

Edgar Filing: ENERGY PARTNERS LTD - Form 10-Q

ENERGY PARTNERS LTD  
Form 10-Q  
November 10, 2005

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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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, 2005

OR

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

Commission file number 001-16179

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ENERGY PARTNERS, LTD.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction  
of incorporation or organization)

72-1409562  
(I.R.S. employer  
identification number)

700 Louisiana, Suite 2100 Houston, Texas  
(Address of temporary principal executive offices)

77002  
(Zip code)

Registrant's telephone number, including area code: (713) 228-0711

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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 is an accelerated filer (as  
defined by Rule 12b-2 of the Exchange Act). Yes ☒ No ☐

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

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As of November 4, 2005, there were 37,979,413 shares of the Registrant's Common Stock, par value \$0.01 per share, outstanding.

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#### ITEM 1. FINANCIAL STATEMENTS

##### ENERGY PARTNERS, LTD. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS (IN THOUSANDS, EXCEPT SHARE DATA)

September 30, 2005	Dece
-----	-----
(Unaudited)	

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## ASSETS

### Current assets:

Cash and cash equivalents .....	\$ 51,011	\$
Trade accounts receivable .....	45,754	
Other receivables .....	12,422	
Deferred tax assets .....	10,306	
Prepaid expenses .....	4,461	

Total current assets .....	123,954	1
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### Property and equipment, at cost under the successful efforts

method of accounting for oil and natural gas properties .....	1,155,726	7
Less accumulated depreciation, depletion and amortization .....	(389,834)	(3)

Net property and equipment .....	765,892	4
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Other assets .....	16,811	
--------------------	--------	--

### Deferred financing costs -- net of accumulated amortization

of \$4,920 in 2005 and \$4,174 in 2004 .....	4,391	
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\$ 911,048	\$ 6
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## LIABILITIES AND STOCKHOLDERS' EQUITY

### Current liabilities:

Accounts payable .....	\$ 47,050	\$
Accrued expenses .....	118,365	
Fair value of commodity derivative instruments .....	26,502	
Current maturities of long-term debt .....	137	

Total current liabilities .....	192,054	
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Long-term debt .....	225,000	1
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Deferred tax liabilities .....	73,787	
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Asset retirement obligation .....	54,093	
-----------------------------------	--------	--

Other .....	12,981	
-------------	--------	--

557,915	3
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### Stockholders' equity:

Preferred stock, \$1 par value. Authorized 1,700,000 shares;

issued and outstanding: 2005 - no shares; 2004 - 344,399

shares. Aggregate liquidation value: 2004 - \$34,440 .....	--	
--	----	--

Common stock, par value \$0.01 per share. Authorized 50,000,000

shares; issued and outstanding: 2005 - 41,445,697 shares;

2004 - 36,618,084 shares .....	415	
--------------------------------	-----	--

Additional paid-in capital .....	347,289	2
----------------------------------	---------	---

Accumulated other comprehensive loss -- net of deferred taxes of

\$13,726 in 2005 and \$630 in 2004 .....	(24,402)	
--	----------	--

Retained earnings .....	87,263	
-------------------------	--------	--

Treasury stock, at cost. 2005 -- 3,474,208 shares; 2004 -- 3,480,441

shares .....	(57,432)	(
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Total stockholders' equity .....	353,133	3
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Commitments and contingencies

\$ 911,048	\$ 6
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See accompanying notes to consolidated financial statements.

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## ENERGY PARTNERS, LTD. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED) (IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended September 30,		Nine Months Ended September 30,
	2005	2004	2005
Revenue:			
Oil and natural gas .....	\$91,977	\$73,997	\$295,660
Other .....	72	120	212
	92,049	74,117	295,872
Costs and expenses:			
Lease operating .....	14,163	10,550	40,720
Transportation expense .....	288	59	796
Taxes, other than on earnings .....	2,836	2,129	8,250
Exploration expenditures and dry hole costs .....	23,313	9,998	52,940
Depreciation, depletion and amortization .....	26,278	25,309	79,437
General and administrative:			
Stock-based compensation .....	2,460	1,035	6,210
Other general and administrative .....	7,761	6,656	24,060
Total costs and expenses .....	77,099	55,736	212,422
Income from operations .....	14,950	18,381	83,450
Other income (expense):			
Interest income .....	223	322	515
Interest expense .....	(4,929)	(3,602)	(13,310)
	(4,706)	(3,280)	(12,795)
Income before income taxes .....	10,244	15,101	70,655
Income taxes .....	(3,724)	(5,532)	(25,470)
Net income .....	6,520	9,569	44,990
Less dividends earned on preferred stock and accretion of discount and issuance costs .....	--	(823)	(940)
Net income available to common stockholders .....	\$ 6,520	\$ 8,746	\$ 44,050
Basic earnings per share .....	\$ 0.17	\$ 0.27	\$ 1.20
Diluted earnings per share .....	\$ 0.16	\$ 0.25	\$ 1.10
Weighted average common shares used in Computing income per share:			
Basic .....	37,779	32,992	36,790
Incremental common shares			

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Preferred stock .....	--	4,057	72
Stock options .....	846	671	91
Warants .....	2,077	1,141	1,96
Restricted share units .....	243	43	20
	-----	-----	-----
Diluted .....	40,945	38,904	40,61
	=====	=====	=====

See accompanying notes to consolidated financial statements.

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## ENERGY PARTNERS, LTD. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (In thousands)

	Nine Months Ended September 30,	
	2005	2004
	-----	-----
Cash flows from operating activities:		
Net income .....	\$ 44,991	\$ 31,671
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization .....	79,430	66,261
Loss on disposition of oil and natural gas assets ...	92	--
Non cash-based compensation .....	6,267	2,603
Deferred income taxes .....	25,128	18,072
Exploration expenditures .....	41,208	19,540
Amortization of deferred financing costs .....	746	682
Other .....	674	104
Changes in operating assets and liabilities:		
Trade accounts receivable .....	13,587	(5,599)
Other receivables .....	(6,822)	(7,251)
Prepaid expenses .....	(2,176)	(1,107)
Other assets .....	(1,731)	(682)
Accounts payable and accrued expenses .....	52,391	2,658
Other liabilities .....	(114)	(2,065)
	-----	-----
Net cash provided by operating activities.....	253,671	124,887
	-----	-----
Cash flows used in investing activities:		
Acquisition of business, net of cash acquired .....	(863)	(2,166)
Property acquisitions .....	(187,137)	(6,076)
Exploration and development expenditures .....	(189,278)	(117,329)
Other property and equipment additions .....	(1,389)	(444)
	-----	-----
Net cash used in investing activities .....	(378,667)	(126,015)
	-----	-----
Cash flows provided by financing activities:		
Repayments of long-term debt .....	(53,080)	(173)

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Deferred financing costs .....	(357)	(725)
Equity offering costs .....	(87)	--
Proceeds from long-term debt .....	128,000	(1,212)
Exercise of stock options and warrants .....	7,994	3,094
	-----	-----
Net cash provided by financing activities .....	82,470	984
	-----	-----
Net decrease in cash and cash equivalents .....	(42,526)	(144)
Cash and cash equivalents at beginning of period .....	93,537	104,392
	-----	-----
Cash and cash equivalents at end of period .....	\$ 51,011	\$ 104,248
	=====	=====

See accompanying notes to consolidated financial statements.

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

#### (1) BASIS OF PRESENTATION

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. These financial statements and footnotes should be read in conjunction with the financial statements and notes thereto included in Energy Partners, Ltd.'s (the Company) Annual Report on Form 10-K for the year ended December 31, 2004 and Management's Discussion and Analysis of Financial Condition and Results of Operations. The Company maintains a website at [www.eplweb.com](http://www.eplweb.com) which contains information about the Company including links to the Company's Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all related amendments. The Company's website and the information contained in it and connected to it shall not be deemed incorporated by reference into this report on Form 10-Q.

