 million, respectively. Lease operating expenses attributable to the ASOP Properties for the three and nine months ended September 30, 2011 were \$5.7 million and \$12.0 million, respectively. We have determined that the presentation of net income attributable to the ASOP Properties is impracticable due to the integration of the related operations upon acquisition. We incurred approximately \$0.5 million in fees related to the acquisition, which were included in general and administrative expenses in the accompanying consolidated statement of operations for the nine months ended September 30, 2011.

The following supplemental pro forma information presents consolidated results of operations as if the ASOP Acquisition had occurred on January 1, 2010. This supplemental unaudited pro forma information was derived from a) our historical consolidated statements of operations and b) the statements of revenues and direct operating expenses for the ASOP Properties, which were derived from ASOP's historical accounting records. This information does not purport to be indicative of results of operations that would have occurred had the acquisition occurred on January 1, 2010, nor is such information indicative of any expected future results of operations.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	Actual 2011	Pro Forma 2010	Pro Forma 2011	Pro Forma 2010
	(in thousands, except per share data)			
Revenue	\$ 84,884	\$ 79,466	\$ 257,721	\$ 252,098
Net income (loss)	\$ 23,458	\$ (4,263)	\$ 35,871	\$ 3,030
Basic earnings (loss) per share	\$ 0.59	\$ (0.11)	\$ 0.89	\$ 0.08
Diluted earnings (loss) per share	\$ 0.58	\$ (0.11)	\$ 0.89	\$ 0.08

*Subsequent Event*

On October 28, 2011, we entered into a purchase and sale agreement with Stone Energy Offshore, L.L.C. ( Seller ) relating to the purchase (the Main Pass Acquisition ) of certain interests in producing oil and natural gas assets in the shallow-water central Gulf of Mexico shelf (the Main Pass Interests ) for \$80.0 million in cash, subject to customary adjustments to reflect the economic effective date of November 1, 2011. The Main Pass Interests currently produce approximately 900 barrels of oil equivalent per day, approximately 96% of which is oil. The Main Pass Interests consist of additional interests in the Main Pass 296/311 complex that was included in the assets we purchased from ASOP in February 2011, along with other unit interests in the Main Pass complex and an interest in a Main Pass 295 primary term lease. We estimate that the proved reserves as of the November 1, 2011 economic effective date totaled approximately 2.6 Mmboe, all of which were proved developed reserves and approximately 96% of which were oil reserves. The estimated asset retirement obligation to be assumed and recorded on our balance sheet as a result of the Main Pass Acquisition is expected to total approximately \$4 million. The consummation of the Main Pass Acquisition is subject to customary closing conditions and is expected to close in November 2011. We intend to fund the Main Pass Acquisition with cash on hand.

The Main Pass Interests are not operated by Seller, and the other working interest owner and current operator of the Main Pass 296/311 complex has a preferential right under the applicable operating agreements to purchase the Main Pass Interests as a result of the Main Pass Acquisition. However, even if the operator exercises its preferential purchase right, the applicable operating agreements limit the amount that the operator can acquire by exercising the preferential right. In that case, the Main Pass Acquisition would still be completed, but, depending upon the various scenarios of the other working interest owner exercising at least one or more of the preferential rights, we would generally acquire 50% of the Main Pass Interests (with certain exceptions) and the base purchase price would range from approximately \$39.8 million to \$79.5 million.



**Table of Contents****(3) 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.

**(4) COMMON STOCK**

In August 2011, the Board of Directors authorized a program for the repurchase of our outstanding common stock for up to an aggregate cash purchase price of \$20.0 million. The repurchases have been, and will be, carried out in accordance with certain volume, timing and price constraints imposed by the SEC's rules applicable to such transactions. The amount, timing and price of purchases otherwise depend on market conditions and other factors. Through September 30, 2011, we executed trades to repurchase 590,000 shares at an aggregate cash purchase price of approximately \$7.0 million. Of these repurchases, settlements related to 130,000 shares with an aggregate cash purchase price of approximately \$1.5 million occurred in October. The repurchased shares are held in treasury and could be used to provide available shares for possible resale in future public or private offerings and our employee benefit plans.

**(5) ASSET RETIREMENT OBLIGATIONS**

Changes in our asset retirement obligations were as follows:

	<b>Nine Months Ended September 30, 2011 (in thousands)</b>
Balance at December 31, 2010	\$ 71,583
ASOP Acquisition liabilities assumed	24,225
Accretion expense	12,172
Liabilities incurred	144
Revisions	5,780
Liabilities settled	(25,926)
Balance at September 30, 2011	87,978
Less: End of period, current portion	(23,676)
End of period, noncurrent portion	\$ 64,302

**(6) INDEBTEDNESS**

In connection with the ASOP Acquisition (see Note 2), on February 14, 2011, we issued \$210.0 million in aggregate principal amount of our 8.25% Notes due 2018. Furthermore, our credit facility existing on that date was terminated and replaced with a new credit facility. The termination of our prior credit facility during the nine months ended September 30, 2011 resulted in a loss on early extinguishment of debt of \$2.4 million, primarily due to writing off the unamortized deferred financing costs associated with the terminated facility.

*Senior Notes Offering*

On February 14, 2011, we issued the \$210.0 million in aggregate principal amount of our 8.25% Notes under an Indenture, dated as of February 14, 2011 (the Indenture). As described in Note 2, Acquisitions, we used the net proceeds from the offering of the 8.25% Notes of \$202.0 million, after deducting the initial purchasers' discount and offering expenses payable by us, to acquire the ASOP Properties for a purchase price of \$200.7 million, before adjustments to reflect an economic effective date of January 1, 2011, and for general corporate purposes. The 8.25% Notes bear interest from the date of their issuance at an annual rate of 8.25% with interest due semi-annually, in arrears, on February 15 and August 15 of each year, commencing on August 15, 2011. The 8.25% Notes are fully and unconditionally guaranteed, jointly and severally, on an unsecured senior basis initially by each of our existing direct and indirect domestic subsidiaries (other than immaterial subsidiaries). The 8.25% Notes will mature on February 15, 2018. In connection with the execution of the Indenture, we also entered into a registration rights agreement, dated as of February 14, 2011 (the Registration Rights Agreement).

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Under the Registration Rights Agreement, on July 14, 2011, we and our guarantor subsidiaries (the Guarantors ) filed a registration statement with the SEC, which was declared effective on July 26, 2011, offering to exchange a new series of freely tradable notes having substantially identical terms as the 8.25% Notes ( Exchange Notes ) for the 8.25% Notes. Pursuant to this offering, 100% in aggregate principal amount of the 8.25% Notes was exchanged for the Exchange Notes, effective as of August 29, 2011.

**Table of Contents**

On or after February 15, 2015, we may on any one or more occasions redeem all or a part of the 8.25% Notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed as percentages of principal amount) set forth below, plus accrued and unpaid interest on the 8.25% Notes redeemed, to the applicable redemption date, if redeemed during the twelve-month period beginning on February 15<sup>th</sup> of the years indicated below, subject to the rights of holders of the 8.25% Notes on the relevant record date to receive interest on the relevant interest payment date:

Year	Percentage
2015	104.125%
2016	102.063%
2017 and thereafter	100.000%

Any such redemption and notice may, in our discretion, be subject to the satisfaction of one or more conditions precedent, including but not limited to, the occurrence of a change of control. Unless we default in the payment of the redemption price, interest will cease to accrue on the 8.25% Notes or portions thereof called for redemption on the applicable redemption date.

