

ENERGY PARTNERS LTD
Form 10-Q
September 09, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2009

OR

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

ENERGY PARTNERS, LTD.

(Exact Name of Registrant as Specified in Its Charter)

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Delaware
(State or Other Jurisdiction of

72-1409562
(I.R.S. Employer

Incorporation or Organization)

Identification Number)

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

70170
(Zip code)

(504) 569-1875

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer

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

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

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

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(In thousands, except share data)	June 30, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 23,577	\$ 1,991
Trade accounts receivable	20,899	29,264
Receivables from insurance	2,686	4,230
Fair value of commodity derivative instruments		5,415
Prepaid expenses	3,396	4,522
Total current assets	50,558	45,422
Property and equipment, at cost under the successful efforts method of accounting for oil and natural gas properties	1,646,222	1,646,805
Less accumulated depreciation, depletion and amortization	(1,027,975)	(958,438)
Net property and equipment	618,247	688,367
Other assets	28,585	23,041
Deferred tax assets		1,580
Deferred financing costs net of accumulated amortization of \$11,781 at June 30, 2009 and \$3,780 at December 31, 2008	355	8,356
	\$ 697,745	\$ 766,766
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 16,461	\$ 39,517
Accrued expenses	33,120	54,467
Accrued interest on indebtedness	767	9,506
Asset retirement obligations	13,356	18,181
Secured bank credit facility	83,000	43,000
Current portion of senior unsecured debt		454,501
Deferred tax liabilities		1,580
Fair value of commodity derivative instruments		28
Total current liabilities	146,704	620,780
Liabilities subject to compromise:		
Senior unsecured debt	454,501	
Accrued interest on senior unsecured debt	18,663	
Asset retirement obligations	82,797	87,506
Fair value of commodity derivative instruments		55

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Other	871	1,306
Commitments and contingencies (Note 11)		
	703,536	709,647
Stockholders' equity:		
Preferred stock, \$1 par value. Authorized 1,700,000 shares; no shares issued and outstanding		
Common stock, par value \$0.01 per share. Authorized 100,000,000 shares; issued: 2009 44,468,034 shares; 2008 44,323,293 shares; outstanding, net of treasury shares: 2009 32,228,092; 2008 32,083,307 shares	445	444
Additional paid-in capital	384,853	382,232
Accumulated deficit	(132,733)	(67,201)
Treasury stock, at cost, 2009 and 2008 12,239,986 shares	(258,356)	(258,356)
Total stockholders' equity	(5,791)	57,119
	\$ 697,745	\$ 766,766

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

(In thousands, except per share data)	Three Months Ended		Six Months Ended	
	2009	2008	2009	2008
Revenue:				
Oil and natural gas	\$ 45,861	\$ 125,642	\$ 88,511	\$ 223,097
Other	215	46	265	87
	46,076	125,688	88,776	223,184
Costs and expenses:				
Lease operating	12,618	14,662	26,168	28,876
Transportation	293	260	429	666
Exploration expenditures and dry hole costs	746	3,462	1,318	26,745
Impairments of properties	1,467	1,809	6,580	1,735
Depreciation, depletion and amortization	34,054	33,244	66,194	62,054
Accretion of liability for asset retirement obligations	1,843	1,087	3,677	2,143
General and administrative	10,010	13,485	21,726	22,852
Taxes, other than on earnings	1,376	3,315	2,775	5,694
(Gain) loss on sale of assets		80		(6,594)
Other	218	62	562	1,158
Total costs and expenses	62,625	71,466	129,429	145,329
Business interruption recovery			1,185	
Income (loss) from operations	(16,549)	54,222	(39,468)	77,855
Other income (expense):				
Interest income	9	66	47	367
Interest expense (contractual interest of \$11,028 and \$22,741 for the three and six months ended June 30, 2009, respectively)	(4,524)	(11,439)	(16,237)	(23,351)
Gain (loss) on derivative instruments	(923)	(36,483)	2,728	(44,809)
	(5,438)	(47,856)	(13,462)	(67,793)
Income (loss) before reorganization items and income taxes	(21,987)	6,366	(52,930)	10,062
Reorganization items	(11,674)		(12,602)	
Income (loss) before income taxes	(33,661)	6,366	(65,532)	10,062
Income taxes		(2,370)		(3,751)
Net income (loss)	(33,661)	3,996	(65,532)	6,311
Basic earnings (loss) per share	\$ (1.05)	\$ 0.13	\$ (2.04)	\$ 0.20
Diluted earnings (loss) per share	\$ (1.05)	\$ 0.12	\$ (2.04)	\$ 0.20
Weighted average common shares used in computing earnings per share:				
Basic	32,206	31,950	32,156	31,861

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Incremental common shares				
Stock options		108		
Restricted share units		83		
Performance shares				7
Diluted	32,206	32,141	32,156	31,868

See accompanying notes to condensed consolidated financial statements.

Table of Contents**ENERGY PARTNERS, LTD. AND SUBSIDIARIES****(Debtors-in-Possession)****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(UNAUDITED)**

(In thousands)	Six Months Ended June 30,	
	2009	2008
Cash flows from operating activities:		
Net income (loss)	\$ (65,532)	\$ 6,311
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion and amortization	66,194	62,054
Accretion of liability for asset retirement obligations	3,677	2,143
Unrealized loss on derivative contracts		29,004
Non cash compensation	1,999	2,802
Deferred income taxes		3,101
Gain on sale of oil and gas assets		(6,611)
Exploration expenditures	28	22,014
Impairments of properties	6,580	1,735
Amortization of deferred financing costs	8,001	838
Other	843	937
Changes in operating assets and liabilities:		
Trade accounts receivable	9,909	(6,889)
Prepaid expenses	1,126	755
Other assets	(128)	886
Accounts payable and accrued expenses	(9,640)	4,485
Other liabilities	(13,897)	(4,142)
Net cash provided by operating activities	9,160	119,423
Cash flows used in investing activities:		
Property acquisitions	(139)	(20,197)
Exploration and development expenditures	(27,456)	(114,519)
Proceeds from sale of oil and gas assets	150	15,026
Other property and equipment additions	(129)	(505)
Net cash used in investing activities	(27,574)	(120,195)
Cash flows provided by financing activities:		
Deferred financing costs		(155)
Repayments of indebtedness		(70,000)
Proceeds from indebtedness	40,000	70,000
Exercise of stock options and warrants		682
Net cash provided by financing activities	40,000	527
Net increase (decrease) in cash and cash equivalents	21,586	(245)
Cash and cash equivalents at beginning of period	1,991	8,864
Cash and cash equivalents at end of period	\$ 23,577	\$ 8,619

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See accompanying notes to condensed consolidated financial statements.

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ENERGY PARTNERS, LTD. AND SUBSIDIARIES

(Debtors-in-Possession)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(1) BASIS OF PRESENTATION

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

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

The financial information as of June 30, 2009 and for the three and six month periods ended June 30, 2009 and 2008 has not been audited. However, in the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position and results of operations for the periods presented have been included therein. The results of operations for the first six months of the year are not necessarily indicative of the results of operations which might be expected for the entire year.

Recent Events Bankruptcy

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

Included in the condensed consolidated financial statements for the periods ended June 30, 2009 are subsidiaries which have not commenced Chapter 11 cases or other similar proceedings, and are not debtors in any bankruptcy or insolvency proceeding. The net assets of our non-debtor subsidiaries are not significant. The Debtors have been operating as debtors-in-possession pursuant to the Bankruptcy Code since May 1, 2009.