The financial information as of September 30, 2005 and for the three and nine month periods ended September 30, 2005 and 2004 has not been audited. However, in the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the results of operations for the periods presented have been included therein. The results of operations 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) STOCK-BASED COMPENSATION

The Company has two stock award plans, the Amended and Restated 2000 Long Term Stock Incentive Plan, as amended, and the Amended and Restated 2000 Stock Incentive Plan for Non-Employee Directors (the Plans). The Company accounts for its stock-based compensation in accordance with Accounting Principles Board's Opinion No. 25, "Accounting For Stock Issued to Employees" (Opinion No. 25). Statement of Financial Accounting Standards No. 123 (Statement 123), "Accounting For Stock-Based Compensation" and Statement of Financial Accounting Standards No. 148, "Accounting For Stock-Based Compensation - Transition and Disclosure," (Statement 148) permit the continued use of the intrinsic value-based method prescribed by Opinion No. 25, but require additional disclosures, including

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pro-forma calculations of earnings and net earnings per share as if the fair value method of accounting prescribed by Statement 123 had been applied. If compensation expense for the Plans had been determined using the fair-value method in Statement 123, the Company's net income and earnings per share would have been as shown in the pro forma amounts below:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2005	2004	2005	2004
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)			
Net income available to common stockholders:				
As reported .....	\$6,520	\$8,746	\$44,047	\$29,098
Less: Pro forma net stock based employee compensation cost, after tax .....	(485)	(967)	(655)	(1,337)
Pro forma .....	\$6,035	\$7,779	\$43,392	\$27,761
Basic earnings per share:				
As reported .....	\$ 0.17	\$ 0.27	\$ 1.20	\$ 0.89
Pro forma .....	\$ 0.16	\$ 0.24	\$ 1.18	\$ 0.85
Diluted earnings per share:				
As reported .....	\$ 0.16	\$ 0.25	\$ 1.11	\$ 0.82
Pro forma .....	\$ 0.15	\$ 0.22	\$ 1.09	\$ 0.79
Stock-option based employee compensation cost, net of tax, included in net income as reported ..	\$ --	\$ --	\$ 468	\$ 340

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

#### (3) ACQUISITIONS

In connection with the acquisition of a Company in 2002, the Company issued among other things, \$38.4 million liquidation preference of newly authorized and issued Series D Exchangeable Convertible Preferred Stock (the Series D Preferred Stock), with an issue date fair value of \$34.7 million discounted to give effect to the increasing dividend rate, and \$38.4 million of 11% Senior Subordinated Notes (the Notes) due 2009 (immediately callable at par). On February 28, 2005, the Company gave notice of the redemption of all of the Series D Preferred Stock issued in connection with the acquisition that remained outstanding on the redemption date of March 21, 2005. The redemption price was \$100 per share plus accrued and unpaid dividends to the redemption date. Holders of record had the right to convert their shares into shares of common stock through the close of business on March 18, 2005. All holders exercised their right to convert their shares and there were no preferred shares outstanding as of the close of business on March 18, 2005.

The Company also issued warrants to purchase four million shares of the Company's common stock in the same business combination. Of the warrants, one million had a strike price of \$9.00 and three million had a strike price of \$11.00 per share. The warrants became exercisable on January 15, 2003 and expire

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on January 15, 2007. At September 30, 2005 there were 755,341 warrants outstanding with a strike price of \$9.00 per share and 2,673,124 warrants outstanding with a strike price of \$11.00 per share.

In addition, former preferred stockholders of the acquired company have the right to receive contingent consideration based upon a percentage of the amount by which the before tax net present value of proved reserves related, in general, to exploratory prospect acreage held by the acquired company as of the closing date of the acquisition (the Ring-Fenced Properties) exceeds the net present value discounted at 30%. The potential consideration is determined annually from March 3, 2003 until March 1, 2007. The cumulative percentage remitted to the participants was 20% for the March 3, 2003, 30% for the March 1, 2004 and 35% for the March 1, 2005 determination dates and is 40% for the March 1, 2006 and 50% for the March 1, 2007 determination dates. The contingent consideration, if any, may be paid in the Company's common stock or cash at the Company's option (with a minimum of 20% in cash) and in no event will exceed a value of \$50 million. In the first nine months of 2005 and 2004, the Company capitalized, as additional purchase price, and paid additional consideration in cash, of \$0.9 million and \$2.2 million related to the March 1, 2005 and the March 1, 2004 contingent consideration determination dates, respectively. Due to the uncertainty inherent in estimating the value of future contingent consideration which includes annual revaluations based upon, among other things, drilling results from the date of the prior revaluation, and development, operating and abandonment costs and production revenues (actual historical and future projected, as contractually defined, as of each revaluation date) for the Ring-Fenced Properties, total final consideration will not be determined until March 1, 2007. All additional contingent consideration will be capitalized as additional purchase price.

On January 20, 2005, the Company closed an acquisition of properties and reserves in south Louisiana for approximately \$148.1 million in cash, after adjustments for the exercise of preferential rights by third parties and preliminary closing adjustments. The entire purchase price was allocated to property and equipment. The terms of the acquisition did not contain any contingent consideration, options or future commitments. The acquisition was composed of nine fields, four of which were producing at the time of the closing through 14 wells, with estimated acquisition date proved reserves of 51.2 billion cubic feet equivalent. Also included were interests in 22 exploratory prospects. The transaction expands the Company's exploration opportunities in its expanded focus area and further reduces the concentration of its reserves and production. Upon the signing of the purchase agreement, the Company paid a \$5.0 million deposit in 2004 toward the purchase price which was recorded as other assets in the consolidated balance sheet at December 31, 2004. Concurrent with the closing, the borrowing base under the Company's bank credit facility was increased to \$150 million, of which \$60 million was drawn to fund the acquisition. In connection with the acquisition, the Company has also entered into a two-year agreement with the seller of the properties that defines an area of mutual interest (AMI) encompassing over one million acres. The Company intends to continue to explore and develop oil and natural gas reserves in the AMI over that two year period jointly with the seller. The proved reserves, prospects and AMI are in the southern portions of Terrebone, Lafourche and Jefferson Parishes in Louisiana.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED) (UNAUDITED)

The following unaudited pro forma information for the three and nine months



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ended September 30, 2004 presents a summary of the consolidated results of operations as if the acquisition occurred on January 1, 2004 with pro forma adjustments to give effect to depreciation, depletion and amortization, interest expense and related income tax effects.

	THREE MONTHS ENDED SEPTEMBER 30, 2004	NINE MONTHS ENDED SEPTEMBER 30, 2004
	-----	-----
	(UNAUDITED, IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	
Pro forma:		
Revenue .....	\$79,168	\$227,808
Income from operations .....	20,486	66,185
Net income .....	10,806	35,355
Basic income per common share ....	\$ 0.30	\$ 1.00
Diluted income per common share ..	\$ 0.28	\$ 0.92

On March 8, 2005, the Company closed the acquisition of the remaining 50% gross working interest in South Timbalier 26 above approximately 13,000 feet subsea that it did not already own for approximately \$21.0 million after preliminary closing adjustments from the effective date of December 1, 2004. The entire purchase price was allocated to property and equipment. The terms of the acquisition did not contain any contingent consideration, options or future commitments. As a result of the acquisition, the Company now owns a 100% gross working interest in the producing horizons in this field. The acquisition expands the Company's interest in its core Greater Bay Marchand area and gives the Company additional flexibility in undertaking the future development of the South Timbalier 26 field.

The Company has included the results of operations from the acquisitions discussed above from their respective closing dates. The Company has experienced substantial revenue and production growth as a result of these acquisitions. For the foregoing reasons these acquisitions will affect the comparability of the Company's historical results of operations with future periods.

#### (4) 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 conversion of convertible preferred stock shares, and the exercise of warrants and stock options and the potential shares associated with restricted share units that would have a dilutive effect on earnings per share.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED) (UNAUDITED)

#### (5) HEDGING ACTIVITIES

The Company enters into hedging transactions with major financial institutions to reduce exposure to fluctuations in the price of oil and natural

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gas. Any gains or losses resulting from the change in fair value from hedging transactions that are determined to be ineffective are recorded in other revenue, whereas gains and losses from the settlement of hedging contracts are recorded in oil and natural gas revenue in the statements of operations. Crude oil hedges are settled based on the average of the reported settlement prices for West Texas Intermediate crude on the New York Mercantile Exchange (NYMEX) for each month. Natural gas hedges are settled based on the average of the last three days of trading of the NYMEX Henry Hub natural gas contract for each month. The Company also uses financially-settled crude oil and natural gas swaps, zero-cost collars and options that provide floor prices with varying upside price participation.