At any time prior to February 15, 2014, we may, at our option, on any one or more occasions redeem with the net cash proceeds of certain equity offerings up to 35% of the aggregate principal amount of outstanding 8.25% Notes (which amount includes additional notes issued under the Indenture), upon not less than 30 nor more than 60 days' prior notice, at a redemption price equal to 108.250% of the principal amount of the notes redeemed, plus accrued and unpaid interest to the redemption date, provided that: (1) at least 65% of the aggregate principal amount of the 8.25% Notes issued under the Indenture (which amount includes additional notes issued under the Indenture) remains outstanding immediately after the occurrence of such redemption; and (2) the redemption occurs within 90 days of the date of the closing of such equity offering. This option to redeem up to 35% of the aggregate principal amount of outstanding 8.25% Notes with the net cash proceeds of certain equity offerings is considered an embedded derivative. We estimate that the fair value of this option at September 30, 2011 is not material.

In addition, we may, at our option, on any one or more occasions redeem all or a part of the 8.25% Notes prior to February 15, 2015 at a redemption price equal to 100% of the principal amount of the 8.25% Notes redeemed plus a make-whole premium as of, and accrued and unpaid interest to the redemption date.

If we experience a change of control (as defined in the Indenture), each holder of the 8.25% Notes will have the right to require us to repurchase all or any part (equal to \$2,000 or an integral multiple of \$1,000 in excess thereof) of the 8.25% Notes at a price in cash equal to 101% of the aggregate principal amount of the 8.25% Notes repurchased, plus accrued and unpaid interest to the date of repurchase. If we engage in certain asset sales, within 360 days of such sale, we generally must use the net cash proceeds from such sales to repay outstanding senior secured debt (other than intercompany debt or any debt owed to an affiliate), to acquire all or substantially all of the assets, properties or capital stock of one or more companies in our industry, to make capital expenditures or to invest in our business. When any such net proceeds that are not so applied or invested exceed \$20.0 million, we must make an offer to purchase the 8.25% Notes and other pari passu debt that is subject to similar asset sale provisions in an aggregate principal amount equal to the excess net cash proceeds. The purchase price of each 8.25% Note (or other pari passu debt) so purchased will be 100% of its principal amount, plus accrued and unpaid interest to the repurchase date, and will be payable in cash.

The Indenture, among other things, limits our ability to: (i) declare or pay dividends, redeem subordinated debt or make other restricted payments; (ii) incur or guarantee additional debt or issue preferred stock; (iii) create or incur liens; (iv) incur dividend or other payment restrictions affecting restricted subsidiaries; (v) consummate a merger, consolidation or sale of all or substantially all of our assets; (vi) enter into sale-leaseback transactions, (vii) enter into transactions with affiliates; (viii) transfer or sell assets; (ix) engage in business other than our current business and reasonably related extensions thereof; or (x) issue or sell capital stock of certain subsidiaries. These covenants are subject to a number of important exceptions and qualifications set forth in the Indenture.

*New Senior Credit Facility*

On February 14, 2011, we entered into our new credit facility with BMO Capital Markets, as lead arranger, and Bank of Montreal, as administrative agent and a lender. The terms of our new credit facility establish a revolving credit facility with a four-year term that may be used for revolving credit loans and letters of credit up to an aggregate principal amount of \$250.0 million, subject to an initial borrowing base of \$150.0 million. The maximum amount of letters of credit that may be outstanding at any one time is \$20.0 million, and the amount available under the revolving credit facility is limited by the borrowing base. With the consent of the agent, we also have the ability to increase the aggregate commitments under the new credit facility by up to \$100.0 million to the extent that existing and/or future lenders provide additional commitments. Upon the closing of our new credit facility, our then existing credit facility was terminated. We had no amounts drawn under our new credit facility at September 30, 2011.





**Table of Contents**

The interest rate spread on loans and letters of credit under our new credit facility is based on the level of utilization and range from a base rate plus a margin of 1.00% to 2.00% for base rate borrowings and LIBOR plus a margin of 2.00% to 3.00% for LIBOR borrowings. A commitment fee of 0.5% is payable on the unused portion of the borrowing base. Interest on our base rate borrowings is payable quarterly, in arrears, and interest on our LIBOR borrowings is payable on the last day of each relevant interest period, except that in the case of any interest period that is longer than three months, interest is payable on each successive date three months after the first day of such interest period.

Our new credit facility contains customary covenants, default provisions and collateral requirements. As described in the agreement underlying our new credit facility, we must maintain, for each period for which a covenant certification is required, (a) a minimum current ratio (as defined in the agreement for our new credit facility) of 1.0 to 1.0, (b) a minimum EBITDAX (as defined in the agreement for our new credit facility) to interest expense coverage ratio of 2.5 to 1.0 and (c) a maximum total debt to EBITDAX ratio of 3.5 to 1.0. We are also required to maintain a commodities hedging program that is in compliance with the requirements set forth in our new credit facility. The determination of our borrowing base under our new credit facility is based on our proved reserves, at the sole discretion of the lenders. Our initial borrowing base was \$150.0 million and scheduled borrowing base redeterminations will be made on a semi-annual basis on May 1<sup>st</sup> and November 1<sup>st</sup> of each year. We recently completed our semi-annual redetermination and our borrowing base was increased to \$200.0 million. Our new credit facility also places restrictions on the maximum estimated future production volumes that can be subject to commodity derivative instruments.

Our obligations under our new credit facility, as well as any hedging contracts and treasury management agreements with the lenders or affiliates of lenders, are guaranteed by our material domestic subsidiaries and secured by a pledge of 100% of the stock of each material domestic subsidiary and 66<sup>2</sup>/<sub>3</sub>% of each of their foreign material subsidiaries and a first priority lien on substantially all of our and our material subsidiaries' assets, including our real property assets and the oil and gas properties to which 85% of the present value of our proved reserves is attributable.

**(7) 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 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. Our put contracts limit our exposure to declines in the sales price of oil for a limited amount of our production. Our collars limit our exposure to declines in the sales price of oil while giving us the ability to benefit from increases to a certain level in the sales price of oil for a limited amount of our production. Derivative contracts are carried at their fair value on the condensed consolidated balance sheets as Fair value of commodity derivative instruments 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 September 30, 2011, the following derivative instruments were outstanding:

**Oil Contracts**

Remaining Contract Term	Fixed-Price Swaps			Puts		Floor Price (\$/Bbl)
	Daily Average Volume (Bbls)	Volume (Bbls)	Average Swap Price (\$/Bbl)	Daily Average Volume (Bbls)	Volume (Bbls)	
October 2011 - November 2011	2,256	137,600	\$ 91.23	1,301	79,350	\$ 60.00
December 2011	3,368	104,400	\$ 90.25	1,302	40,350	\$ 60.00
January 2012 - July 2012	2,167	461,500	\$ 95.33			
August 2012 - November 2012	721	88,000	\$ 95.74			
December 2012	1,161	36,000	\$ 95.28			
January 2013 - July 2013	1,703	361,000	\$ 94.28			
August 2013 - November 2013	426	52,000	\$ 94.18			
December 2013	806	25,000	\$ 93.98			

Remaining Contract Term	Collars		
	Daily Average Volume (Bbls)	Volume (Bbls)	Average Strike Price (\$/Bbl)

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January 2012	July 2012	1,000	213,000	\$ 87.50/123.18
August 2012	November 2012	1,000	122,000	\$ 87.50/123.18
December 2012		1,000	31,000	\$ 87.50/123.18

**Table of Contents**

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

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
	(in thousands)			
Derivative contracts:				
Unrealized gain (loss) due to change in fair market value	\$ 28,059	\$ (3,018)	\$ 31,122	\$ 8,298
Realized loss on settlement	(1,488)	(900)	(16,245)	(7,183)
Total gain (loss) on derivative instruments	\$ 26,571	\$ (3,918)	\$ 14,877	\$ 1,115

**(8) 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 September 30, 2011, 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. At September 30, 2011, the carrying amounts and fair values of our derivative instruments are reported as assets totaling \$19.0 million. At December 31, 2010, the carrying amounts and fair values of our derivative instruments are reported as assets totaling \$0.2 million and liabilities totaling \$12.3 million.