The financial statements are prepared in accordance with the American Institute of Certified Public Accountant's Statement of Position 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code (SOP 90-7). SOP 90-7 requires the Company to, among other things, (1) identify transactions that are directly associated with the bankruptcy proceedings from those events that occur during the normal course of business and (2) identify pre-petition liabilities subject to compromise from those that are not subject to compromise or are post petition liabilities. According to our confirmed plan of reorganization, only our 9.75% Senior Unsecured Notes due 2014 (the Fixed Rate Notes), our Senior Floating Rate Notes due 2013 (the Floating Rate Notes and together with the Fixed Rate Notes, the Senior Unsecured Notes) and our 8.75% Senior Notes due 2010 and the related accrued interest are subject to compromise. In addition, we discontinued accruing interest on the Senior Unsecured Notes and our 8.75% Senior Notes due 2010 as of May 1, 2009 (the Petition Date), the date we filed the Chapter 11 Cases. The financial statements for the period ended June 30, 2009 do not reflect the effect of any changes in the Company's capital structure as a result of an approved plan of reorganization or adjustments to the carrying value of asset or liability amounts that may be necessary as a result of actions by the Bankruptcy Court.

Our financial statements have been prepared on a going concern basis, which contemplates continuity of operations, realization of assets, and liquidation of liabilities in the ordinary course of business. On the effective date of the reorganization, which is subject to the closing of one or more loans and/or credit facilities that together would provide liquidity to us upon our exit from bankruptcy, among other things, we will

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adopt fresh-start accounting as required by SOP 90-7, which will require us to allocate the reorganization value to our assets and liabilities in relation to their fair values. Accordingly, the carrying values of assets and liabilities on the effective date of reorganization may differ materially from the amounts shown as of June 30, 2009. Additionally, amounts reported in subsequent financial statements may change materially due to the reorganization of our assets and liabilities, as well as the application of the fresh-start accounting provisions. We expect that our reorganization and fresh-start accounting adjustments will include conversion of the principal and accrued interest on the Senior Unsecured Notes and the 8.75% Senior Notes due 2010 into new common stock. Additionally, along with all of our assets and liabilities, our property and equipment assets and our asset retirement obligations will be reported at fair market values. As a result, our interest expense, accretion of liability for asset

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retirement obligations and our depreciation, depletion and amortization may be significantly different in periods after the effective date of the reorganization.

(2) EARNINGS PER SHARE

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

(3) SUBSEQUENT EVENTS, LIQUIDITY AND CAPITAL RESOURCES

Background to the Chapter 11 Cases

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

hurricanes in August and September of 2008 damaged third-party production pipelines, causing us to shut-in a significant amount of our production from September 2008 and continuing into early 2009;

oil and natural gas prices declined in the fourth quarter of 2008 and have remained at low levels during 2009 relative to the levels in 2008; and

the worldwide credit and capital markets collapsed in 2008 and the availability of debt and equity financing became significantly more scarce, thus reducing financial flexibility for most companies, including us.

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

MMS Order and Term Sheet. We received an order from the Minerals Management Service (MMS) dated March 23, 2009 (the MMS Order). The MMS is part of the United States Department of the Interior. The MMS Order demanded that we provide to the MMS bonds or other acceptable security in the aggregate amount of \$34.7 million to secure plugging and abandonment liabilities associated with all of our properties on federal leases in the Gulf of Mexico, with the first installment payment of \$1.2 million due no later than March 31, 2009, an additional installment payment of \$1.2 million due no later than June 30, 2009 and the remaining \$32.3 million due no later than July 31, 2009. The MMS Order also required us to immediately shut-in production from all of our wells and facilities located in South Pass Blocks 27 and 28 in the federal portion of our East Bay field, while properly maintaining these facilities and wells with essential personnel. We promptly completed the shut-in of our federal East Bay facilities before the end of March, 2009. After further discussions with the MMS, the MMS has requested that three of our unit wells producing in East Bay be shut-in, further to compliance with the MMS Order affecting our federal leases in East Bay. This subsequent shut-in occurred on August 14, 2009. The MMS has acknowledged, however, that production from these three unit wells held the leases while they were producing. Because federal leases would normally terminate if there is no production for 180 consecutive days, the affected leases could expire if (1) we do not comply with the requirements set forth by applicable MMS regulations and restore production to the shut-in federal leases by February 10, 2010; (2) we and the MMS do not otherwise come to an agreement that would prevent the leases from expiring on such date; or (3) there is no other unitized production that would prevent the termination provisions in the affected leases from being triggered. The production from the wells and properties that we shut-in as a result of the MMS Order constituted less than 5% of our average daily production as of March 27, 2009. We also made two installment payments of approximately \$1.2 million on March 30, 2009 and on April 29, 2009 in compliance with the MMS Order and the term sheet discussed below. We entered into a binding term sheet with the MMS on April 30, 2009 to establish terms for us to address our obligations under the MMS Order. Under the term sheet, we and the MMS have agreed to re-affirm the terms and conditions of the previously established trust account for the benefit of the MMS under the Decommissioning Trust Agreement dated December 23, 2008 among us, the MMS and JP Morgan Chase Bank, NA, and we had agreed to make monthly payments to the trust account in the amount of \$1.2 million while the Chapter 11 Cases are pending and, on the effective date of the Plan to make a payment to the trust account equal to \$21 million minus the aggregate amount of the monthly payments made into the trust account while the Chapter 11 Cases are pending (commencing with the payment made on April 29, 2009). The \$1.2 million monthly payments to the trust account remain subject to approval by the Bankruptcy Court. All remaining amounts owed to the trust account to reach the full funding amount owed to the

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MMS of \$36.1 million (after giving credit to all prior payments made by us) were payable in equal quarterly installments of approximately \$1.2 million, commencing October 31, 2009, with quarterly payments continuing until full funding has occurred. On June 11, 2009, we received a letter from the MMS requesting an additional \$10.95 million in financial assurance based on the actual costs for partial and completed well plugging and abandonment associated with our federal leases in the East Bay field. On June 24, 2009, we advised the MMS that we will provide the additional \$10.95 million by increasing our quarterly payments identified in the term sheet such quarterly payments are presently contemplated to commence on October 31, 2009 which would increase the quarterly payments from approximately \$1.2 million to approximately \$1.8 million. The MMS has agreed to vote in favor of the Plan to the extent its treatment is consistent with the terms set forth in the term sheet. In addition, the MMS has granted a consensual stay of the MMS Order that will remain in place while the Chapter 11 Cases are pending. This stay, however, does not lift the requirement that our Federal wells and facilities located in South Pass Blocks 27 and 28 remain shut-in. The term sheet with the MMS contemplates that, on the effective date of the Plan, the MMS Order will be fully rescinded, and we will be allowed to resume production from these

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wells and facilities. However, the terms of the term sheet, as incorporated into the Plan, will only supersede the MMS Order if the Bankruptcy Court confirms the Plan.