With a financially-settled swap, the counterparty is required to make a payment to the Company if the settlement price for any settlement period is below the hedged price for the transaction, and the Company is required to make a payment to the counterparty if the settlement price for any settlement period is above the hedged price for the transaction. With a zero-cost collar, the counterparty is required to make a payment to the Company if the settlement price for any settlement period is below the floor price of the collar, and the Company is required to make a payment to the counterparty if the settlement price for any settlement period is above the cap price for the collar. In some hedges, we may modify our collar to provide full upside participation after a limited non-participation range.

The Company had the following hedging contracts as of September 30, 2005:

### NATURAL GAS POSITIONS

REMAINING CONTRACT TERM	CONTRACT TYPE	STRIKE PRICE (\$/MMBTU)	VOLUME (MMBTU)	
			DAILY	TOTAL
10/05 - 12/05.....	Collar	\$4.50/\$10.75	20,000	1,840,000
10/05 - 12/05.....	Collar	\$5.00/\$10.00	15,000	1,380,000
01/06 - 12/06.....	Collar	\$ 5.00/\$9.51	15,000	5,475,000
01/07 - 12/07.....	Collar	\$ 5.00/\$8.00	10,000	3,650,000

### CRUDE OIL POSITIONS

REMAINING CONTRACT TERM	CONTRACT TYPE	STRIKE PRICE (\$/BBL)	VOLUME (BBLs)	
			DAILY	TOTAL
10/05 - 12/05.....	Collar	\$31.00/\$44.05	2,000	184,000

Settlements of hedging contracts reduced crude oil revenues by \$3.5 million and \$6.2 million in the three and nine month periods ended September 30, 2005 and reduced natural gas revenues by \$0.1 million in each of the three and nine month periods ended September 30, 2005. The Company has not discontinued hedge accounting treatment in the periods presented, and therefore, has not reclassified gains or losses into earnings as a result.

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED) (UNAUDITED)

The following tables reconcile the change in accumulated other comprehensive income for the nine month periods ending September 30, 2005 and 2004.

	NINE MONTHS ENDED SEPTEMBER 30, 2005	
	----- (IN THOUSANDS)	
Accumulated other comprehensive loss as of December 31, 2004		\$ (1,119)
Net income.....	\$ 44,991	
Other comprehensive loss - net of tax		
Hedging activities		
Reclassification adjustments for settled contracts - net of taxes of \$(2,278).....	4,049	
Changes in fair value of outstanding hedging positions - net of taxes of \$15,375.....	(27,332)	
	-----	
Total other comprehensive loss.....	(23,283)	(23,283)
	-----	-----
Comprehensive income.....	\$ 21,708	
	=====	
Accumulated other comprehensive loss as of September 30, 2005.....		\$ (24,402)
		=====

	NINE MONTHS ENDED SEPTEMBER 30, 2004	
	----- (IN THOUSANDS)	
Accumulated other comprehensive loss as of December 31, 2003 .....		\$ (2,441)
Net income .....	\$31,671	
Other comprehensive loss - net of tax		
Hedging activities		
Reclassification adjustments for settled contracts - net of taxes of \$(3,172) .....	5,640	
Changes in fair value of outstanding hedging positions - net of taxes of \$5,363 .....	(9,534)	
	-----	
Total other comprehensive loss .....	(3,894)	(3,894)
	-----	-----
Comprehensive income.....	\$27,777	
	=====	
Accumulated other comprehensive loss as of September 30, 2004 .....		\$ (6,335)
		=====

Based upon current prices, the Company expects to transfer approximately \$26.5 million of pretax net deferred losses in accumulated other comprehensive loss as of September 30, 2005 to earnings during the next twelve months when the forecasted transactions actually occur.

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### (6) OIL AND GAS PROPERTIES

Effective July 1, 2005, the Company adopted Financial Accounting Standards Board Staff Position FAS 19-1, "Accounting for Suspended Well Costs" (FSP 19-1). FSP 19-1 amended Statement of Financial Accounting Standards No. 19, "Financial Accounting and Reporting by Oil and Gas Producing Companies" (Statement 19), to permit the continued capitalization of exploratory well costs beyond one year if (a) the well found a sufficient quantity of reserves to justify its completion as a producing well and (b) the entity is making sufficient progress assessing the reserves and the economic and operating viability of the project. During the quarter ended September 30, 2005, the Company adopted the requirements of FSP 19-1. During the Company's limited operating history it has not, and does not currently, drill in areas that require major capital expenditures before production can begin. Therefore,

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED) (UNAUDITED)

upon adoption, the Company evaluated all existing capitalized well costs under the provisions of FSP 19-1 and determined there was no impact to the Company's consolidated financial statements.

### (7) ASSET RETIREMENT OBLIGATION

Accounting and reporting standards require entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the carrying amount of the related long-lived asset. The following table reconciles the beginning and ending aggregate recorded amount of the asset retirement obligation for the nine months ended September 30, 2005.

#### NINE MONTHS ENDED SEPTEMBER 30, 2005

-----

(IN THOUSANDS)

December 31, 2004.....	\$45,064
Accretion expense.....	3,054
Liabilities incurred...	6,029
Liabilities settled....	(54)
	-----
September 30, 2005.....	\$54,093
	=====

### (8) COMMON STOCK

On July 16, 2004 the Company filed a universal shelf registration statement (Shelf Registration Statement) which allowed the Company to issue an aggregate of \$300 million in common stock, preferred stock, senior debt and subordinated debt in one or more separate offerings with the size, price and terms to be determined at the time of the sale. On November 10, 2004 the Company sold approximately 3.5 million shares of its common stock to the public pursuant to this shelf registration statement. Concurrent with this offering, the Company

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entered into a stock purchase agreement with Energy Income Fund, L.P. (EIF) in which it purchased approximately 3.5 million shares of common stock owned by EIF at a price per share equal to the net proceeds per share received in the offering, before expenses. The Company therefore did not retain any of the proceeds from this offering and the stock has been recorded as treasury stock on the consolidated balance sheet at cost. The Company restored the Shelf Registration Statement to \$300 million in May 2005. The Company has no immediate plans to enter into any additional transactions under this registration statement, but plans to use the proceeds of any further offering under the Shelf Registration Statement for general corporate purposes, which may include debt repayment, acquisitions, expansion and working capital.

### (9) INDEBTEDNESS

On August 5, 2003, the Company issued \$150 million of 8.75% Senior Notes Due 2010 (the Senior Notes) in a Rule 144A private offering (the Debt Offering) which allows unregistered transactions with qualified institutional buyers. In October 2003, the Company consummated an exchange offer pursuant to which it exchanged registered Senior Notes (the Registered Senior Notes) having substantially identical terms as the Senior Notes for the privately placed Senior Notes. After discounts and commissions and estimated offering expenses, the Company received \$145.3 million, which was used to redeem all of the outstanding 11% Senior Subordinated Notes Due 2009, that had been issued in connection with a business combination in 2002, and to repay substantially all of the borrowings outstanding under the Company's bank credit facility. In January 2005 the remainder of the net proceeds were used to purchase properties in south Louisiana as discussed in note (3).

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED) (UNAUDITED)

The Registered Senior Notes mature on August 1, 2010 with interest payable each February 1 and August 1, commencing February 1, 2004. The indenture relating to the Registered Senior Notes contains certain restrictions on the Company's ability to incur additional debt, pay dividends on its common stock, make investments, create liens on its assets, engage in transactions with its affiliates, transfer or sell assets and consolidate or merge substantially all of its assets. The Registered Senior Notes are not subject to any sinking fund requirements.

