

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

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2010

OR

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

Commission file number: 001-16179

ENERGY PARTNERS, LTD.

(Exact Name of Registrant as Specified in Its Charter)

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Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

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

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

70170
(Zip code)

(504) 569-1875

(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

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Table of Contents**PART I - FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS.****ENERGY PARTNERS, LTD. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(UNAUDITED)

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

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

See accompanying notes to condensed consolidated financial statements.

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

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

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

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

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

See accompanying notes to condensed consolidated financial statements.

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ENERGY PARTNERS, LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(1) BASIS OF PRESENTATION

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

On May 1, 2009, we and certain of our subsidiaries filed voluntary petitions (In re: Energy Partners, Ltd., et. al., Case No. 09-32957) for reorganization under Chapter 11 of Title 11 of the United States Code, 11 U.S.C. §§ 101 et seq., as amended (Chapter 11), in the United States Bankruptcy Court for the Southern District of Texas, Houston Division (the Bankruptcy Court). On September 21, 2009, we emerged from Chapter 11 reorganization (the Exit Date) pursuant to the plan of reorganization confirmed by the Bankruptcy Court (the Plan). In accordance with the Plan, the Company's 9.75% Senior Unsecured Notes due 2014 (the Fixed Rate Notes), its Senior Floating Rate Notes due 2013 (the Floating Rate Notes) and together with the Fixed Rate Notes, the Senior Unsecured Notes) and its 8.75% Senior Notes due 2010 (collectively with the Senior Unsecured Notes, the Predecessor Company Notes) and the related accrued interest were discharged in the reorganization. We converted the Predecessor Company Notes and outstanding Predecessor Company common stock into shares of our new common stock as of the Exit Date. In accordance with the terms of the Plan, the Predecessor Company Notes and related indentures, as well as the Predecessor Company's outstanding common shares, were cancelled. Each holder of these notes received, in exchange for such holder's respective claim (including principal and accrued interest), such holder's pro rata portion of approximately 95% of the common stock in the Successor Company, or 38 million shares. Each holder of the Predecessor Company's common stock received, in full satisfaction of and in exchange for such holder's respective common stock interests, such holder's pro rata portion of approximately 5% of the common stock in the Successor Company, or approximately 2 million shares. Additional information regarding our reorganization under Chapter 11 is available in our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the Securities and Exchange Commission on March 11, 2010 (the 2009 Annual Report).

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

The financial information as of March 31, 2010 and for the three-month periods ended March 31, 2010 and March 31, 2009 has not been audited. However, in the opinion of management, all adjustments (which include only normal, recurring adjustments) necessary to present fairly the financial position and results of operations for the periods presented have been included therein. Certain information and footnote disclosures normally in financial statements prepared in accordance with generally accepted