Reduction of Borrowing Base. In March 2009, we received a notice of redetermination from Bank of America, N.A., the Administrative Agent under our Credit Agreement dated as of April 23, 2007 (*Credit Agreement*), that our borrowing base under the Credit Agreement had been lowered from \$150 million to \$45 million, resulting in a borrowing base deficiency of \$38 million. Following the receipt of this notice, we considered various alternatives provided for under the Credit Agreement to repay the borrowing base deficiency and presented to the Administrative Agent the proposal of an installment repayment plan. The Administrative Agent declined to approve our proposed repayment plan, and as a result, on March 24, 2009, we received a notice from the Administrative Agent requiring the lump-sum payment by us of \$38 million to the bank lenders under the Credit Agreement (the *Lenders*) by April 3, 2009. On April 3, 2009, we obtained a consent from a majority of the outstanding commitments (the *Required Lenders*) under the Credit Agreement, extending the due date for the repayment of the borrowing base deficiency until April 14, 2009. On April 14, 2009, we and the Required Lenders entered into a letter agreement that further extended the due date for repayment of the borrowing base deficiency until May 1, 2009 and provided that the Lenders agree not to exercise any rights and remedies until May 1, 2009 with respect to all outstanding and certain anticipated defaults by us under the Credit Agreement in exchange for our compliance with specified conditions. On May 1, 2009, we filed the Chapter 11 Cases.

Default on Senior Unsecured Notes. We were required to make annual interest payments of approximately \$45.0 million each year on the Senior Unsecured Notes, of which \$17 million was due on April 15, 2009, and remains unpaid. Our failure to make these interest payments within 30 days of the due date was an event of default under the indenture governing the Senior Unsecured Notes and under the cross-default provision of the Credit Agreement.

Surety Obligations. As of August 31, 2009, we had outstanding \$60.0 million in surety bonds with four different indemnity companies. Our agreements with these indemnity companies allow them to demand cash reserves or letters of credit to support our outstanding surety bonds. In December 2008 and the first quarter of 2009, we posted cash collateral to restricted accounts for the benefit of certain of these indemnity companies totaling \$5.7 million in response to requests to provide reserves against our surety bonds with them. If we default on some or all of these surety bonds, the indemnity companies may cancel our surety bonds. The cancelation of some or all of our surety bonds may result in violations of other agreements or obligations. As a result, we could be forced to shut in our production or lose our ability to continue to perform our business operations.

Plan of Reorganization; Plan Support and Lock-Up Agreement

On April 30, 2009, we entered into a Plan Support and Lock-Up Agreement (the *Plan Support Agreement*) with the holders of more than 66% (the *Consenting Holders*) of the outstanding principal amount of our Senior Unsecured Notes. The parties to the Plan Support Agreement had agreed, following receipt of the Disclosure Statement, to vote in favor of and support a plan or reorganization that is consistent in all material respects with the term sheet attached to the Plan Support Agreement (*Term Sheet*).

The Plan Support Agreement may be terminated under certain circumstances by the Majority Consenting Holders, including if (1) we fail to file the Plan or the Disclosure Statement with the Bankruptcy Court on or prior to May 15, 2009; (2) the Bankruptcy Court does not approve the Disclosure Statement on or prior to June 30, 2009; (3) the Bankruptcy Court does not confirm the Plan on or prior to August 15, 2009; (4) we do not consummate the restructuring transactions provided for in the Plan on or prior to September 10, 2009, or under certain circumstances, a later date; (5) we or any of our officers or directors fail to take any action required by the Plan Support Agreement in order to comply with our fiduciary obligations under applicable law or otherwise; (6) we file or support a plan of reorganization that is different from the Plan or withdraw or revoke the Plan; (7) we materially breach any of our obligations or fail to satisfy in any material respect any of the terms or conditions under the Plan Support Agreement; (8) our aggregate liabilities as of the dates specified in the Term Sheet (excluding those liabilities that would be extinguished by the Plan or otherwise do not survive the consummation of the Plan) materially exceed the amounts we represented in the Term Sheet; (9) an examiner with expanded powers relating to our business or trustee is appointed in any of the Chapter 11 Cases, any of the Chapter 11 Cases are converted to a case under Chapter 7 of the Bankruptcy Code or any of the Chapter 11 Cases are dismissed by the Bankruptcy Court; or (10) any definitive documents executed by us in connection with the Chapter 11 Cases in order to implement the Plan are not consistent in all material respects with the terms set forth in the Term Sheet and otherwise are not reasonably satisfactory in all material respects to the Majority Consenting Holders. In any event, the Plan Support Agreement terminates on September 15, 2009.

Bankruptcy Proceedings, Plan of Reorganization, Exit Facility and Expected Emergence from Bankruptcy

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, in the Bankruptcy Court. We continue to manage our properties and operate our business as debtors-in-possession under the jurisdiction of the Bankruptcy Court. On June 11, 2009, as part of the Chapter 11 Cases, we filed with the Bankruptcy Court the Plan and the Disclosure Statement, pursuant to which we solicited

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votes for the confirmation of the Plan. On July 31, 2009, we filed with the Bankruptcy Court our Second Amended Joint Plan of Reorganization, as modified as of July 31, 2009 (Plan). The Plan was formulated after extensive negotiations with committees representing holders of the Senior Unsecured Notes and holders of our common stock interests. The primary purpose of the Plan is to effectuate a restructuring of our capital structure to strengthen our balance sheet by reducing our overall indebtedness and improve cash flow.

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On July 23, 2009, we announced that the Plan had received the affirmative vote of the holders of our Senior Unsecured Notes and our 8.75% Senior Notes due 2010 and we consequently proceeded to request confirmation of the Plan from the Bankruptcy Court. On August 3, 2009, after a confirmation hearing in which the Bankruptcy Court considered the Plan and all objections thereto, it entered a confirmation order (the Confirmation Order) and confirmed the Plan as of August 3, 2009. The effectiveness of the Plan and our emergence from bankruptcy is subject to several conditions, including the successful closing of one or more loans and/or credit facilities that together would provide liquidity to us upon our exit from bankruptcy (together, the Exit Facility). We are currently in negotiations with lenders on structuring the Exit Facility. For more information on the conditions to the final effectiveness of the Plan see Item 1A Risk Factors in our 2008 Annual Report.

The material terms of the Plan as confirmed by the Bankruptcy Court on August 3, 2009 include, among other things, that:

each holder of the Senior Unsecured Notes and our 8.75% Senior Notes due 2010 would receive, in exchange for their total claim (including principal and interest), their pro rata share of 95% of the common stock to be issued pursuant to the Plan New EPL Common Stock in us upon our emergence from bankruptcy;

each holder of our common stock interests would receive, in exchange for their total claim, their pro rata share of 5% of the New EPL Common Stock;

upon the Effective Date, we shall have access to the Exit Facility in form and substance acceptable to us and a majority in interest of the Consenting Holders (the Majority Consenting Holders);

we may adopt the 2009 Long Term Incentive Plan under which we may issue shares of restricted new EPL common stock and new EPL stock options to certain of our employees and certain members of management; and

following the effective date of the reorganization, the sole equity interests in us would consist of (1) New EPL Common Stock issued to the holders of our Senior Unsecured Notes, the 8.75% Senior Notes due 2010, and holders of our common stock interests, (2) restricted new EPL common stock issued to certain members of our management, if any, and (3) new EPL stock options to be issued to certain key employees pursuant to the 2009 Long Term Incentive Plan, if any, which would be exercisable for new EPL common stock. Collectively, the restricted new EPL common stock issued pursuant to subparagraph (2) and the shares reserved for the exercise of new EPL stock options pursuant to subparagraph (3) above would in no event exceed 3% of the new EPL common stock on a fully diluted basis.