On August 3, 2004, the Company amended and extended to August 3, 2008 its bank credit facility. The borrowing base was increased to \$150 million at the time of the Company's purchase of south Louisiana properties and reserves in January 2005. At September 30, 2005 the Company had \$75.0 million outstanding under the bank credit facility. The borrowing base remains subject to redetermination based on the proved reserves of the oil and natural gas properties that serve as collateral for the bank credit facility as set out in the reserve report delivered to the banks each April 1 and October 1. The Company's borrowing base was reaffirmed effective November 1, 2005.

### (10) TROPICAL WEATHER

On August 29, 2005 Hurricane Katrina made landfall in the United States south of New Orleans causing catastrophic damage throughout portions of the Gulf of Mexico and to portions of Alabama, Louisiana and Mississippi, including New Orleans. As a result of the devastating effects of the storm on New Orleans and surrounding areas, the Company announced on August 30 that it had elected to

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establish temporary headquarters at its Houston, Texas office. A satellite office was also established in Baton Rouge, Louisiana. General and administrative costs associated with moving offices as well as relocation allowances paid to employees approximated \$1.0 million during the quarter and are recorded in other general and administrative expenses in the consolidated statement of operations.

On September 24, 2005 Hurricane Rita made landfall in the United States on the Texas/Louisiana border. This hurricane caused extensive damage throughout portions of the Gulf of Mexico region particularly to third party infrastructure such as pipelines and processing plants.

As a result of these two major hurricanes and two other hurricanes and a tropical storm that traversed the Gulf of Mexico and adjacent land areas in July 2005, nearly all of the Company's production was shut in at one time or another during the quarter and a significant portion of that production had not yet been restored as of the date of the filing of this Form 10-Q. The Company is continuing to work to bring production back to pre-storm levels, but is subject to constraints due to damage to third party infrastructure. The Company maintains business interruption insurance on its significant properties, including its East Bay field. Recovery of lost revenue for the East Bay field and the South Timbalier 26 field began accruing in October and recovery on the South Marsh Island 109 field is currently expected to begin accruing in November. Recovery will continue, including situations where production is shut-in due to third party constraints, until production is restored to pre-storm levels, subject to policy limits that the Company does not expect at this time to be reached. Total offshore repair costs expended as of September 30, 2005 for Hurricanes Katrina and Rita and Tropical Storm Cindy were \$7.5 million. Of this amount \$2.2 million represents uninsured amounts that are reflected in lease operating expenses and the remaining \$5.3 million is recorded in other receivables on the Company's consolidated balance sheet.

### (11) NEW ACCOUNTING PRONOUNCEMENTS

In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151 "Inventory Costs, an amendment of ARB No. 43, Chapter 4" (Statement 151). The amendments made by Statement 151 clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Earlier application is permitted for inventory costs incurred during fiscal years beginning after November 23, 2004. The Company's assessment of the provisions of Statement 151 is that it does not have an impact on the financial position, results of operations or cash flows of the Company.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED) (UNAUDITED)

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 153 "Exchanges of Non-monetary assets - an amendment of APB Opinion No. 29" (Statement 153). Statement 153 amends Accounting Principles Board (APB) Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are

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expected to change significantly as a result of the exchange. Statement 153 does not apply to a pooling of assets in a joint undertaking intended to fund, develop, or produce oil or natural gas from a particular property or group of properties. The provisions of Statement 153 shall be effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Early adoption is permitted and the provisions of Statement 153 should be applied prospectively. The Company's assessment of the provisions of Statement 153 is that it is not expected to have an impact on the financial position, results of operations or cash flows of the Company.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123-Revised 2004, "Share-Based Payment," (Statement 123R). This is a revision of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation", and supersedes APB No. 25, "Accounting for Stock Issued to Employees." The Company currently accounts for stock-based compensation under the provisions of APB No. 25. Under Statement 123R, the Company will be required to measure the cost of employee services received in exchange for stock based on the grant-date fair value (with limited exceptions). That cost will be recognized as expense over the period during which an employee is required to provide service in exchange for the award (usually the vesting period). The fair value will be estimated using an option-pricing model. Excess tax benefits, as defined in Statement 123R, will be recognized as an addition to paid-in capital. This will be effective for the Company as of the beginning of the first annual reporting period that begins after June 15, 2005. The Company is currently in the process of evaluating the impact of Statement 123R on its financial statements, including different option-pricing models. Note (2) illustrates the current effect on net income and earnings per share if the Company had applied the fair value recognition provisions of Statement 123.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections--a replacement of APB Opinion No. 20 and FASB Statement No. 3," (Statement 154). Statement 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to Statement 154. The provisions of Statement 154 shall be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

### (12) SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION

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

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED) (UNAUDITED)

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

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statements, although the Company believes that the disclosures made are adequate to make the information presented not misleading. Certain reclassifications were made to conform all of the financial information to the financial presentation on a consolidated basis. The principal eliminating entries eliminate investments in subsidiaries, intercompany balances and intercompany revenues and expenses.

## SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEET AS OF SEPTEMBER 30, 2005

	PARENT COMPANY ONLY	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONSOLIDATED
	-----	-----	-----	-----
	(IN THOUSANDS)			
ASSETS				
Current assets:				
Cash and cash equivalents .....	\$ 51,011	\$ --	\$ --	\$ 51,011
Accounts receivable .....	222,489	(164,313)	--	58,176
Other current assets .....	14,708	59	--	14,767
	-----	-----	-----	-----
Total current assets .....	288,208	(164,254)	--	123,954
Property and equipment .....	748,080	407,646	--	1,155,726
Less accumulated depreciation, depletion and amortization .....	(282,644)	(107,190)	--	(389,834)
	-----	-----	-----	-----
Net property and equipment .....	465,436	300,456	--	765,892
Investment in affiliates .....	96,995	--	(96,995)	--
Notes receivable, long-term .....	--	70,363	(70,363)	--
Other assets .....	21,223	(21)	--	21,202
	-----	-----	-----	-----
	\$ 871,862	\$ 206,544	\$ (167,358)	\$ 911,048
	=====	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable and accrued expenses ...	\$ 164,490	\$ 925	\$ --	\$ 165,415
Fair value of commodity derivative instruments .....	26,502	--	--	26,502
Current maturities of long-term debt ....	--	137	--	137
	-----	-----	-----	-----
Total current liabilities .....	190,992	1,062	--	192,054
Long-term debt .....	225,000	70,363	(70,363)	225,000
Other liabilities .....	102,737	38,124	--	140,861
	-----	-----	-----	-----
	518,729	109,549	(70,363)	557,915
Stockholders' equity:				
Common stock .....	415	--	--	415
Additional paid-in capital .....	347,289	--	--	347,289
Accumulated other comprehensive loss ....	(24,402)	--	--	(24,402)
Retained earnings .....	87,263	96,995	(96,995)	87,263
Treasury stock .....	(57,432)	--	--	(57,432)
	-----	-----	-----	-----
Total stockholders' equity .....	353,133	96,995	(96,995)	353,133
	-----	-----	-----	-----
	\$ 871,862	\$ 206,544	\$ (167,358)	\$ 911,048
	=====	=====	=====	=====



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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED) (UNAUDITED)

### SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS NINE MONTHS ENDED SEPTEMBER 30, 2005

	PARENT COMPANY ONLY	GUARANTOR SUBSIDIARIES	ELIMINATIONS	CONS
	-----	-----	-----	-----
	(IN THOUSANDS)			
Revenue:				
Oil and natural gas .....	\$208,198	\$87,462	\$ --	\$2
Other .....	23,818	286	(24,081)	
	-----	-----	-----	-----
	232,016	87,748	(24,081)	2
Costs and expenses:				
Lease operating expenses .....	32,110	9,403	--	
Taxes, other than on earnings .....	1,598	6,660	--	
Exploration expenditures .....	34,710	18,230	--	
Depreciation, depletion and amortization ....	51,084	28,346	--	
General and administrative .....	29,266	12,267	(11,250)	
	-----	-----	-----	-----
Total costs and expenses .....	148,768	74,906	(11,250)	2
Income from operations .....	83,248	12,842	(12,831)	
Interest expense, net .....	(12,783)	(11)	--	(
	-----	-----	-----	-----
Income before income taxes .....	70,465	12,831	(12,831)	
Income taxes .....	(25,474)	--	--	(
	-----	-----	-----	-----
Net income .....	\$ 44,991	\$12,831	\$ (12,831)	\$
	=====	=====	=====	=====