On June 9, 2011, we entered into an agreement with an insurance company whereby, if a named wind storm occurs in a specified area of the Gulf of Mexico and that storm meets certain strength criteria, the insurance company will pay a fixed amount of cash proceeds to us. This agreement is considered a weather derivative under the applicable authoritative guidance related to financial instruments. We recognized the premium paid as a current asset, which we are amortizing to expense over the term of the agreement. At September 30, 2011, we estimate that the fair value of this financial instrument approximates the carrying amount of approximately \$1.3 million, based on the amount of premium paid, which is a Level 3 input within the fair value hierarchy.

As of September 30, 2011, the carrying amount of our 8.25% Notes is \$204.2 million, which reflects the \$210.0 million face amount, net of the unamortized amount of initial purchasers' discount of \$5.8 million. We estimate the fair value of the 8.25% Notes at approximately \$191.6 million, based on quoted prices, which are Level 1 inputs within the fair value hierarchy.

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 (generally analogous to a field or lease). 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. The inputs used to estimate the fair value of our oil and natural gas properties meet the definition of Level 3 inputs within the fair value hierarchy. Impairments for the nine months ended September 30, 2011 were primarily related to reservoir performance at one of our natural gas producing fields where a production zone depleted prematurely. In the same field we experienced mechanical difficulties attempting to access a behind-pipe zone and currently do not expect that the behind-pipe reserves will be economically recoverable. This field was determined to have future net cash flows less than its carrying value resulting in the write down of this property to its estimated fair value at March 31, 2011. Additional impairments for the nine months ended September 30, 2011 were primarily related to the decline in our estimate of future natural gas prices as of September 30, 2011 as compared to June 30, 2011 affecting our deepwater producing well (primarily natural gas) and reservoir performance at two other producing fields, which were determined to have future net cash flows less than their carrying values resulting in the write down of these properties to their estimated fair values.

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As addressed in Note 2, Acquisitions, we applied fair value concepts in estimating and allocating the fair value of the ASOP Properties in accordance with purchase accounting for business combinations. The inputs to the estimated fair values of the assets acquired and liabilities assumed are described in Note 2.

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**Table of Contents**

**(9) COMMITMENTS AND CONTINGENCIES**

We maintain restricted escrow funds in a trust for future abandonment 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 completion of qualifying abandonment activities at our East Bay field. At September 30, 2011, we had \$6.0 million remaining in restricted escrow funds for decommissioning work in our East Bay field, which 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 consolidated balance sheets.

We record liabilities when we deliver production that is in excess of our interest in certain properties. In addition to these imbalances, we may, from time to time, be allocated cash sales proceeds in excess of amounts that we estimate are due to us for our interest in production. These allocations may be subject to further review, may require more information to resolve or may be in dispute. In July 2010, we were notified by a purchaser of oil production from one of our non-operated fields that we were allocated, and received sales proceeds from, more oil production than we actually sold to that purchaser. These third party misallocations may date back to 2006. The oil purchaser's initial estimate of the oil volumes misallocated to us was approximately 74,000 barrels, which may be valued at up to \$6.9 million based on information provided by the oil purchaser. We have previously recorded an amount that we believe may be payable related to a potential reallocation, which amount is reflected in Accrued expenses in the accompanying condensed consolidated balance sheets as of September 30, 2011.

We and our oil and gas joint interest owners are subject to periodic audits of the joint interest accounts for leases in which we participate and/or operate. As a result of these joint interest audits, amounts payable or receivable by us for costs incurred or revenue distributed by the operator or by us on a lease may be adjusted, resulting in adjustments, increases or decreases, to our net costs or revenues and the related cash flows. Such adjustments may be material. When they occur, these adjustments are recorded in the current period, which generally is one or more years after the related cost or revenue was incurred or recognized by the joint account.

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.

**(10) NEW ACCOUNTING PRONOUNCEMENTS**

In May 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS ( ASU 2011-04 ). ASU 2011-04 changes some fair value measurement principles under U.S. GAAP including a change in the valuation premise and the application of premiums and discounts. It also contains certain new disclosure requirements. It is effective for interim and annual periods beginning after December 15, 2011.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income ( ASU 2011-05 ), which provides the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. It does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. ASU 2011-05 is effective for interim and annual periods beginning after December 15, 2011 and will be applied retrospectively.

**(11) SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION**

In connection with the 8.25% Notes offering described in Note 6, the Guarantors, which include all of our existing 100% owned, direct and indirect domestic subsidiaries (other than immaterial subsidiaries), fully and unconditionally guaranteed, jointly and severally, the payment obligations under our 8.25% Notes and guarantee the payment obligations under the Exchange Notes. The following supplemental financial information sets forth, on a consolidating basis, the balance sheets, statements of operations and cash flow information for Energy Partners, Ltd. (Parent Company Only) and for the Guarantors. We have not presented separate financial statements and other disclosures concerning each individual Guarantor 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. 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.



**Table of Contents****Supplemental Condensed Consolidating Balance Sheet**

As of September 30, 2011

	Parent Company Only	Guarantors	Eliminations (In thousands)	Consolidated
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 87,268	\$	\$	\$ 87,268
Accounts receivable	81,067	133	(53,131)	28,069
Other current assets	19,544	1,674		21,218
<b>Total current assets</b>	<b>187,879</b>	<b>1,807</b>	<b>(53,131)</b>	<b>136,555</b>
Property and equipment	772,732	232,497		1,005,229
Less accumulated depreciation, depletion and amortization	(214,305)	(46,021)		(260,326)
<b>Net property and equipment</b>	<b>558,427</b>	<b>186,476</b>		<b>744,903</b>
Investment in affiliates	85,534		(85,534)	
Notes receivable, long-term		69,000	(69,000)	
Other assets	20,700			20,700
	852,540	257,283	(207,665)	902,158
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>				
Current liabilities:				
Accounts payable and accrued expenses	\$ 77,898	\$ 64,813	\$ (53,131)	\$ 89,580
Deferred tax liabilities	6,537			6,537
<b>Total current liabilities</b>	<b>84,435</b>	<b>64,813</b>	<b>(53,131)</b>	<b>96,117</b>
Long-term debt	204,216	69,000	(69,000)	204,216
Other liabilities	60,368	37,936		98,304
	349,019	171,749	(122,131)	398,637
Stockholders' equity:				
Preferred stock		3	(3)	
Common stock	40	98	(98)	40
Additional paid-in capital	504,540	84,900	(84,900)	504,540
Retained earnings	4,472	533	(533)	4,472
Treasury stock, at cost	(5,531)			(5,531)
<b>Total stockholders' equity</b>	<b>503,521</b>	<b>85,534</b>	<b>(85,534)</b>	<b>503,521</b>
	852,540	257,283	(207,665)	902,158