The timing and ultimate outcome of the Chapter 11 proceedings remain uncertain. Issues and matters to be resolved prior to emergence from the proceedings include negotiation of the Exit Facility.

Consummation of the Plan is conditioned upon, among other things, the closing of the Exit Facility. There can be no assurance that any or all of the foregoing conditions will be met (or waived) or that the other conditions to consummation, if any, will be satisfied. Accordingly, there can be no assurance that the Plan will be consummated and the restructuring completed.

The above events and circumstances, together with the worldwide credit markets collapse in 2008 and the scarcity of available credit from most major commercial financial institutions, as well as the low trading price of our common stock, make it extremely difficult to find additional financing, either to refinance our Credit Agreement or our Senior Unsecured Notes or to provide additional liquidity during 2009.

Restructure of Prepetition Employee Arrangements

Prior to May 1, 2009, various incentive and retention plans and agreements existed for certain of our employees (collectively, the Arrangements) that provided for such employees to receive cash payments and/or settlement of equity compensation awards either upon specified future vesting dates or in connection with a termination of employment. The Plan Support Agreement contains certain provisions that provide that such Arrangements must be amended, renegotiated, and/or restructured prior to the effective date of a confirmed plan of reorganization.

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As a result of the Plan Support Agreement, the Board of Directors amended the provisions of the Energy Partners, Ltd. Change of Control Severance Plan (the "Severance Plan") in a manner such that the protected employment period initiated by our change of control under such plans, as well as the severance benefits potentially payable in connection with certain terminations of employment during that protected period, would not be triggered by the restructuring contemplated by the Plan Support Agreement.

We also established two programs, a non-insider employee retention program and a senior management employee program (collectively, the "Retention Programs"). In order for an office employee who participates in either of these programs to receive his or her retention payments, the participant has to waive and release any and all potential claims against the Company under the prepetition Arrangements.

Finally, the written change of control severance agreements (each a "Severance Agreement") with two of our executives were terminated by the Company and each of such executives in exchange for the executives receiving an unsecured claim for the rejection damages.

The total cost of the Retention Programs and the termination of the two Severance Agreements is approximately \$2 million of which approximately \$0.5 million has been paid during the bankruptcy proceedings and approximately \$1.5 million will be paid when we emerge from bankruptcy.

Table of Contents***NYSE Delisting***

In March 2009, the New York Stock Exchange (the NYSE) notified us that our common stock had been suspended from trading and was subsequently delisted for failure to maintain the required market capitalization minimum criteria. Our common stock is being quoted for public trading on the Pink Sheets quotations system, an over-the-counter market, under the symbol ERPLQ.PK. This significantly impairs our ability to raise additional equity financing.

Changes to Production Levels

Due to our current liquidity situation and lower commodity prices, we expect to significantly reduce capital expenditures during 2009. As a result, we do not expect to be able to maintain our current production levels and we expect our production to decline significantly during the second half of 2009 primarily due to natural reservoir declines combined with minimal investment in reserve replacement activities. At our current and anticipated production levels, combined with the current and expected lower sales prices, we do not expect to have sufficient cash flows to fully fund our operations and meet all of our financial obligations in 2009 as discussed above.

Changes in the Board of Directors and Management

Commencing in the first half of fiscal 2009 and continuing through the date of this filing, we have experienced major changes in the management of our company. Our Board of Directors declined from eleven to five members during the first quarter of 2009. In addition, on March 1, 2009, Joseph T. Leary resigned as our Executive Vice President and Chief Financial Officer. On March 15, 2009, Richard A. Bachmann resigned as our Chairman and Chief Executive Officer and we engaged Alan D. Bell as our Chief Restructuring Officer. In July 2009, we announced the designation of Alan D. Bell as principal executive officer and Tiffany J. Thom as principal financial officer.

(4) REORGANIZATION ITEMS

Under SOP 90-7, certain costs and income items resulting from the reorganization and restructuring of the business are reported separately as reorganization items classified as non-operating expenses. Our reorganization items were as follows:

(In thousands)	Three Months Ended June 30, 2009	Six Months Ended June 30, 2009
Amortization of deferred financing costs	\$ 6,515	\$ 6,515
Professional fees	3,730	4,658
Directors and officers insurance premium	1,573	1,573
Provision for rejected/renegotiated contracts	1,300	1,300
Employee retention agreements	(1,444)	(1,444)
 Total reorganization items	 \$ 11,674	 \$ 12,602

Deferred financing costs as of the Petition Date associated with the Senior Unsecured Notes and the 8.75% Senior Notes due 2010 were written off in accordance with the provisions of SOP 90-7 in order to reflect the book value of the Senior Unsecured Notes and the 8.75% Senior Notes due 2010 at the claimed amount.

Since we retained advisors to assist in our balance sheet restructuring, we have incurred significant costs associated with the restructuring. Professional fees primarily relate to fees paid to our financial and legal advisors, and the advisors of our creditors that we are obligated to pay under certain agreements. During the six months ended June 30, 2009, we have made cash payments for these professional fees, including retainers, totaling approximately \$5.0 million which are included in our cash flows from operating activities for the period. In addition to monthly fees, we have agreed to pay a success fee to our financial advisors in cash on the effective date of the Plan. We expect this success fee to amount to approximately \$3.4 million. This success fee will be recorded when the financial advisors meet the criteria for the fee under the agreement.

In connection with anticipated changes in the composition of our Board of Directors and officers upon our exit from bankruptcy, we arranged insurance coverage (commonly referred to as a tail policy) for certain of our current and prior directors and officers extending for six years. The premium amount of \$1.6 million was recorded and paid in cash in the quarter ending June 30, 2009.

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We are in negotiations regarding the rejection in bankruptcy or renegotiation of the leases for our corporate offices in Louisiana and Texas, and we expect to have certain costs associated with the rejection or renegotiation of these leases, estimates of which are recorded in the quarter ended June 30, 2009.

In June, 2009, we executed employee retention agreements with all of our non-field employees, which call for payments of one-half of the retention amounts upon execution of the agreements and the remaining one-half upon exit from bankruptcy. Our field employees also received payments under this program. We also executed agreements with our officers which call for payments of the entire retention amount upon exit from bankruptcy. In connection with these agreements, non-field employees and officers were required to waive and release the Company from any and all potential claims with respect to certain incentive and retention plans and agreements as specified in the individual retention agreements. During June, 2009, we reduced previously established accruals totaling approximately \$2.0 million for the various incentive and retention plans and agreements that were waived and released. We also accrued approximately \$0.5 million for cash payments made in July, 2009. The remaining amounts payable under these agreements upon exit from bankruptcy total approximately \$1.5 million, which amounts will be recorded as a charge to earnings when earned by the employees who remain with the Company upon exit from bankruptcy.

Table of Contents**(5) ACQUISITIONS AND DIVESTITURES**

On March 26 and 27, 2008, respectively, we completed the sale of two Gulf of Mexico properties located in the Western offshore area for \$15.0 million after giving effect to preliminary closing adjustments and recorded a gain on the sale of \$7.0 million in the six months ended June 30, 2008.