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## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED) (UNAUDITED)

### SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS NINE MONTHS ENDED SEPTEMBER 30, 2005

PARENT COMPANY ONLY	GUARANTOR SUBSIDIARIES	ELIMINATIONS	C
-----	-----	-----	-----

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(IN THOUSANDS)

Net cash provided by operating activities .....	\$ 25,947	\$ 227,724	\$ --
Cash flows used in investing activities:			
Acquisition of business, net of cash acquired .....	(863)	--	--
Property acquisitions .....	(45,300)	(141,837)	--
Exploration and development expenditures .....	(103,471)	(85,807)	--
Other property and equipment additions .....	(1,389)	--	--
	-----	-----	-----
Net cash used in investing activities .....	(151,023)	(227,644)	--
	-----	-----	-----
Cash flows provided by financing activities:			
Deferred financing costs .....	(357)	--	--
Repayments of long-term debt .....	(53,000)	(80)	--
Equity offering costs .....	(87)	--	--
Proceeds from long-term debt .....	128,000	--	--
Exercise of stock options and warrants .....	7,994	--	--
	-----	-----	-----
Net cash provided by financing activities .....	82,550	(80)	--
	-----	-----	-----
Net decrease in cash and cash equivalents .....	(42,526)	--	--
Cash and cash equivalents at beginning of period ..	93,537	--	--
	-----	-----	-----
Cash and cash equivalents at end of period .....	\$ 51,011	\$ --	\$ --
	=====	=====	=====

## (13) CONTINGENCIES

In the ordinary course of business, the Company is a defendant in various legal proceedings. The Company does not expect its exposure in these proceedings, individually or in the aggregate, to have a material adverse effect on the financial position, results of operations or liquidity of the Company.

## (14) RECLASSIFICATIONS

Certain reclassifications have been made to the prior period financial statements in order to conform to the classification adopted for reporting in fiscal 2005.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### OVERVIEW

We were incorporated 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 shallow to moderate depth waters of the Gulf of Mexico Shelf and the Gulf Coast onshore region.

While the impacts of Hurricane Katrina and Rita were significant, during the first nine months of 2005 we still made progress toward implementing our long-term growth strategy. Our strong cash flow provided us the flexibility to

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make necessary and appropriate investments to continue our strategy. Our long-term strategy is to increase our oil and natural gas reserves and production while keeping our finding and development costs and operating costs competitive with our industry peers. We will implement this strategy through drilling exploratory wells from our inventory of available prospects that we have evaluated for geologic and mechanical risk and future reserve or resource potential, through drilling development wells and working over and recompleting existing wells, entering into farmout agreements and by making acquisitions. Our drilling program contains some higher risk, higher reserve potential opportunities as well as some lower risk, lower reserve potential opportunities, in order to achieve a balanced program of reserve and production growth.

We use the successful efforts method of accounting for our investment in oil and natural gas properties. 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 the well is determined not to have found reserves in commercial quantities. Seismic, geological and geophysical and delay rental expenditures are expensed as they are incurred. We conduct many of our 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 annual report on Form 10-K for the fiscal year ended December 31, 2004, includes a discussion of our critical accounting policies, which have not changed significantly since the end of the fiscal year.

On August 5, 2003, we issued \$150 million of 8.75% Senior Notes Due 2010 in a Rule 144A private offering (the "Debt Offering") which allows unregistered transactions with qualified institutional buyers. In October 2003, we consummated an exchange offer pursuant to which we exchanged registered 8.75% Senior Notes Due 2010 having substantially identical terms for the privately placed 8.75% Senior Notes due 2010. After discounts and commissions and estimated offering expenses, we received \$145.3 million, which was used to (i) redeem all of our outstanding 11% Senior Subordinated Notes Due 2009 (the "Notes"), which had been issued in connection with a business combination in 2002, and (ii) repay substantially all of the borrowings outstanding under our bank credit facility. In January 2005 the remainder of the net proceeds were used to purchase properties in south Louisiana.

On July 16, 2004, we filed a universal shelf registration statement (the "Registration Statement") which allowed us to issue an aggregate of \$300 million in common stock, preferred stock, senior debt and subordinated debt in one or more separate offerings with the size, price and terms to be determined at the time of the sale. On November 10, 2004 we sold approximately 3.5 million shares of our common stock to the public pursuant to the Registration Statement. Concurrent with this offering, we entered into a stock purchase agreement with Energy Income Fund, L.P. ("EIF") pursuant to which we purchased an equal number of shares of common stock owned by EIF at a price per share equal to the proceeds per share received in the offering, before expenses. We did not retain any of the proceeds from the offering and the shares are now held as treasury shares, at cost. We restored the Registration Statement to \$300 million in May 2005. We have no immediate plans to enter into any additional transactions under the Registration Statement, but plan to use the proceeds of any future offering under the Registration Statement for general corporate purposes, which may include debt repayment, acquisitions, expansion and working capital.

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credit facility. The borrowing base was increased to \$150 million at the time of our purchase of south Louisiana properties and reserves in January 2005. At September 30, 2005 the Company had \$75.0 million outstanding under the bank credit facility. The borrowing base remains subject to redetermination based on the proved reserves of the oil and natural gas properties that serve as collateral for the bank credit facility. The Company's borrowing base was reaffirmed effective November 1, 2005.

On January 20, 2005, we closed an acquisition of properties and reserves in south Louisiana for \$148.1 million in cash, after adjustments for the exercise of preferential rights by third parties and preliminary closing adjustments. The acquisition was composed of nine fields, four of which were producing at the time of the closing through 14 wells, with estimated acquisition date proved reserves of 51.2 billion cubic feet equivalent. Also included were interests in 22 exploratory prospects. The transaction expanded the exploration opportunities in our expanded focus area and further reduced the concentration of our reserves and production. Upon the signing of the purchase agreement, we paid a \$5.0 million deposit in 2004 toward the purchase price which was recorded as other assets in the consolidated balance sheet, and concurrent with the closing, the borrowing base under our bank credit facility was increased to \$150 million, of which \$60 million was drawn to fund the acquisition. In connection with the acquisition, we also entered into a two-year agreement with the seller of the properties that defined an area of mutual interest ("AMI") encompassing over one million acres. We intend to continue to explore and develop oil and natural gas reserves in the AMI over the two year term jointly with the seller. The proved reserves, prospects and the AMI are in the southern portions of Terrebone, Lafourche and Jefferson Parishes in Louisiana.

On March 8, 2005, we closed the acquisition of the remaining 50% gross working interest in South Timbalier 26 above approximately 13,000 feet subsea that we did not already own for approximately \$21.0 million after preliminary closing adjustments from the effective date of December 1, 2004. As a result of the acquisition, we now own a 100% gross working interest in the producing horizons in this field. The acquisition expands our interest in our core Greater Bay Marchand area and gives us additional flexibility in undertaking the future development of the South Timbalier 26 field.

We have included the results of operations from the acquisitions discussed above from their respective closing dates. We had experienced substantial revenue and production growth as a result of these acquisitions though the period prior to the tropical weather discussed below. For the foregoing reasons these acquisitions will affect the comparability of our historical results of operations with future periods.

On August 29, 2005 Hurricane Katrina made landfall in the United States south of New Orleans causing catastrophic damage throughout portions the Gulf of Mexico and to portions of Alabama, Louisiana and Mississippi, including New Orleans. As a result of the devastating effects of the storm on New Orleans and surrounding areas, we announced on August 30 that we had elected to establish temporary headquarters at our Houston, Texas office. A satellite office was also established in Baton Rouge, Louisiana.

On September 24, 2005 Hurricane Rita made landfall in the United States on the Texas/Louisiana border between Sabine Pass, Texas and Johnson's Bayou, Louisiana. This hurricane caused extensive damage throughout portions of the region particularly to third party infrastructure such as pipelines and processing plants.