**Table of Contents****Supplemental Condensed Consolidating Balance Sheet**

As of December 31, 2010

	Parent Company Only	Guarantors	Eliminations	Consolidated
	(In thousands)			
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 33,553	\$	\$	\$ 33,553
Accounts receivable	73,040	259	(49,768)	23,531
Other current assets	4,508	1,674		6,182
<b>Total current assets</b>	<b>111,101</b>	<b>1,933</b>	<b>(49,768)</b>	<b>63,266</b>
Property and equipment	512,569	206,578		719,147
Less accumulated depreciation, depletion and amortization	(137,284)	(30,771)		(168,055)
<b>Net property and equipment</b>	<b>375,285</b>	<b>175,807</b>		<b>551,092</b>
Investment in affiliates	76,236		(76,236)	
Notes receivable, long-term		69,000	(69,000)	
Other assets	12,548			12,548
	575,170	246,740	(195,004)	626,906
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>				
Current liabilities:				
Accounts payable and accrued expenses	\$ 50,756	\$ 62,666	\$ (49,768)	\$ 63,654
Fair value of commodity derivative instruments	12,320			12,320
<b>Total current liabilities</b>	<b>63,076</b>	<b>62,666</b>	<b>(49,768)</b>	<b>75,974</b>
Long-term debt		69,000	(69,000)	
Other liabilities	38,978	38,838		77,816
	102,054	170,504	(118,768)	153,790
Stockholders equity:				
Preferred stock		3	(3)	
Common stock	40	98	(98)	40
Additional paid-in capital	502,556	84,900	(84,900)	502,556
Retained earnings	(29,480)	(8,765)	8,765	(29,480)
<b>Total stockholders equity</b>	<b>473,116</b>	<b>76,236</b>	<b>(76,236)</b>	<b>473,116</b>
	575,170	246,740	(195,004)	626,906



**Table of Contents****Supplemental Condensed Consolidating Statement of Operations****Three Months Ended September 30, 2011**

	Parent Company Only	Guarantors	Eliminations (In thousands)	Consolidated
<b>Revenue:</b>				
Oil and natural gas	\$ 61,196	\$ 23,657	\$	\$ 84,853
Other	3,752	29	(3,750)	31
	64,948	23,686	(3,750)	84,884
<b>Costs and expenses:</b>				
Lease operating expenses	14,970	4,296		19,266
Taxes, other than on earnings	210	3,283		3,493
Exploration expenditures, dry hole cost and impairments	6,458	38		6,496
Depreciation, depletion, amortization and accretion	24,155	7,134		31,289
General and administrative	4,339	3,872	(3,750)	4,461
Other expenses	5,051	(824)		4,227
Total costs and expenses	55,183	17,799	(3,750)	69,232
Income from operations	9,765	5,887		15,652
<b>Other income (expense):</b>				
Interest expense, net	(4,999)			(4,999)
Gain on derivative instruments	26,571			26,571
Income from equity investments	3,742		(3,742)	
Income before income taxes	35,079	5,887	(3,742)	37,224
Deferred income tax expense	(11,621)	(2,145)		(13,766)
Net income	\$ 23,458	\$ 3,742	\$ (3,742)	\$ 23,458

**Table of Contents****Supplemental Condensed Consolidating Statement of Operations****Three Months Ended September 30, 2010**

	<b>Parent Company Only</b>	<b>Guarantors</b>	<b>Eliminations (In thousands)</b>	<b>Consolidated</b>
<b>Revenue:</b>				
Oil and natural gas	\$ 37,553	\$ 18,684	\$	\$ 56,237
Other	3,752	32	(3,750)	34
	41,305	18,716	(3,750)	56,271
<b>Costs and expenses:</b>				
Lease operating expenses	9,963	2,894		12,857
Taxes, other than on earnings	864	2,242		3,106
Exploration expenditures, dry hole cost and impairments	12,662	995		13,657
Depreciation, depletion, amortization and accretion	20,508	8,015		28,523
General and administrative	4,742	3,815	(3,750)	4,807
Other expenses	507			507
Total costs and expenses	49,246	17,961	(3,750)	63,457
Income (loss) from operations	(7,941)	755		(7,186)
<b>Other income (expense):</b>				
Interest expense, net	(718)			(718)
Loss on derivative instruments	(3,918)			(3,918)
Income from equity investments	476		(476)	
Income (loss) before income taxes	(12,101)	755	(476)	(11,822)
Deferred income tax benefit (expense)	4,255	(279)		3,976
Net income (loss)	\$ (7,846)	\$ 476	\$ (476)	\$ (7,846)

**Table of Contents****Supplemental Condensed Consolidating Statement of Operations****Nine Months Ended September 30, 2011**

	<b>Parent Company Only</b>	<b>Guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>(In thousands)</b>			
<b>Revenue:</b>				
Oil and natural gas	\$ 175,008	\$ 69,858	\$	\$ 244,866
Other	11,256	91	(11,250)	97
	186,264	69,949	(11,250)	244,963
<b>Costs and expenses:</b>				
Lease operating expenses	38,461	14,044		52,505
Taxes, other than on earnings	806	9,700		10,506
Exploration expenditures, dry hole cost and impairments	21,297	243		21,540
Depreciation, depletion, amortization and accretion	64,874	20,379		85,253
General and administrative	14,202	11,592	(11,250)	14,544
Other expenses	7,444	(814)		6,630
Total costs and expenses	147,084	55,144	(11,250)	190,978
Income from operations	39,180	14,805		53,985
<b>Other income (expense):</b>				
Interest expense, net	(12,416)			(12,416)
Gain on derivative instruments	14,877			14,877
Loss on early extinguishment of debt	(2,377)			(2,377)
Income from equity investments	9,298		(9,298)	
Income before income taxes	48,562	14,805	(9,298)	54,069
Deferred income tax expense	(14,610)	(5,507)		(20,117)
Net income	\$ 33,952	\$ 9,298	\$ (9,298)	\$ 33,952

**Table of Contents****Supplemental Condensed Consolidating Statement of Operations****Nine Months Ended September 30, 2010**

	<b>Parent Company Only</b>	<b>Guarantors</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>(In thousands)</b>			
<b>Revenue:</b>				
Oil and natural gas	\$ 138,476	\$ 46,607	\$	\$ 185,083
Other	11,256	98	(11,250)	104
	149,732	46,705	(11,250)	185,187
<b>Costs and expenses:</b>				
Lease operating expenses	29,908	11,066		40,974
Taxes, other than on earnings	1,891	5,528		7,419
Exploration expenditures, dry hole cost and impairments	26,953	995		27,948
Depreciation, depletion, amortization and accretion	72,986	17,942		90,928
General and administrative	13,645	11,475	(11,250)	13,870
Other expenses	1,800			1,800
Total costs and expenses	147,183	47,006	(11,250)	182,939
Income (loss) from operations	2,549	(301)		2,248
<b>Other income (expense):</b>				
Interest expense, net	(8,768)			(8,768)
Gain on derivative instruments	1,115			1,115
Loss on early extinguishment of debt	(5,627)			(5,627)
Loss from equity investments	(200)		200	
Loss before income taxes	(10,931)	(301)	200	(11,032)
Deferred income tax benefit	3,591	101		3,692
Net loss	\$ (7,340)	\$ (200)	\$ 200	\$ (7,340)

**Table of Contents****Supplemental Condensed Consolidating Statement of Cash Flows****Nine Months Ended September 30, 2011**