(6) DERIVATIVE TRANSACTIONS

Derivative contracts are carried at their fair value on the Condensed Consolidated Balance Sheets as Fair value of commodity derivative instruments and all realized and unrealized gains and losses are recorded in Gain (loss) on derivative instruments in Other income (expense). Recently, we have agreed to termination of certain of these contracts as requested by our lenders or as required by the terms of our agreements with them. At June 30, 2009, we had no derivative contracts outstanding.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in thousands)			
Derivative contracts:				
Unrealized gain (loss) due to change in fair market value	\$	\$ (25,907)	\$	\$ (29,004)
Realized gain (loss) on settlement	(923)	(10,576)	2,728	(15,805)
Total gain (loss) on derivative instruments	\$ (923)	\$ (36,483)	\$ 2,728	\$ (44,809)

(7) ASSET RETIREMENT OBLIGATIONS

Changes in our asset retirement obligations were as follows:

	Six Months Ended June 30, 2009 (in thousands)
Balance at December 31, 2008	\$ 105,687
Accretion expense	3,677
Revisions	196
Liabilities settled	(13,407)
Balance at June 30, 2009	96,153
Less: Amount required to be settled within the next twelve months	(13,356)
Balance at June 30, 2009, noncurrent asset retirement obligations	\$ 82,797

(8) INDEBTEDNESS

See Note 3 *Subsequent Events, Liquidity and Capital Resources* for additional information on our indebtedness and the impact of the Chapter 11 Cases on the Credit Agreement, the Senior Unsecured Notes and the 8.75% Senior Notes due 2010.

Currently, we are in default on our Credit Agreement, Senior Unsecured Notes and our 8.75% Senior Notes due 2010. Total indebtedness was as follows:

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	June 30, 2009	December 31, 2008
	(in thousands)	
Fixed Rate Notes, annual interest of 9.75%, payable May 15, 2014	\$ 300,000	\$ 300,000
Floating Rate Notes, with weighted average interest of 6.26% on April 30, 2009 (the day before filing of Chapter 11 Cases), payable April 15, 2013	150,000	150,000
Senior Notes, annual interest of 8.75%, payable August 1, 2010	4,501	4,501
Credit Agreement, interest rate based on LIBOR borrowing rates plus a floating spread payable April 23, 2011, with weighted average interest on June 30, 2009 of 5.75%	83,000	43,000
Total indebtedness, all amounts are current	\$ 537,501	\$ 497,501

Our failure to cure the borrowing base deficiency by May 1, 2009 constituted an event of default under our Credit Agreement. Subsequent to such date, we have been paying interest on the Credit Agreement at the foregoing rate plus 2.00% per annum (the default rate).

Table of Contents**(9) FAIR VALUE MEASUREMENTS**

The following table provides fair value measurement information for our financial instruments. The carrying values of cash and cash equivalents, trade accounts receivable and accounts payable (including income taxes payable and accrued expenses) approximated fair value at June 30, 2009, and are not presented in the following table.

As of June 30, 2009					
Fair Value Measurements Using:					
	Carrying Amount	Total Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Liabilities (in thousands):					
Debt	\$ 537,501	\$ 324,885	\$	\$ 324,885	\$

Statement of Financial Accounting Standards (SFAS) No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. As presented in the table above, this hierarchy consists of three broad levels. Level 1 inputs on the hierarchy consist of unadjusted quoted prices in active markets for identical assets and liabilities and have the highest priority. Level 2 inputs are other than quoted prices in active markets included in Level 1, and Level 3 inputs have the lowest priority and include significant inputs that are generally less observable from objective sources. When available, we measure fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. We currently do not use Level 3 inputs to measure fair value.

The following methods and assumptions were used to estimate the fair values of the assets and liabilities in the table above.

Level 2 Fair Value Measurements

Debt At June 30, 2009, the Fixed Rate Notes and the Floating Rate Notes were not actively traded in an established market. Therefore, quoted prices were not available. However, we estimated the fair values of these debt instruments based on prices reflected by trades which occurred near June 30, 2009 as obtained through financial information services. The fair value of the Credit Agreement is estimated to approximate the carrying amount because the interest rates paid on such debt are generally set for periods of three months or less.

(10) NEW ACCOUNTING PRONOUNCEMENTS

In May 2009, the FASB issued SFAS No. 165, Subsequent Events. SFAS No. 165 modifies the definition of subsequent events and requires disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. SFAS No. 165 became effective for us on June 15, 2009. We evaluated subsequent events through September 8, 2009, which represents the date our financial statements were issued. Our significant subsequent events are addressed in Note 3 Subsequent Events, Liquidity and Capital Resources.

(11) COMMITMENTS AND CONTINGENCIES

As described in Note 3 Subsequent Events, Liquidity and Capital Resources, on May 1, 2009, we and certain of our subsidiaries filed the Chapter 11 Cases. See Note 3 for additional information on legal proceedings related to the Chapter 11 Cases. In addition to the matters described in Note 3, we may become subject to claims asserted during or subsequent to the Chapter 11 proceedings. However, we do not anticipate that our exposure to these additional claims, individually or in the aggregate, to have a material adverse effect on our financial position, results of operations or liquidity.

We generate liabilities related to production that is delivered to us in excess of our interest in certain properties, often referred to as production imbalances. Additionally, we may, from time to time, receive cash in excess of amounts that we estimate are due to us for our interest in production, which amounts may be subject to further review, may require more information to resolve or may be in dispute. At June 30, 2009, based on information available to us, the amount that may be subject to claim by one purchaser of our production of \$4.6 million is included in accrued expenses.

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In the ordinary course of business, we are a defendant in various other legal proceedings. We do not expect our exposure in these other proceedings, individually or in the aggregate, to have a material adverse effect on our financial position, results of operations or liquidity.

Table of Contents**(12) SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION**

In connection with the sale of the Senior Unsecured Notes, all of our current active subsidiaries (the Guarantor Subsidiaries) jointly, severally and unconditionally guaranteed the payment obligations under the Senior Unsecured Notes. 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. We have not presented separate financial statements and other disclosures concerning the Guarantor Subsidiaries because management has determined that such information is not material to investors.

The supplemental condensed consolidating financial information has been prepared pursuant to the rules and regulations for condensed financial information and does not include all disclosures included in annual financial statements, although we believe 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 June 30, 2009**

	Parent Company Only	Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)			
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 23,577	\$	\$	\$ 23,577
Accounts receivable	21,397	2,188		23,585
Other current assets	3,334	62		3,396
Total current assets	48,308	2,250		50,558
Property and equipment	1,374,952	271,270		1,646,222
Less accumulated depreciation, depletion and amortization	(880,182)	(147,793)		(1,027,975)
Net property and equipment	494,770	123,477		618,247
Investment in affiliates	78,178		(78,178)	
Notes receivable, long-term		120,431	(120,431)	
Other assets	28,849	91		28,940
	\$ 650,105	\$ 246,249	\$ (198,609)	\$ 697,745
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities:				
Accounts payable and accrued expenses	\$ 57,359	\$ 6,345	\$	\$ 63,704
Secured bank credit facility	83,000			83,000
Total current liabilities	140,359	6,345		146,704
Liabilities subject to compromise:				
Senior unsecured debt	454,501			454,501
Accrued interest on senior unsecured debt	18,663			18,663
Long-term debt		120,431	(120,431)	
Other liabilities	42,373	41,295		83,668
	655,896	168,071	(120,431)	703,536
Stockholders' equity:				