As a result of these two major hurricanes and two other hurricanes and a tropical storm that traversed the Gulf of Mexico and adjacent land areas in July 2005, nearly all of our production was shut in at one time or another during the quarter and a significant portion of that production had not yet been restored

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as of the date of the filing of this Form 10-Q. We are continuing to work to bring production back to pre-storm levels, but are subject to constraints due to damage to third party infrastructure. We maintain business interruption insurance on our significant properties, including our East Bay field. Recovery of lost revenue for our East Bay field and our South Timbalier 26 field began accruing in October and recovery on our South Marsh Island 109 field is currently expected to begin accruing in November. This recovery will continue until production is restored to pre-storm levels, subject to policy limits that we do not expect at this time to be reached.

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Our revenue, profitability and future growth rate depend substantially on factors beyond our control, such as economic, political and regulatory developments, tropical weather and competition from 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 and adversely affect our financial position, our results of operations, the quantities of oil and natural gas reserves that we can economically produce and our access to capital.

We currently have an extensive inventory of drillable prospects in-house, we are generating more prospects internally and we are exploring new opportunities through relationships with industry partners. Despite our expanded budget in 2005, strong commodity prices applied to our produced volumes, even after taking into account the effect of recent tropical storms on those volumes, should enable us to adhere to our policy of funding our exploration and development expenditures with internally generated cash flow. This strategy allows us to preserve our strong balance sheet to finance acquisitions and other capital intensive projects that might result from exploration and development activities. In addition to the south Louisiana and South Timbalier 26 property acquisitions already completed earlier this year, we believe the near term may provide us with opportunities to acquire targeted properties, including those within our focus area.

### 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,	
	2005	2004	2005	2004
Net production (per day):				
Oil (Bbls) .....	6,642	8,893	9,017	8,893
Natural gas (Mcf) .....	75,899	86,050	90,596	86,050
Total barrels of oil equivalent (Boe) .....	19,292	23,235	24,116	23,235
Oil and natural gas revenues (in thousands):				
Oil .....	\$ 30,279	\$28,154	\$114,935	\$114,935
Natural gas .....	61,698	45,843	180,725	180,725
Total .....	91,977	73,997	295,660	295,660
Average sales prices, net of hedging:				
Oil (per Bbl) .....	\$ 49.55	\$ 34.41	\$ 46.69	\$ 34.41
Natural gas (per Mcf) .....	8.84	5.79	7.31	5.79

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Total (per Boe) .....	51.82	34.62	44.91	
Impact of hedging:				
Oil (per Bbl) .....	\$ (5.76)	\$ (5.39)	\$ (2.53)	\$
Natural gas (per Mcf) .....	(0.01)	--	--	
Average costs (per Boe):				
Lease operating expense .....	\$ 7.98	\$ 4.94	\$ 6.19	\$
Taxes, other than on earnings .....	1.60	1.00	1.25	
Depreciation, depletion and amortization .....	14.81	11.84	12.06	
Increase in oil and natural gas revenues between periods presented (in thousands, net of hedging) due to:				
Changes in prices of oil .....	\$ 12,384		\$ 30,754	
Changes in production volumes of oil .....	(10,259)		7,444	
Total increase in oil sales .....	2,125		38,198	
Changes in prices of natural gas .....	\$ 24,092		\$ 30,810	
Changes in production volumes of natural gas .....	(8,237)		14,259	
Total increase in natural gas sales .....	15,855		45,069	

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### REVENUES AND NET INCOME

Our oil and natural gas revenues increased to \$92.0 million in the third quarter of 2005 from \$74.0 million in the third quarter of 2004. Our oil and natural gas revenues increased to \$295.7 million in the first nine months of 2005 from \$212.4 million in the first nine months of 2004. The increase for these periods is the result of sharply increased oil and natural gas prices which were driven even higher during the quarter by Hurricanes Katrina and Rita. The year to date period had increased production from 2 new oil and 21 new natural gas wells brought on production since the end of the third quarter of 2004. In addition, the acquisitions, in the first quarter of 2005, of the south Louisiana properties and the additional interest in South Timbalier 26 added incremental production to the year. However, these increases were adversely impacted by an estimated 8,830 Boe per day of deferred production for the third quarter of 2005 and 2,976 Boe per day of deferred production for the nine months ended September 30, 2005 from production shut-ins resulting from Hurricanes Katrina, Rita, Dennis and Emily and Tropical Storm Cindy (the "Tropical Weather") compared to deferred production of 1,500 Boe per day in the third quarter of 2004 and 504 Boe per day for the nine months ended September 30, 2004 from Hurricane Ivan-related shut-ins.

We recognized net income of \$6.5 million in the third quarter of 2005 compared to net income of \$9.6 million in the third quarter of 2004. The decrease was due to the effects of the Tropical Weather which significantly decreased production for the quarter despite the sharp increase in prices as discussed above and increases in our operating expenses as discussed below.

We recognized net income of \$45.0 million in the first nine months of 2005 compared to net income of \$31.7 million in the first nine months of 2004. The increase was primarily a result of the increase in oil and natural gas revenues through the first nine months significantly offset by the effects of the Tropical Weather on our production and increased costs in the third quarter discussed below.

These results were strong as compared to 2004; however we did not achieve the sequential growth in volumes that we anticipated from the second quarter of 2005 due to downtime from the Tropical Weather during the quarter resulting in shut-in or reduced production affecting nearly all of our producing fields

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during the quarter.

### OPERATING EXPENSES

Operating expenses during the three and nine month periods ended September 30, 2005 and 2004 were affected by the following:

- Lease operating expense increased in the third quarter of 2005 to \$14.2 million compared to \$10.6 million in the third quarter of 2004. Lease operating expense increased to \$40.7 million in the first nine months of 2005 from \$29.9 million in the first nine months of 2004. This increase in both periods is primarily a result of the uninsured portion of repairs due to the Tropical Weather of \$2.2 million, but was also affected by new wells coming on stream in new fields, acquisitions during the first quarter of 2005, workovers in the current periods as well as a general increase in the cost of oilfield industry services.
- Taxes, other than on earnings, increased slightly to \$2.8 million in the third quarter of 2005 from \$2.1 million in the third quarter of 2004. Taxes, other than on earnings, increased to \$8.3 million in the first nine months of 2005 from \$6.4 million in the first nine months of 2004. The increase was due to the increase in commodity prices and production from non-federal leases as a result of the south Louisiana property acquisition. These taxes are expected to fluctuate from period to period depending on our production volumes from non-federal leases and the commodity prices received.
- Exploration expenditures, including dry hole costs, increased to \$23.3 million in the third quarter of 2005 from \$10.0 million in the third quarter of 2004. The expense in the third quarter of 2005 is comprised of \$10.6 million of costs for exploratory wells or portions thereof which were found to be not commercially productive and \$9.3 million of proved property impairments at three of our fields which would need significant capital to extend their economic lives. We have decided that the capital will be deployed to projects with more potential and have therefore impaired the assets. In addition, there was \$3.4 million of seismic expenditures and delay rentals. The expense in the third quarter of 2004 is comprised of \$7.4 million of costs for exploratory wells or portions thereof which

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were found to be not commercially productive and \$2.6 million for seismic expenditures and delay rentals.

Exploration expenditures, including dry hole costs, increased to \$52.9 million in the first nine months of 2005 from \$26.9 million in the first nine months of 2004. The expense in the first nine months of 2005 is comprised of \$31.2 million of costs for exploratory wells or portions thereof which were found to be not commercially productive, \$9.3 million of proved property impairments at three of our fields discussed above, \$0.7 million of proved property impairments in the second quarter, as well as \$11.7 million of seismic expenditures and delay rentals, whereas the expense in the first nine months of 2004 is comprised of \$13.8 million of costs for exploratory wells or portions thereof which were found to be not commercially productive, \$6.9 million of proved property impairments at our East Cameron 378 field and \$6.2 million of seismic expenditures and delay rentals.

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Our exploration expenditures, including dry hole charges, will vary depending on the amount of our capital budget dedicated to exploration activities and the level of success we achieve in exploratory drilling activities.