	Parent Company Only	Guarantors	Eliminations	Consolidated
	(In thousands)			
Net cash provided by operating activities	\$ 80,045	\$ 25,890	\$	\$ 105,935
Cash flows provided by (used in) investing activities:				
Property acquisitions	(196,533)			(196,533)
Exploration and development expenditures	(23,356)	(25,890)		(49,246)
Other property and equipment additions	(833)			(833)
Decrease in restricted cash	2,467			2,467
Net cash used in investing activities	(218,255)	(25,890)		(244,145)
Cash flows provided by (used in) financing activities:				
Proceeds from long-term debt	203,794			203,794
Deferred financing costs	(6,465)			(6,465)
Purchase of shares into treasury	(5,523)			(5,523)
Exercise of stock options	119			119
Net cash provided by financing activities	191,925			191,925
Net increase in cash and cash equivalents	53,715			53,715
Cash and cash equivalents at the beginning of the period	33,553			33,553
Cash and cash equivalents at the end of the period	\$ 87,268	\$	\$	\$ 87,268

**Supplemental Condensed Consolidating Statement of Cash Flows****Nine Months Ended September 30, 2010**

	Parent Company Only	Guarantors	Eliminations	Consolidated
	(In thousands)			
Net cash provided by operating activities	\$ 65,082	\$ 31,910	\$	\$ 96,992
Cash flows provided by (used in) investing activities:				
Property acquisitions	(623)			(623)
Exploration and development expenditures	(11,122)	(31,910)		(43,032)
Decrease in restricted cash	12,166			12,166
Net cash provided by (used in) investing activities	421	(31,910)		(31,489)
Cash flows provided by (used in) financing activities:				
Proceeds from long-term debt	20,394			20,394
Repayments of long-term debt	(82,382)			(82,382)
Deferred financing costs	(33)			(33)
Net cash used in financing activities	(62,021)			(62,021)

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Net increase in cash and cash equivalents	3,482			3,482
Cash and cash equivalents at the beginning of the period	26,745			26,745
Cash and cash equivalents at the end of the period	\$ 30,227	\$	\$	\$ 30,227

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**Table of Contents**

**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) that 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 Annual Report on Form 10-K for the year ended December 31, 2010, as amended (the 2010 Annual Report).*

**OVERVIEW**

We were incorporated as a Delaware corporation in January 1998 and operate in a single segment as an independent oil and natural gas exploration and production company. Our current operations are concentrated in the U.S. Gulf of Mexico shelf focusing on state and federal waters offshore Louisiana, which we consider our core area. We have focused on acquiring and developing assets in this region, as it offers a balanced and expansive array of existing and prospective exploration, exploitation and development opportunities in both established productive horizons and deeper geologic formations.

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 2010 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.

***Recent Developments***

*The ASOP Acquisition and Notes Offering.* On February 14, 2011, we acquired an asset package consisting of certain shallow-water Gulf of Mexico shelf oil and natural gas interests surrounding the Mississippi River delta and a related gathering system (the ASOP Properties) from Anglo-Suisse Offshore Partners, LLC (ASOP) for \$200.7 million in cash, subject to customary adjustments to reflect an economic effective date of January 1, 2011 (the ASOP Acquisition). As of December 31, 2010, the ASOP Properties had estimated proved reserves of approximately 8.1 Mmboe, of which 84% were oil and 76% were proved developed reserves. Of these proved developed reserves, 88% were oil reserves. The ASOP Properties acquired in the ASOP Acquisition:

included 59 producing wells in three complexes;

had average daily production of approximately 3,620 Boe per day for the period from February 14, 2011 to September 30, 2011;

included 48,106 gross and 37,402 net acres; and

included related gathering lines.

The ASOP Acquisition was financed with the proceeds from the sale of \$210 million in aggregate principal amount of 8.25% senior notes due 2018 (the 8.25% Notes) offered to qualified institutional buyers pursuant to Rule 144A promulgated under the Securities Act of 1933, as

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amended (the Securities Act ), and to persons outside the United States pursuant to Regulation S promulgated under the Securities Act. After deducting the initial purchasers' discount and offering expenses, we realized net proceeds of approximately \$202 million. On July 14, 2011, we and our guarantor subsidiaries (the Guarantors ) filed a registration statement with the SEC, which was declared effective on July 26, 2011, offering to exchange a new series of freely tradable notes having substantially identical terms as the 8.25% Notes ( Exchange Notes ) for the 8.25% Notes. Pursuant to this offering, 100% in aggregate principal amount of the 8.25% Notes was exchanged for the Exchange Notes, effective as of August 29, 2011. On February 14, 2011, we also entered into an agreement for a new senior credit facility. See Liquidity and Capital Resources for more information regarding the 8.25% Notes and the new senior credit facility.



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**Table of Contents**

The ASOP Acquisition provides an opportunity to significantly increase our reserves, production volumes and drilling portfolio, while maintaining our focus on oil-weighted assets in our core area of expertise in the Gulf of Mexico shelf. The ASOP Acquisition also provides us with access to infrastructure and extensive acreage, with significant exploitation and development potential. We are pursuing exploitation of the ASOP Properties, including recompletions, well reactivations and development drilling, while we analyze the potential for higher-impact exploration prospects. We operate properties containing approximately 60% of the proved reserves attributable to the ASOP Properties. In conjunction with the ASOP Acquisition, we implemented a three-year commodity price hedging program weighted towards oil to help reduce commodity price risks associated with future oil production.

*The Main Pass Acquisition.* On October 28, 2011, we entered into a purchase and sale agreement with Stone Energy Offshore, L.L.C. ( Seller ) relating to the purchase (the Main Pass Acquisition ) of certain interests in producing oil and natural gas assets in the shallow-water central Gulf of Mexico shelf (the Main Pass Interests ) for \$80.0 million in cash, subject to customary adjustments to reflect the economic effective date of November 1, 2011. The Main Pass Interests currently produce approximately 900 barrels of oil equivalent per day, approximately 96% of which is oil. The Main Pass Interests consist of additional interests in the Main Pass 296/311 complex that was included in the assets we purchased from ASOP in February 2011, along with other unit interests in the Main Pass complex and an interest in a Main Pass 295 primary term lease. We estimate that the proved reserves as of the November 1, 2011 economic effective date totaled approximately 2.6 Mmboe, all of which were proved developed reserves and approximately 96% of which were oil reserves. The estimated asset retirement obligation to be assumed and recorded on our balance sheet as a result of the Main Pass Acquisition is expected to total approximately \$4 million. The consummation of the Main Pass Acquisition is subject to customary closing conditions and is expected to close in November 2011. We intend to fund the Main Pass Acquisition with cash on hand.

The Main Pass Interests are not operated by Seller, and the other working interest owner and current operator of the Main Pass 296/311 complex has a preferential right under the applicable operating agreements to purchase the Main Pass Interests as a result of the Main Pass Acquisition. However, even if the operator exercises its preferential purchase right, the applicable operating agreements limit the amount that the operator can acquire by exercising the preferential right. In that case, the Main Pass Acquisition would still be completed, but, depending upon the various scenarios of the other working interest owner exercising at least one or more of the preferential rights, we would generally acquire 50% of the Main Pass Interests (with certain exceptions) and the base purchase price would range from approximately \$39.8 million to \$79.5 million.