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Preferred stock		3	(3)	
Common stock	445	98	(98)	445
Additional paid-in capital	384,853	310	(310)	384,853
Retained earnings (accumulated deficit)	(132,733)	77,767	(77,767)	(132,733)
Treasury stock	(258,356)			(258,356)
Total stockholders equity	(5,791)	78,178	(78,178)	(5,791)
	\$ 650,105	\$ 246,249	\$ (198,609)	\$ 697,745

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

As of December 31, 2008

	Parent Company Only	Guarantor Subsidiaries	Eliminations	Consolidated
	(in thousands)			
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,991	\$	\$	\$ 1,991
Accounts receivable	37,665	1,244		38,909
Other current assets	4,459	63		4,522
Total current assets	44,115	1,307		45,422
Property and equipment	1,376,387	270,418		1,646,805
Less accumulated depreciation, depletion and amortization	(818,234)	(140,204)		(958,438)
Net property and equipment	558,153	130,214		688,367
Investment in affiliates	84,697	(66)	(84,631)	
Notes receivable, long-term		120,431	(120,431)	
Other assets	32,887	90		32,977
	719,852	251,976	(205,062)	766,766
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities:				
Accounts payable and accrued expenses	\$ 114,510	\$ 7,161	\$	\$ 121,671
Deferred tax liability	1,580			1,580
Fair value of commodity derivative instruments	28			28
Current maturities of long-term debt	497,501			497,501
Total current liabilities	613,619	7,161		620,780
Long-term debt		120,431	(120,431)	
Other liabilities	49,114	39,753		88,867
	662,733	167,345	(120,431)	709,647
Stockholders' equity:				
Preferred stock		3	(3)	
Common stock	444	98	(98)	444
Additional paid-in capital	382,232	310	(310)	382,232
Retained earnings	(67,201)	84,220	(84,220)	(67,201)
Treasury stock	(258,356)			(258,356)
Total stockholders' equity	57,119	84,631	(84,631)	57,119
	719,852	251,976	(205,062)	766,766

Table of Contents**Supplemental Condensed Consolidated Statement of Operations****Six Months Ended June 30, 2009**

	Parent Company Only	Guarantor Subsidiaries	Eliminations (in thousands)	Consolidated
Revenue:				
Oil and natural gas	\$ 66,282	\$ 22,229	\$	\$ 88,511
Other	1,174	85	(994)	265
	67,456	22,314	(994)	88,776
Costs and expenses:				
Lease operating	17,083	9,085		26,168
Exploration expenditures, dry hole costs and impairments	7,875	23		7,898
Depreciation, depletion, amortization and accretion	60,745	9,126		69,871
General and administrative	21,146	8,080	(7,500)	21,726
Taxes, other than on earnings	270	2,505		2,775
Other expenses	990	1		991
Total costs and expenses	108,109	28,820	(7,500)	129,429
Business interruption recovery	1,185			1,185
Loss from operations	(39,468)	(6,506)	6,506	(39,468)
Other income (expense):				
Interest expense, net	(16,190)			(16,190)
Gain (loss) on derivative instruments	2,728			2,728
	(13,462)			(13,462)
Loss before reorganization items and income taxes	(52,930)	(6,506)	6,506	(52,930)
Reorganization items	(12,602)			(12,602)
Loss before income taxes	(65,532)	(6,506)	6,506	(65,532)
Income taxes				
Net loss	\$ (65,532)	\$ (6,506)	\$ 6,506	\$ (65,532)

Table of Contents**Supplemental Condensed Consolidated Statement of Operations****Six Months Ended June 30, 2008**

	Parent Company Only	Guarantor Subsidiaries	Eliminations (in thousands)	Consolidated
Revenue:				
Oil and natural gas	\$ 168,321	\$ 54,776	\$	\$ 223,097
Other	26,464	75	(26,452)	87
	194,785	54,851	(26,452)	223,184
Costs and expenses:				
Lease operating	18,060	10,816		28,876
Exploration expenditures, dry hole costs and impairments	27,212	1,268		28,480
Depreciation, depletion, amortization and accretion	53,799	10,398		64,197
General and administrative	22,242	8,110	(7,500)	22,852
Taxes, other than on earnings	387	5,307		5,694
Gain on sale of assets	(6,594)			(6,594)
Other expenses	1,824			1,824
Total costs and expenses	116,930	35,899	(7,500)	145,329
Income from operations	77,855	18,952	(18,952)	77,855
Other income (expense):				
Interest expense, net	(22,984)			(22,984)
Loss on derivative instruments	(44,809)			(44,809)
	(67,793)			(67,793)
Income before income taxes	10,062	18,952	(18,952)	10,062
Income taxes	(3,751)			(3,751)
Net income	\$ 6,311	\$ 18,952	\$ (18,952)	\$ 6,311

Table of Contents**Supplemental Condensed Consolidating Statement of Cash Flows****Six Months Ended June 30, 2009**

	Parent Company Only	Guarantor Subsidiaries (in thousands)	Eliminations	Consolidated
Net cash provided by operating activities	\$ 7,706	\$ 1,454	\$	\$ 9,160
Cash flows used in investing activities:				
Property acquisitions	(139)			(139)
Exploration and development expenditures	(26,002)	(1,454)		(27,456)
Other property and equipment additions	(129)			(129)
Proceeds from sale of oil and natural gas assets	150			150
Net cash used in investing activities	(26,120)	(1,454)		(27,574)
Cash flows provided by financing activities:				
Proceeds from long-term debt	40,000			40,000
Net cash provided by financing activities	40,000			40,000
Net increase in cash and cash equivalents	21,586			21,586
Cash and cash equivalents at beginning of period	1,991			1,991
Cash and cash equivalents at end of period	\$ 23,577	\$	\$	\$ 23,577

Supplemental Condensed Consolidating Statement of Cash Flows**Six Months Ended June 30, 2008**

	Parent Company Only	Guarantor Subsidiaries (in thousands)	Eliminations	Consolidated
Net cash provided by operating activities	\$ 100,310	\$ 19,113	\$	\$ 119,423
Cash flows used in investing activities:				
Property acquisitions	(20,197)			(20,197)
Exploration and development expenditures	(95,406)	(19,113)		(114,519)
Other property and equipment additions	(505)			(505)
Proceeds from sale of oil and natural gas assets	15,026			15,026
Net cash used in investing activities	(101,082)	(19,113)		(120,195)
Cash flows provided by financing activities:				
Repayments of long-term debt	(70,000)			(70,000)
Proceeds from long-term debt	70,000			70,000
Deferred financing costs	(155)			(155)
Exercise of stock options and warrants	682			682
Net cash provided by financing activities	527			527
Net decrease in cash and cash equivalents	(245)			(245)
Cash and cash equivalents at beginning of period	8,864			8,864

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Cash and cash equivalents at end of period	\$	8,619	\$	\$	\$	8,619
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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Statements we make in this Quarterly Report on Form 10-Q (the Quarterly Report) which express a belief, expectation or intention, as well as those that are not historical fact, may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Our forward-looking statements are subject to various risks, uncertainties and assumptions, including those to which we refer under the headings Cautionary Statement Concerning Forward-Looking Statements and Risk Factors in Items 1 and 1A of Part 1 of our Annual Report on Form 10-K for the year ended December 31, 2008 filed August 5, 2009 (2008 Annual Report).

Overview

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.