- Depreciation, depletion and amortization increased to \$26.3 million in the third quarter of 2005 from \$25.3 million in the third quarter of 2004. Depreciation, depletion and amortization increased to \$79.4 million in the first nine months of 2005 from \$66.3 million in the first nine months of 2004. The increase was a result of higher production in the year to date period despite deferred production during the third quarter from the Tropical Weather. The higher expense in the third quarter of this year is a result of production shut-ins resulting from the Tropical Weather occurring at our lower rate fields.

However, in both periods, the shift in the production contribution amongst our various fields increased our expense per Boe. Some fields carry a higher depreciation burden than others; therefore, changes in the sources of our production will directly impact this expense.

- Other general and administrative expenses increased to \$7.8 million in the third quarter of 2005 from \$6.7 million in the third quarter of 2004. Other general and administrative expenses increased to \$24.1 million in the first nine months of 2005 from \$20.4 million in the first nine months of 2004. The increase was primarily due to costs associated with temporarily relocating our personnel and headquarters to Houston and opening a Baton Rouge office in the wake of Hurricane Katrina. Costs incurred of approximately \$1.0 million included employee relocation allowances and housing, temporary office space and furniture rental as well as the purchase of computer equipment. At this time we anticipate that the expense for these items will approximate \$0.7 million in the fourth quarter of 2005. In addition, the change was due to increased personnel costs resulting from our overall increased level of activity and expanded asset base.
- Non-cash stock-based compensation expense of \$2.5 million was recognized in the third quarter of 2005 compared to \$1.0 million in the third quarter of 2004. Non-cash stock-based compensation expense of \$6.2 million was recognized in the first nine months of 2005 compared to \$2.6 million in the first nine months of 2004. The increased expense relates to the increased amortization of new restricted stock and performance share awards made to employees in late 2004 and in 2005 as well as the impact of the increased stock price on our variable awards and accelerated vesting of stock awards for two former employees.

### OTHER INCOME AND EXPENSE

Interest expense increased to \$4.9 million in the third quarter of 2005 from \$3.6 million in the third quarter of 2004. Interest expense increased to \$13.3 million in the first nine months of 2005 from \$10.8 million in the first nine months of 2004. The increase was a result of interest expense on borrowings under our bank credit facility to finance acquisitions.

### LIQUIDITY AND CAPITAL RESOURCES



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The trend of increased revenues we have experienced from 2004 into the first nine months of 2005 has continued to provide strong cash flows from operations which totaled \$253.7 million in the first nine months of the year. We intend to fund our exploration and development expenditures from internally generated cash flows, which we define as cash flows from operations before changes in working capital plus total exploration expenditures. Our cash on hand at September 30, 2005 was \$51.0 million. Our future internally generated cash flows will depend on our ability to maintain and increase production through our development and exploratory drilling program, as well as the prices we receive for oil and natural gas. We may, from time to time, use our bank credit facility to fund working capital needs.

Our bank credit facility, as amended on August 3, 2004, consists of a revolving line of credit with a group of banks available through August 3, 2008 (the "bank credit facility"). The bank credit facility currently has a borrowing base of \$150 million that is subject to redetermination based on the proved reserves of the oil and natural gas properties that serve as collateral for the bank credit facility as set out in the reserve report delivered to the banks each April 1 and October 1. The bank credit facility permits both prime rate borrowings and London interbank offered rate ("LIBOR") borrowings plus a floating spread. The spread will float up or down based on our utilization of the bank credit facility. The spread can range from 1.25% to 2.00% above LIBOR and 0% to 0.75% above prime. The borrowing base under the bank credit facility is secured by substantially all of our assets. We used our bank credit facility to fund a portion of the purchase of the south Louisiana properties in January 2005 and the acquisition of the additional interest in South Timbalier 26 in March 2005. At November 4, 2005 we had \$75.0 million outstanding and \$75.0 million of credit capacity available under the bank credit facility. In addition, we pay an annual fee on the unused portion of the bank credit facility ranging between 0.375% to 0.5% based on utilization. The bank credit facility contains customary events of default and various financial covenants, which require us to: (i) maintain a minimum current ratio, as defined in our bank credit facility agreement, of 1.0 and (ii) maintain a minimum EBITDAX to interest ratio, as defined in our bank credit facility agreement, of 3.5. We were in compliance with the bank credit facility covenants as of September 30, 2005.

On August 5, 2003, we issued \$150 million of our 8.75% senior notes due 2010 which were exchanged in October 2003 for registered 8.75% senior notes due 2010 (the "Senior Notes") with substantially the same terms. The Senior Notes bear interest at a rate of 8.75% per annum with interest payable semi-annually on February 1 and August 1, beginning February 1, 2004. We may redeem the Senior Notes at our option, in whole or in part, at any time on or after August 1, 2007 at a price equal to 100% of the principal amount plus accrued and unpaid interest, if any, plus a specified premium which decreases yearly from 4.375% in 2007 to 0% in 2009 and thereafter. In addition, at any time prior to August 1, 2006, we may redeem up to a maximum of 35% of the aggregate principal amount with the net proceeds of certain equity offerings at a price equal to 108.75% of the principal amount, plus accrued and unpaid interest. The notes are unsecured obligations and rank equal in right of payment to all existing and future senior debt, including the bank credit facility, and will rank senior or equal in right of payment to all existing and future subordinated indebtedness. The indenture relating to the Senior Notes contains certain restrictions on our ability to incur additional debt, pay dividends on our common stock, make investments, create liens on our assets, engage in transactions with our affiliates, transfer or sell assets and consolidate or merge substantially all of our assets. The Senior Notes are not subject to any sinking fund requirements.

Net cash of \$378.7 million used in investing activities in the first nine months of 2005 consisted primarily of the acquisition of south Louisiana properties and of an additional interest in South Timbalier 26, as well as oil

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and natural gas exploration and development expenditures. Dry hole costs resulting from exploration expenditures are excluded from operating cash flows and included in investing activities. During the first nine months of 2005, we completed 51 drilling projects, 33 of which were successful, and 25 recompletion/workover projects, 20 of which were successful. During the first nine months of 2004, we completed 21 drilling projects, 15 of which were successful, and 17 recompletion/workover projects, 13 of which were successful.

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Our 2005 capital exploration and development budget is focused on exploration, exploitation and development activities on our proved properties combined with moderate risk and higher risk exploratory activities on undeveloped leases and our proved properties, and does not include acquisitions. We continue to manage our portfolio in order to maintain an appropriate risk balance between low risk development and exploitation activities, moderate risk exploration opportunities and higher risk, higher potential exploration opportunities. Our exploration and development budget for 2005 is currently approximately \$307 million inclusive of expected incremental drilling expenditures on properties acquired through acquisitions closed thus far during the year. We do not budget for acquisitions. During the first nine months of 2005, capital and exploration expenditures were approximately \$421.5 million inclusive of a \$0.9 million contingent consideration payment resulting from an acquisition during 2002 and \$192.1 million related to the acquisition of leases and producing assets in 2005. The level of our capital and exploration expenditure budget is based on many factors, including results of our drilling program, oil and natural gas prices, industry conditions, participation by other working interest owners and the costs and availability of drilling rigs and other oilfield goods and services. Should actual conditions differ materially from expectations, some projects may be accelerated or deferred and, consequently, may increase or decrease total 2005 capital expenditures.

We have experienced and expect to continue to experience substantial working capital requirements, primarily due to our active capital expenditure program. We believe that internally generated cash flows will be sufficient to meet our budgeted capital requirements for at least the next twelve months. Availability under the bank credit facility may be used to balance short-term fluctuations in working capital requirements. However, additional financing may be required in the future to fund our growth.

Our annual report on Form 10-K for the year ended December 31, 2004 included a discussion of our contractual obligations. There have been no material changes to that disclosure during the nine months ended September 30, 2005. In addition, we do not maintain any off balance sheet transactions, arrangements, obligations or other relationships with unconsolidated entities or others that are reasonably likely to have a material current or future effect on our financial condition, changes in financial condition, revenues and expenses, results of operations, liquidity, capital expenditures or capital resources.

