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

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

OR

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

ENERGY PARTNERS, LTD.

(Exact Name of Registrant as Specified in Its Charter)

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

(504) 569-1875

(Registrant s telephone number, including area code)

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

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

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

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

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

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

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PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS.

ENERGY PARTNERS, LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

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

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

See accompanying notes to condensed consolidated financial statements.

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ENERGY PARTNERS, LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

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

See accompanying notes to condensed consolidated financial statements.

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ENERGY PARTNERS, LTD. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

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

See accompanying notes to condensed consolidated financial statements.

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ENERGY PARTNERS, LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(1) BASIS OF PRESENTATION

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

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

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

Recent Events Bankruptcy

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

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

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

(2) EARNINGS PER SHARE

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

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(3) SUBSEQUENT EVENTS, LIQUIDITY AND CAPITAL RESOURCES

Background to the Chapter 11 Cases

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

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

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

MMS Order and Term Sheet. We received an order from the Minerals Management Service (MMS) dated March 23, 2009 (the MMS Order). The MMS is part of the United States Department of the Interior. The MMS Order demanded that we provide to the MMS bonds or other acceptable security in the aggregate amount of $34.7 million to secure plugging and abandonment liabilities associated with all of our properties on federal leases in the Gulf of Mexico, with the first installment payment of $1.2 million due no later than March 31, 2009, an additional installment payment of $1.2 million due no later than June 30, 2009 and the remaining $32.3 million due no later than July 31, 2009. The MMS Order also required us to immediately shut-in production from all of our wells and facilities located in South Pass Blocks 27 and 28 in the federal portion of our East Bay field, while properly maintaining these facilities and wells with essential personnel. We promptly completed the shut-in of our federal East Bay facilities before the end of March 2009. After further discussions with the MMS, the MMS has requested that three of our unit wells producing in East Bay be shut-in, further to compliance with the MMS Order affecting our federal leases in East Bay. This subsequent shut-in occurred on August 14, 2009. The MMS has acknowledged, however, that production from these three unit wells held the leases while they were producing. Because federal leases would normally terminate if there is no production for 180 consecutive days, the affected leases could e