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

We use the successful efforts method of accounting for oil and natural gas producing activities. Under this method, we capitalize lease acquisition costs, costs to drill and complete exploration wells in which proven reserves are discovered and costs to drill and complete development wells. Exploratory drilling costs are charged to expense if and when activities result in no reserves in commercial quantities. Seismic, geological and geophysical, and delay rental expenditures are expensed as they are incurred. We conduct various exploration and development activities jointly with others and, accordingly, recorded amounts for our oil and natural gas properties reflect only our proportionate interest in such activities. Our 2008 Annual Report includes a discussion of our critical accounting policies, which have not changed significantly since the end of the last fiscal year.

Recent Events

Filing of Chapter 11 Cases and Preceding Events

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 (the Chapter 11 Cases) under Chapter 11 of Title 11 of the United States Code, 11 U.S.C. §§ 101 et seq., as amended, in the United States Bankruptcy Court for the Southern District of Texas, Houston Division (the Bankruptcy Court). We continue to manage our properties and operate our business as debtors-in-possession under the jurisdiction of the Bankruptcy Court. The Chapter 11 filings were preceded by a number of negative influences and factors, including:

hurricanes in August and September of 2008 damaged third-party production pipelines, causing us to shut-in a significant amount of our production from September 2008 and continuing into early 2009;

oil and natural gas prices declined in the fourth quarter of 2008 and have remained at relatively low levels during 2009 relative to the levels in 2008; and

the worldwide credit and capital markets collapsed in 2008 and the availability of debt and equity financing became significantly more scarce, thus reducing financial flexibility for most companies, including us.

These factors negatively impacted our business, and led to several circumstances that significantly affected our liquidity and led to our filing the Chapter 11 Cases, including:

in the third quarter of 2008, the Minerals Management Service (the MMS) rejected our request for a waiver of supplemental bonding requirements for the decommissioning of certain of our federal offshore properties, resulting in the requirement for us to provide cash or other financial support totaling \$47.3 million, which ultimately led to the March 2009 Incident of Noncompliance and the

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MMS order to shut-in our production in the federal portion of our East Bay field in March 2009;

in March 2009, we received a notice of redetermination from Bank of America, N.A., the Administrative Agent under our Credit Agreement dated as of April 23, 2007 (Credit Agreement), that our borrowing base under the Credit Agreement had been reduced from \$150 million to \$45 million, resulting in a borrowing base deficiency of \$38 million which was required to be repaid by April 3, 2009 (which date was ultimately extended to May 1, 2009); and

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on April 15, 2009, we were required to make our scheduled interest payments of approximately \$17 million on our 9.75% Senior Unsecured Notes due 2014 (the Fixed Rate Notes) and our Senior Floating Notes due 2013 (the Floating Rate Notes) and collectively with the Fixed Rate Notes, the Senior Unsecured Notes).

Our inability to satisfy these obligations in a timely manner ultimately led to the filing of the Chapter 11 Cases.

Plan of Reorganization, Exit Facility and Expected Emergence from Bankruptcy

On June 11, 2009, as part of our Chapter 11 Cases, we filed with the Bankruptcy Court our Second Amended Joint Plan of Reorganization (the Plan), and a Second Amended Disclosure Statement (the Disclosure Statement), pursuant to which we solicited votes for the confirmation of the Plan. On July 31, 2009, we filed with the Bankruptcy Court the Plan, as modified as of July 31, 2009. The Plan was formulated after extensive negotiations with committees representing holders of the Senior Unsecured Notes and holders of our common stock interests. The primary purpose of the Plan is to effectuate a restructuring of our capital structure to strengthen our balance sheet by reducing our overall indebtedness and improve cash flow.

On July 23, 2009, we announced that the Plan had received the affirmative vote of the holders of our Senior Unsecured Notes and our 8.75% Senior Notes due 2010 and we consequently proceeded to request confirmation of the Plan from the Bankruptcy Court. On August 3, 2009, after a confirmation hearing in which the Bankruptcy Court considered the Plan and all objections thereto, it entered into a confirmation order (the Confirmation Order) and confirmed the Plan as of August 3, 2009. The effectiveness of the Plan and our emergence from bankruptcy is subject to several conditions, including the successful closing of one or more loans and/or credit facilities that together would provide liquidity to us upon our exit from bankruptcy (together, the Exit Facility). We are currently in negotiations with lenders on structuring the Exit Facility.

Impact on Current Conduct of Our Business and Management Team

The operation of our business is significantly impacted by our current status as a debtor-in-possession. Our significant strategic activities are generally subject to the approval of the Bankruptcy Court. Our executive management team does not currently include a Chief Financial Officer or Chief Executive Officer. Our Chief Restructuring Officer has been engaged primarily to focus on our financial restructuring and the Chapter 11 Cases. We expect that our ownership and Board of Directors will change as a result of the financial restructuring. As part of the Plan, we have filed with the Bankruptcy Court the names of several persons who will be among our board members after we emerge from bankruptcy. We do not have any information, however, about any plans for the conduct of our business that our potential post-bankruptcy stockholders may have or that any future directors or executive management may implement, and we cannot predict what those plans might be.

You can find more information on the Plan and the recent events that have impacted us in Note 3 Subsequent Events, Liquidity and Capital Resources of the condensed consolidated financial statements in Item 1, Part I of this Quarterly Report.

Overview and Outlook Results of Operations

Three Months Ended June 30, 2009

Our operating results for the three months ended June 30, 2009 reflect significantly lower average selling prices for our oil and natural gas.

Our revenue for the three months ended June 30, 2009, was significantly lower than revenue for the three months ended June 30, 2008, due primarily to the impact of oil and natural gas selling price declines. Our slight increase in total production for the 2009 quarter as compared to the 2008 comparative quarter was primarily due to new deepwater production, which averaged 1,680 Boe per day in the three months ended June 30, 2009, and higher production from our western properties, offsetting natural reservoir declines in our core eastern and central properties.

Our net loss for the three months ended June 30, 2009, as compared to the three months ended June 30, 2008 was due primarily to the significant decline in average selling prices for our oil and natural gas.

Our exploration expenditures and dry hole costs declined in the three months ended June 30, 2009, as compared to the three months ended June 30, 2008 due primarily to reduced spending on drilling activities. Our general and administrative expenses decreased in the three months ended June 30, 2009, as compared to the three months ended June 30, 2008, primarily as a result of a decrease in personnel and consulting costs, offset, in part, by an increase in insurance costs. Our interest expense declined in the three months ended June 30, 2009, as compared to the three months ended June 30, 2008, primarily because we discontinued recording interest expense related to our Senior Unsecured Notes and our 8.75% Senior Notes due 2010 as of May 1, 2009, the date on which we filed the Chapter 11 Cases. Our loss on derivative instruments for the three months ended June 30, 2009 was significantly reduced as compared to the loss reported for the three months ended June 30, 2008. The loss on derivative instruments reported in the three months ended June 30, 2008 resulted primarily from the impact of a steep increase in oil and

natural gas selling prices during the 2008 period.

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Our effective tax rate on the tax benefit related to our net loss for the three months ended June 30, 2009 was zero because we provided a valuation allowance against the net deferred tax assets generated during the three months ended June 30, 2009.

Cash and cash equivalents were approximately \$23.6 million as of June 30, 2009 as compared to approximately \$2.0 million as of December 31, 2008.