***Overview and Outlook***

For full year 2011 we expect to spend between \$110 and \$115 million (excluding the cost of acquisitions), \$90 to \$100 million of which is related to development of our existing Gulf of Mexico shelf asset base including the ASOP Properties and \$15 to \$20 million of which is related to exploration projects. We also plan to spend approximately \$27 million in 2011 on plugging, abandonment and other decommissioning activities. Our key areas of operations and our plans for future exploration and development activities do not include any deepwater areas. We allocate capital in a rigorous and disciplined manner intended to achieve an overall lower risk capital expenditure profile that focuses on maximizing rate of return and requires projects to compete on that basis. This allocation has led us to focus on oil-weighted projects, which has resulted in the maintenance of our upward trend in our oil production volumes as compared with the decline in our natural gas volumes.

We continually review and monitor opportunities to acquire producing properties, leasehold acreage and drilling prospects so that we can act quickly as acquisition opportunities become available. We intend to focus our acquisition strategy on Gulf of Mexico shelf assets that are characterized by production-weighted reserves, seismic coverage and operated positions. We intend to use acquisitions of this type as a key method to replace and grow reserves and production, because we believe this strategy increases production and cash flow visibility while reducing dry hole and exploration risk. We believe our expertise in the Gulf of Mexico shelf and in plugging and abandonment operations allows us to efficiently evaluate acquisitions and to operate any properties we eventually acquire.

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 fund any exploration and development expenditures with internally generated cash flows.

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 remain competitive with our offshore Gulf of Mexico industry peers.

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, our cash flows, 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 2010 Annual Report and Item 1A of Part II of this Quarterly Report for a more detailed discussion of these risks.



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**Table of Contents**

We believe that we possess a core competency in plugging, abandonment and decommissioning operations which allows us to reduce our overall costs in that area of operations, enabling us to achieve our objectives of prudently removing idle infrastructure throughout the remaining productive lives of our fields and, over time, to reduce ongoing lease operating expenses ( LOE ) associated with maintaining idle infrastructure.

***Results of Operations******Three Months Ended September 30, 2011***

During the three months ended September 30, 2011, we completed three (3) development drilling operations and seven (7) recompletion operations, all of which were successful. As of September 30, 2011, we were drilling the first well of a four-well exploratory drilling program, and that well was successfully completed in October 2011.

Our operating results for the three months ended September 30, 2011, compared to the three months ended September 30, 2010, reflect significantly higher average selling prices for our oil. The product mix for our production for the three months ended September 30, 2011 was 75% oil (including natural gas liquids), compared to 48% oil (including natural gas liquids) for the comparable period in 2010. This change in product mix results from a decline in natural gas production and a decline in production of natural gas liquids, which we expect to continue for the remainder of 2011, partially offset by an increase in oil production. Additionally, our results for the three months ended September 30, 2011 include production from the recently acquired ASOP Properties of 3,684 Boe per day. We expect our oil production to increase during the remainder of 2011. We also expect our full-year 2011 oil production to increase as compared to our full-year 2010 oil production.

For the three months ended September 30, 2011, our revenues increased 51% as compared to the three months ended September 30, 2010, due primarily to the higher oil sales prices and the increase in oil production. Our overall production volumes, including barrel of oil equivalent natural gas volumes, decreased by 18% for the three months ended September 30, 2011 when compared to the three months ended September 30, 2010. Our Gulf of Mexico shelf production decreased 13% in the three months ended September 30, 2011, as compared to the quarter ended September 30, 2010, due primarily to production declines in our predominantly natural gas fields, partially offset by production from the ASOP Properties. In addition, our deepwater production, primarily natural gas, declined 56% for the quarter ended September 30, 2011, as compared to the quarter ended September 30, 2010, primarily due to natural reservoir decline from our deepwater well. In addition, production from this deepwater well has been, and will continue to be during the fourth quarter, curtailed for extended periods due to third party downstream facility modifications. We expect that our deepwater production will continue to decline in 2011.

In addition to the items addressed above, our net income for the three months ended September 30, 2011, as compared to the net loss for the three months ended September 30, 2010, primarily reflects a significant unrealized gain on derivative instruments and a decrease in impairments.

Our effective income tax rate for the three months ended September 30, 2011 and 2010 was 37.0% and 33.6%, respectively. The increase in our effective income tax rate is primarily related to estimated state income taxes. The income tax benefit recorded on the net loss for the three months ended September 30, 2010 was reduced due to applying the change in our estimated effective income tax rate for the full year 2010, from 36% to 37.4%, to our net deferred tax liabilities. The change in our estimated effective income tax rate for 2010 was related to state income taxes.

***Nine Months Ended September 30, 2011***

During the nine months ended September 30, 2011, we completed three (3) development drilling operations, all of which were successful, and twenty-two (22) recompletion operations, nineteen (19) of which were successful. As of September 30, 2011, we were drilling the first well of a four-well exploratory drilling program, and that well was successfully completed in October 2011.

Our operating results for the nine months ended September 30, 2011, compared to the nine months ended September 30, 2010, reflect significantly higher average selling prices for our oil and lower average selling prices for our natural gas. The product mix for our production for the nine months ended September 30, 2011 was 71% oil (including natural gas liquids), compared to 47% oil (including natural gas liquids) for the comparable period in 2010. This change in product mix results from a decline in natural gas production and a decline in production of natural gas liquids, which we expect to continue for the remainder of 2011, partially offset by an increase in oil production. Additionally, our results for the nine months ended September 30, 2011 include production from the recently acquired ASOP Properties of 3,620 Boe per day.

For the nine months ended September 30, 2011, our revenues increased 32% as compared to the nine months ended September 30, 2010, due primarily to the higher oil sales prices and the increase in oil production. Our overall production volumes, including barrel of oil equivalent natural gas volumes, decreased by 24% for the nine months ended September 30, 2011 when compared to the nine months ended September 30, 2010. Our Gulf of Mexico shelf production decreased 22% in the nine months ended September 30, 2011, as compared to the nine months ended

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September 30, 2010, due primarily to production declines in our predominantly natural gas fields, partially offset by production from the ASOP Properties. In addition, our deepwater production, primarily natural gas, declined 43% for the nine months ended September 30, 2011, as compared to the nine months ended September 30, 2010, primarily due to natural reservoir decline from our deepwater well.

**Table of Contents**

Our effective income tax rate for the nine months ended September 30, 2011 and 2010 was 37.2% and 33.5%, respectively. The increase in our effective income tax rate is primarily related to estimated state income taxes. The income tax benefit recorded on the net loss for the nine months ended September 30, 2010 was reduced due to applying the change in our estimated effective income tax rate for the full year 2010, from 36% to 37.4%, to our net deferred tax liabilities. The change in our estimated effective income tax rate for 2010 was related to state income taxes.