### NEW ACCOUNTING PRONOUNCEMENTS

In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151 "Inventory Costs, an amendment of ARB No. 43, Chapter 4" ("Statement 151"). The amendments made by Statement 151 clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted materials (spoilage) should be recognized as current-period charges and require the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. The guidance is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Earlier

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application is permitted for inventory costs incurred during fiscal years beginning after November 23, 2004. Our assessment of the provisions of Statement 151 is that it does not have an impact on our financial position, results of operations or cash flows.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 153 "Exchanges of Non-monetary assets - an amendment of APB Opinion No. 29" ("Statement 153"). Statement 153 amends Accounting Principles Board ("APB") Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. Statement 153 does not apply to a pooling of assets in a joint undertaking intended to fund, develop, or produce oil or natural gas from a particular property or group of properties. The provisions of Statement 153 shall be effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Early adoption is permitted and the provisions of Statement 153 should be applied prospectively. Our assessment of the provisions of Statement 153 is that it is not expected to have an impact on our financial position, results of operations or cash flows.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123-Revised 2004, "Share-Based Payment," ("Statement 123R"). This is a revision of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation", and supersedes APB No. 25, "Accounting for Stock Issued to Employees." We currently account for stock-based compensation under the provisions of APB 25. Under Statement 123R, we will be required to measure the cost of

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employee services received in exchange for stock, based on the grant-date fair value (with limited exceptions). That cost will be recognized as expense over the period during which an employee is required to provide service in exchange for the award (usually the vesting period). The fair value will be estimated using an option-pricing model. Excess tax benefits, as defined in Statement 123R, will be recognized as an addition to paid-in capital. This will be effective for us as of the beginning of the first annual reporting period that begins after June 15, 2005. We are currently in the process of evaluating the impact of Statement 123R on our financial statements, including different option-pricing models. Note (2) of the Notes to Consolidated Financial Statements illustrates the current effect on net income and earnings per share if we had applied the fair value recognition provisions of Statement 123.

In May 2005, the FASB issued Statement of Financial Accounting Standards No. 154, "Accounting Changes and Error Corrections--a replacement of APB Opinion No. 20 and FASB Statement No. 3," (Statement 154). Statement 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to Statement 154. The provisions of Statement 154 shall be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

### FORWARD LOOKING INFORMATION

All statements other than statements of historical fact contained in this Report on Form 10-Q ("Report") and other periodic reports filed by us under the

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Securities Exchange Act of 1934 and other written or oral statements made by us or on our behalf, are forward-looking statements. When used herein, the words "anticipates", "expects", "believes", "goals", "intends", "plans", or "projects" and similar expressions are intended to identify forward-looking statements. It is important to note that forward-looking statements are based on a number of assumptions about future events and are subject to various risks, uncertainties and other factors that may cause our actual results to differ materially from the views, beliefs and estimates expressed or implied in such forward-looking statements. We refer you specifically to the section "Additional Factors Affecting Business" in Items 1 and 2 of our Annual Report on Form 10-K for the year ended December 31, 2004. Although we believe that the assumptions on which any forward-looking statements in this Report and other periodic reports filed by us are reasonable, no assurance can be given that such assumptions will prove correct. All forward-looking statements in this document are expressly qualified in their entirety by the cautionary statements in this paragraph.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### INTEREST RATE RISK

We are exposed to changes in interest rates. Changes in interest rates affect the interest earned on our cash and cash equivalents and the interest rate paid on borrowings under our bank credit facility. Currently, we do not use interest rate derivative instruments to manage exposure to interest rate changes. At September 30, 2005, \$75.0 million of our long-term debt had variable interest rates while the remaining long-term debt had fixed interest expense. If the market interest rates had averaged 1% higher in the third quarter of 2005, interest rates for the period on variable rate debt outstanding during the period would have increased, and net income before income taxes would have decreased by approximately \$0.2 million based on total variable debt outstanding during the period. If market interest rates had averaged 1% lower in the third quarter of 2005, interest expense for the period on variable rate debt would have decreased, and net income before income taxes would have increased by approximately \$0.2 million.

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#### COMMODITY PRICE RISK

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

We use derivative commodity instruments to manage commodity price risks associated with future oil and natural gas production. As of September 30, 2005, we had the following contracts in place:

#### NATURAL GAS POSITIONS

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VOLUME (MMBTU)  
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REMAINING CONTRACT TERM	CONTRACT TYPE	STRIKE PRICE (\$/MMBTU)	DAILY	TOTAL
-----	-----	-----	-----	-----
10/05 - 12/05.....	Collar	\$4.50/\$10.75	20,000	1,840,000
10/05 - 12/05.....	Collar	\$5.00/\$10.00	15,000	1,380,000
01/06 - 12/06.....	Collar	\$5.00/\$ 9.51	15,000	5,475,000
01/07 - 12/07.....	Collar	\$5.00/\$ 8.00	10,000	3,650,000

### CRUDE OIL POSITIONS

REMAINING CONTRACT TERM	CONTRACT TYPE	STRIKE PRICE (\$/BBL)	VOLUME (BBLs)	
			DAILY	TOTAL
-----	-----	-----	-----	-----
10/05 - 12/05.....	Collar	\$31.00/\$44.05	2,000	184,000

Inclusive of the storm implications on our near term forecasted production, our hedged volume as of September 30, 2005 approximated 10% of our estimated production from proved reserves for the balance of the terms of the contracts. Had these contracts been terminated at September 30, 2005, we estimate the pre-tax loss would have been \$38.1 million.

We use a sensitivity analysis technique to evaluate the hypothetical effect that changes in the market value of crude oil and natural gas may have on the fair value of our derivative instruments. At September 30, 2005, the potential change in the fair value of commodity derivative instruments assuming a 10% increase in the underlying commodity price was a \$11.6 million increase in the combined estimated pre tax loss.

For purposes of calculating the hypothetical change in fair value, the relevant variables are the type of commodity (crude oil or natural gas), the commodities futures prices and volatility of commodity prices. The hypothetical fair value is calculated by multiplying the difference between the hypothetical price and the contractual price by the contractual volumes.

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#### ITEM 4. CONTROLS AND PROCEDURES

##### CONCLUSION REGARDING THE EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES

Under the supervision and with the participation of certain members of our management, including the Chief Executive Officer and Chief Financial Officer, we completed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended). Based on this evaluation, our Chief Executive Officer and Chief Financial Officer believe that the disclosure controls and procedures were effective as of the end of the period covered by this report with respect to timely communication to them and other members of management responsible for preparing periodic reports and all material information required to be disclosed in this report as it relates to our Company and its consolidated subsidiaries.

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In conjunction with the temporary relocation of our headquarters to Houston, Texas and establishing a second temporary office in Baton Rouge, Louisiana due to Hurricane Katrina, we elected to cease hosting our accounting system in-house and to outsource the host to a third party data center which allowed us to expedite set up in our temporary multiple location structure and will expedite the move back to New Orleans when that occurs. The transfer of the host of the accounting system was not made in response to any pre-existing deficiency in our internal controls over financial reporting. We continue to evaluate this hosting relationship as it relates to both the everyday operating environment of the system as well as our disaster recovery plan. A final decision as to the permanence of this hosting relationship has not yet been made. There have been no other changes in our internal control over financial reporting during the fiscal quarter ended September 30, 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons or by collusion of two or more people. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected. Accordingly, our disclosure controls and procedures are designed to provide reasonable, not absolute, assurance that the objectives of our disclosure control system are met and, as set forth above, our Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation as of the end of the period, that our disclosure controls and procedures were sufficiently effective to provide reasonable assurance that the objectives of our disclosure control system were met.

## PART II. OTHER INFORMATION

### ITEM 6. EXHIBITS

#### Exhibits:

- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Chairman and Chief Executive Officer of Energy Partners, Ltd.
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Executive Vice President and Chief Financial Officer of Energy Partners, Ltd.
- 32.0 Section 1350 Certifications.

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ENERGY PARTNERS, LTD.

Date: November 10, 2005

By: /s/ David R. Looney

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David R. Looney  
Executive Vice President and  
Chief Financial Officer  
(Authorized Officer and Principal  
Financial Officer)

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EXHIBIT INDEX

Exhibit Number -----	Description of Exhibit -----
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chairman and Chief Executive Officer of Energy Partners, Ltd.
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32.0	Section 1350 Certifications.

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