**RESULTS OF OPERATIONS**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net production (per day):				
Oil (Bbls)	8,034	6,219	7,634	6,615
Natural gas (Mcf)	16,358	41,102	18,888	45,158
Total (Boe)	10,760	13,069	10,782	14,142
Average sales prices:				
Oil (per Bbl)	\$ 106.23	\$ 69.72	\$ 106.71	\$ 70.60
Natural gas (per Mcf)	4.21	4.32	4.35	4.67
Total (per Boe)	85.72	46.77	83.19	47.94
Oil and natural gas revenues (in thousands):				
Oil	\$ 78,518	\$ 39,891	\$ 222,410	\$ 127,507
Natural gas	6,335	16,346	22,456	57,576
Total	84,853	56,237	244,866	185,083
Impact of derivatives instruments settled during the period <sup>(1)</sup> :				
Oil (per Bbl)	\$ (2.01)	\$ (1.57)	\$ (7.79)	\$ (4.03)
Natural gas (per Mcf)		\$		\$ 0.01
Average costs (per Boe):				
LOE	\$ 19.46	\$ 10.69	\$ 17.84	\$ 10.61
Depreciation, depletion and amortization ( DD&A )	26.76	21.06	24.83	21.05
Accretion of liability for asset retirement obligations	4.84	2.66	4.14	2.50
Taxes, other than on earnings	3.53	2.58	3.57	1.92
General and administrative ( G&A ) expenses	4.51	4.00	4.94	3.59
Increase (decrease) in oil and natural gas revenues due to:				
Changes in prices of oil	\$ 20,889		\$ 65,215	
Changes in production volumes of oil	17,738		29,688	
Total increase in oil sales	38,627		94,903	
Changes in prices of natural gas	\$ (416)		\$ (3,887)	
Changes in production volumes of natural gas	(9,595)		(31,233)	
Total decrease in natural gas sales	(10,011)		(35,120)	

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

**Table of Contents****Three Months Ended September 30, 2011 Compared to Three Months Ended September 30, 2010****Revenue and Net Income (Loss)**

	Three Months Ended September 30,		\$ Change	% Change	
	2011	2010 (in thousands)			
Oil and natural gas revenues					
	\$ 84,853	\$ 56,237	\$ 28,616	51(5,876	) (1,748,636
Net amortization of losses and prior service costs			1,205		
Pension Plan expense	\$ 3,909	\$ 1,105	\$ 3,860		
SERP Plan:					
Service cost	\$ 469	\$ 146	\$ 330		
Interest cost	1,232	343	730		
Net amortization of losses and prior service costs			394		
SERP Plan expense	\$ 1,701	\$ 489	\$ 1,454		
Postretirement Plan:					
Service cost	\$ 14	\$ 4	\$ 8		
Interest cost	227	65	139		
Net amortization of losses (gains)			(5 )		
Postretirement expense	\$ 241	\$ 69	\$ 142		

**Purchase Accounting Adjustments.** The obligations and assets related to our benefit plans were valued at fair value as of the date of the Acquisition as follows:

(in thousands)	Pension Plan	SERP Plan	Postretirement Plan
Benefit obligations at fair value (5.75% discount rate)	\$ 354,807	\$ 76,806	\$ 15,281
Assets held by defined benefit pension plan, at fair value	287,871		
Excess of benefit obligations over plan assets	66,936	76,806	15,281
Less: previously recorded benefit plan obligations recorded by Predecessor	(19,655 )	(63,540 )	(18,205 )
Adjustment to increase benefit plan obligations	\$ 47,281	\$ 13,266	\$ (2,924 )

**Funding Policy and Plan Assets.** Our policy is to fund the Pension Plan at or above the minimum required by law. Based upon currently available information, we will not be required to make contributions to the Pension Plan for the 2007 plan year; however, we could decide to make a voluntary contribution based on our evaluation of the Pension Plan.

12. Segments

We have identified two reportable segments: Specialty Retail stores and Direct Marketing. The Specialty Retail stores segment includes all Neiman Marcus and Bergdorf Goodman retail stores, including Neiman Marcus clearance stores. The Direct Marketing segment conducts both online and print catalog operations under the Neiman Marcus, Bergdorf Goodman and Horchow brand names.

Both the Specialty Retail stores and Direct Marketing segments derive their revenues from the sales of high-end fashion apparel, accessories, cosmetics and fragrances from leading designers, precious and fashion jewelry and decorative home accessories.

Operating earnings for the segments include 1) revenues, 2) cost of sales, 3) direct selling, general, and administrative expenses, 4) other direct operating expenses, 5) income from credit card operations and 6) depreciation expense for the respective segment. Items not allocated to our operating segments include those items not considered by management in measuring the assets and profitability of our segments. These amounts include 1) corporate expenses including, but not limited to, treasury, investor relations, legal and finance support services, and general corporate management, 2) charges related to the application of purchase accounting adjustments made in connection with the Acquisition including amortization of customer lists and favorable lease commitments and other non-cash valuation charges and 3) interest expense. These items, while often times related to the operations of a segment, are not considered by segment operating management, corporate operating management and the chief operating decision maker in assessing segment operating performance. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies (except with respect to purchase accounting adjustments not allocated to the operating segments). Our senior management evaluates the performance of our assets on a consolidated basis.

19

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The following tables set forth the information for our reportable segments:

(in thousands)	Thirteen weeks ended October 28, 2006 (Successor)	Four weeks ended October 29, 2005 (Successor)	Nine weeks ended October 1, 2005 (Predecessor)
<b>REVENUES:</b>			
Specialty Retail stores	\$ 879,932	\$ 262,410	\$ 544,857
Direct Marketing	159,279	51,402	87,515
Total	\$ 1,039,211	\$ 313,812	\$ 632,372
<b>OPERATING EARNINGS:</b>			
Specialty Retail stores	\$ 156,577	\$ 44,065	\$ 91,372
Direct Marketing	20,798	6,414	8,246
Subtotal	177,375	50,479	99,618
Corporate expenses	(9,276 )	(3,984 )	(5,811 )
Amortization of customer lists and favorable lease commitments	(18,034 )	(4,808 )	)
Non-cash charges related to other valuation adjustments made in connection with the Acquisition		(7,011 )	)
Other income (1)	4,210		
Transaction and other costs			(23,544 )
Total	\$ 154,275	\$ 34,676	\$ 70,263
<b>CAPITAL EXPENDITURES:</b>			
Specialty Retail stores	\$ 38,217	\$ 20,293	\$ 22,784
Direct Marketing	3,202	1,703	2,791
Total	\$ 41,419	\$ 21,996	\$ 25,575
<b>DEPRECIATION EXPENSE:</b>			
Specialty Retail stores	\$ 28,941	\$ 7,846	\$ 16,970
Direct Marketing	3,070	765	1,836
Other		(110 )	) 403
Subtotal	32,011	8,501	19,209
Depreciation expense on step-up of fixed assets made in connection with the Acquisition	1,164	821	
Total	\$ 33,175	\$ 9,322	\$ 19,209

(1) Other income represents the proceeds we received in settlement of our cost method investment in an internet retailer. We had previously reduced our carrying value in this investment to zero.



13. Commitments and Contingencies

**Long-term Incentive Plan.** Following the consummation of the Transactions, the Company created a long-term incentive plan (Long-term Incentive Plan) that provides for a cash incentive payable upon a change of control, as defined, subject to the attainment of certain performance objectives to employees who have historically been eligible for stock-based compensation. Performance objectives and targets are based on cumulative EBITDA percentages for three year periods beginning in fiscal year 2006. Earned awards for each completed performance period will be credited to a book account and will earn interest at the rate of 5% annually until the award is paid. Awards will be paid within 30 days of a change of control or the first day there is a public market of at least 20% of total outstanding common stock.

**Cash Incentive Plan.** Following the consummation of the Transactions, the Company also adopted a cash incentive plan (Cash Incentive Plan) to aid in the retention of certain key executives. The Cash Incentive Plan provides for the creation of a \$14 million cash bonus pool to be shared by all participants based on the number of vested and unvested stock options and underlying shares that were granted pursuant to the Management Equity Incentive Plan. Each participant in the Cash Incentive Plan will be entitled to a cash bonus upon the earlier to occur of a change of control or an initial public offering, as defined in the Cash Incentive Plan, provided that the internal rate of return to the Sponsors is positive.

**Litigation.** We are currently involved in various legal actions and proceedings that arose in the ordinary course of business. We believe that any liability arising as a result of these actions and proceedings will not have a material adverse effect on our financial position, results of operations or cash flows.

14. Condensed Consolidating Financial Information (with respect to NMG's obligations under the Senior Notes and the Senior Subordinated Notes)

All of NMG's obligations under the Senior Notes and the Senior Subordinated Notes, as well as its obligations under the Asset-Based Revolving Credit Facility and the Senior Secured Term Loan Facility, are guaranteed by the Company and certain of NMG's existing and future domestic subsidiaries (principally, Bergdorf Goodman, Inc. through which NMG conducts the operations of its Bergdorf Goodman stores and NM Nevada Trust which holds legal title to certain real property and intangible assets used by the Company in conducting its operations). Non-guarantor subsidiaries consist principally of Kate Spade LLC and the Neiman Marcus Funding Corporation through which the Company previously conducted its credit card operations prior to the Credit Card Sale. The guarantees by the Company and each subsidiary guarantor are full and unconditional and joint and several.

The following condensed consolidating financial information represents the financial information of Neiman Marcus, Inc. and its wholly-owned subsidiary guarantors, prepared on the equity basis of accounting. The information is presented in accordance with the requirements of Rule 3-10 under the Securities and Exchange Commission's Regulation S-X. The financial information may not necessarily be indicative of results of operations, cash flows or financial position had the subsidiary guarantors operated as independent entities.

	October 28, 2006 (Successor)					
(in thousands)	Company	NMG	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$	\$ 157,589	\$ 981	\$ 860	\$	\$ 159,430
Accounts receivable, net of allowance		36,484	5,498	3,681	544	46,207
Merchandise inventories		870,900	100,892	7	(497)	971,302
Other current assets		68,506	7,422			75,928
Current assets of discontinued operations				16,354		16,354
Total current assets		1,133,479	114,793	20,902	47	1,269,221
Property and equipment, net		884,142	151,609	2,387		1,038,138
Goodwill and intangibles, net		1,990,447	2,215,276			4,205,723
Other assets		109,592	195	4		109,791
Investments in subsidiaries	1,449,207	2,421,126			(3,870,333)	
Non-current assets of discontinued operations				79,297		79,297
Total assets	\$ 1,449,207	\$ 6,538,786	\$ 2,481,873	\$ 102,590	\$ (3,870,286)	\$ 6,702,170
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>						
Current liabilities:						
Accounts payable	\$	\$ 283,593	\$ 31,773	\$ 4,302	\$ 544	\$ 320,212
Accrued liabilities		358,791	70,751	445	1,308	431,295
Notes payable and current maturities of long-term liabilities		4,179				4,179
Current liabilities of discontinued operations				28,565		28,565
Total current liabilities		646,563	102,524	33,312	1,852	784,251
Long-term liabilities:						
Long-term debt		3,195,760				3,195,760

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Deferred income taxes		1,031,959					1,031,959
Other long-term liabilities		215,297	6,964	4			222,265
Non-current liabilities of discontinued operations					12,735		12,735
Total long-term liabilities		4,443,016	6,964	12,739			4,462,719
Minority interest						5,993	5,993
Total shareholders' equity	1,449,207	1,449,207	2,372,385	56,539	(3,878,131)		1,449,207
Total liabilities and shareholders' equity	\$ 1,449,207	\$ 6,538,786	\$ 2,481,873	\$ 102,590	\$ (3,870,286)		\$ 6,702,170

22

	July 29, 2006 (Successor)					
(in thousands)	Company	NMG	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$	\$ 222,308	\$ 986	\$ 446	\$	\$ 223,740
Accounts receivable, net of allowance		22,189	3,750	3,681	544	30,164
Merchandise inventories		711,443	84,252	7	(2,081)	793,621
Other current assets		67,170	4,544			71,714
Current assets of discontinued operations				16,617		16,617
Total current assets		1,023,110	93,532	20,751	(1,537)	1,135,856
Property and equipment, net		875,725	152,109	2,445		1,030,279
Goodwill and intangibles, net		2,007,770	2,215,987			4,223,757
Other assets		124,929	389	5		125,323
Investments in subsidiaries	1,427,667	2,429,916			(3,857,583)	
Non-current assets of discontinued operations				92,746		92,746
Total assets	\$ 1,427,667	\$ 6,461,450	\$ 2,462,017	\$ 115,947	\$ (3,859,120)	\$ 6,607,961
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>						
Current liabilities:						
Accounts payable	\$	\$ 263,800	\$ 31,835	\$ 4,260	\$ 544	\$ 300,439
Accrued liabilities		310,551	67,340	77		377,968
Notes payable and current maturities of long-term liabilities		3,887				3,887
Current liabilities of discontinued operations				16,764		16,764
Total current liabilities		578,238	99,175	21,101	544	699,058
Long-term liabilities:						
Long-term debt		3,195,711				3,195,711
Deferred income taxes		1,048,925				1,048,925
Other long-term liabilities		210,909	6,597	5		217,511
Non-current liabilities of discontinued operations				12,775		12,775
Total long-term liabilities		4,455,545	6,597	12,780		4,474,922
Minority interest					6,314	6,314
Total shareholders equity	1,427,667	1,427,667	2,356,245	82,066	(3,865,978)	1,427,667
Total liabilities and shareholders equity	\$ 1,427,667	\$ 6,461,450	\$ 2,462,017	\$ 115,947	\$ (3,859,120)	\$ 6,607,961

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	October 29, 2005 (Successor)					
(in thousands)	Company	NMG	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$	\$ 189,699	\$ 1,128	\$ 705	\$	\$ 191,532
Reserved cash		134,734				134,734
Accounts receivable, net of allowance		14,222	4,988	3,357	548	23,115
Merchandise inventories		854,897	104,198	8		959,103
Other current assets		88,366	6,414			94,780
Current assets of discontinued operations				39,843		39,843
Total current assets		1,281,918	116,728	43,913	548	1,443,107
Property and equipment, net		934,015	158,750	2,638		1,095,403
Goodwill and intangibles, net		1,961,473	2,226,843			4,188,316
Other assets		118,643	526	4		119,173
Investments in subsidiaries	1,411,681	2,521,114			(3,932,795 )	
Non-current assets of discontinued operations				140,416		140,416
Total assets	\$ 1,411,681	\$ 6,817,163	\$ 2,502,847	\$ 186,971	\$ (3,932,247 )	\$ 6,986,415
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>						
Current liabilities:						
Accounts payable	\$	\$ 295,397	\$ 34,969	\$ 4,183	\$ 548	\$ 335,097
Accrued liabilities		258,516	64,048	(190 )		322,374
Notes payable and current maturities of long-term liabilities		200				200
Senior notes due 2008		134,734				134,734
Current liabilities of discontinued operations				35,580		35,580
Total current liabilities		688,847	99,017	39,573	548	827,985
Long-term liabilities:						
Long-term debt		3,445,565				3,445,565
Deferred income taxes		1,106,419				1,106,419
Other long-term liabilities		164,651	5,171	4		169,826
Non-current liabilities of discontinued operations				13,188		13,188
Total long-term liabilities		4,716,635	5,171	13,192		4,734,998
Minority interest					11,751	11,751
Total shareholders equity	1,411,681	1,411,681	2,398,659	134,206	(3,944,546 )	1,411,681
Total liabilities and shareholders equity						