As of June 30, 2009, our outstanding balance under our Credit Agreement was \$83.0 million and our total debt was \$537.5 million, compared to \$497.5 million of total debt at December 31, 2008, which included \$43.0 million of borrowings under our Credit Agreement. As previously disclosed, the borrowing base under our Credit Agreement was reduced to \$45 million, resulting in a borrowing base deficiency of \$38 million. We are not able to make future borrowings under our Credit Agreement. As noted above, we are currently in negotiations with potential lenders to structure the Exit Facility.

Our most significant current challenge is addressing our severe liquidity constraints by completing our Chapter 11 bankruptcy proceedings, securing exit financing and consummating the Plan. Our near term strategy includes the recapitalization of our balance sheet, targeted cost reduction activities, and significantly reduced drilling expenditures during 2009. The sales prices of our oil and natural gas will have a significant impact on our plans beyond 2009. If sales prices continue at the current low levels, our anticipated investment will not be adequate to maintain our current production levels and we expect our production to decline significantly during the second half of 2009 due primarily to natural reservoir declines. As further addressed under Financial Condition, Liquidity and Capital Resources, at our current and anticipated production levels, combined with the current and expected lower sales prices, we do not expect to have sufficient cash flows to fund our operations and meet our financial obligations in 2009.

Unless specifically addressed, any discussion in this Part I, Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations of our intent, plans or expectations or similar expressions of forward-looking statements may not consider the potential impact of the restructuring and recapitalization of our balance sheet in connection with the Chapter 11 Cases or any acquisition or merger by us or changes in plans and/or intentions resulting from changes in our management and/or Board of Directors that may result from the Chapter 11 Cases.

Six Months Ended June 30, 2009

Our operating results for the six months ended June 30, 2009 reflect significantly lower average selling prices for our oil and natural gas.

Our revenue for the six months ended June 30, 2009, was significantly lower than revenue for the six months ended June 30, 2008, due primarily to the impact of oil and natural gas selling price declines. Our slight decline in total production for the six months ended June 30, 2009 as compared to the six months ended June 30, 2008, was primarily the result of natural reservoir declines on our core eastern and central properties, offset, in part, primarily by new deepwater production and higher production from our western properties.

Our net loss for the six months ended June 30, 2009, as compared to the six months ended June 30, 2008 was due primarily to the significant decline in average selling prices for our oil and natural gas.

Our exploration expenditures and dry hole costs declined in the six months ended June 30, 2009, as compared to the six months ended June 30, 2008 due primarily to reduced spending on drilling activities. Our general and administrative expenses decreased in the six months ended June 30, 2009, as compared to the six months ended June 30, 2008, primarily as a result of a decrease in personnel and consulting costs, offset, in part, by an increase in insurance costs. Our interest expense declined in the six months ended June 30, 2009, as compared to the six months ended June 30, 2008, primarily because we discontinued recording interest expense related to our Senior Unsecured Notes and our 8.75% Senior Notes due 2010 as of May 1, 2009, the date on which we filed the Chapter 11 Cases. Our gain on derivative instruments for the six months ended June 30, 2009 was due to the settlement of our derivative instruments during the six months ended June 30, 2009 as compared to the loss reported for the six months ended June 30, 2008. The loss on derivative instruments reported in the six months ended June 30, 2008 resulted primarily from the impact of a steep increase in oil and natural gas selling prices during the 2008 period.

Our effective tax rate on the tax benefit related to our net loss for the six months ended June 30, 2009 was zero because we provided a valuation allowance against the net deferred tax assets generated during the six months ended June 30, 2009.

Tropical Weather Impact

In late August and early September 2008 Hurricanes Gustav and Ike traversed the Gulf of Mexico and adjacent land areas. As a result of these two hurricanes, nearly all of our production was shut in at one time or another during the third and fourth quarters of 2008. We maintained insurance coverage for property damage due to windstorms with a deductible of \$10 million for each hurricane. For these occurrences, we also

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previously maintained business interruption insurance on a portion of our lost revenue on our South Timbalier 41, 42 and 46 properties, which represented 37% of our 2008 year to date daily production volumes prior to the hurricanes. In order to mitigate the higher cost of insurance coverages in 2009, we negotiated higher deductibles and significantly lower aggregates for property damage due to windstorms. Further, we no longer maintain business interruption insurance.

Table of Contents**Results of Operations**

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net production (per day):				
Oil (Bbls)	5,167	6,370	5,195	6,401
Natural gas (Mcf)	64,679	56,516	62,047	56,359
Total barrels of oil equivalent	15,947	15,789	15,536	15,794
Average sales prices, excluding impact of derivatives:				
Oil (per Bbl)	\$ 51.31	\$ 116.52	\$ 44.07	\$ 104.82
Natural gas (per Mcf)	3.69	11.30	4.19	9.84
Total (per Boe)	31.60	87.45	31.48	77.61
Oil and natural gas revenues (in thousands):				
Oil	\$ 24,124	\$ 67,543	\$ 41,440	\$ 122,117
Natural gas	21,737	58,099	47,071	100,980
Total	45,861	125,642	88,511	223,097
Impact of derivatives instruments (1):				
Oil (per Bbl)				
Unrealized	\$	\$ 42.16	\$	\$ 22.02
Realized	5.11	17.93	2.71	13.41
Total	5.11	60.09	2.71	35.43
Natural gas (per Mcf)				
Unrealized	\$	\$ 0.29	\$	\$ 0.33
Realized	(0.57)	0.03	0.02	0.02
Total	(0.57)	0.32	0.02	0.35
Average costs (per Boe):				
Lease operating expense (Loe)	\$ 8.70	\$ 10.20	\$ 9.31	\$ 10.04
Depreciation, depletion and amortization (DD&A)	23.47	23.14	23.54	21.59
Accretion expense	1.27	0.76	1.31	0.75
Taxes, other than on earnings	0.95	2.31	0.99	1.98
General and administrative (G&A)	6.90	9.39	7.73	7.95
Decrease in oil and natural gas revenues between periods presented due to:				
Changes in prices of oil	\$ (37,802)		\$ (70,775)	
Changes in production volumes of oil	(5,617)		(9,902)	
Total decrease in oil sales	(43,419)		(80,677)	
Changes in prices of natural gas	\$ (39,100)		\$ (57,989)	
Changes in production volumes of natural gas	2,738		4,080	
Total decrease in natural gas sales	(36,362)		(53,909)	

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

Table of Contents**Three Months Ended June 30, 2009 Compared to Three Months Ended June 30, 2008*****Revenues and Net Income (Loss)***

	Three Months Ended			
	2009	June 30, 2008	\$ Change	% Change
	(in thousands)			
Oil and natural gas revenues	\$ 45,861	\$ 125,642	\$ (79,781)	(64)%
Net income (loss)	(33,661)	3,996	(37,657)	NM
NM Not Meaningful				

Our oil and natural gas revenues declined primarily as a result of the 64% decline in average selling prices per Boe for our oil and natural gas in the three months ended June 30, 2009, as compared to the three months ended June 30, 2008. Production increased by 1% in the three months ended June 30, 2009 as compared to the three months ended June 30, 2008, due primarily to new deepwater production, which averaged 1,680 Boe per day in the three months ended June 30, 2009, and higher production from our western properties, which offset natural reservoir declines in our core eastern and central properties. In addition to these factors, the change in net income (loss) in the three months ended June 30, 2009 as compared to the three months ended June 30 2008 was primarily attributable to:

higher DD&A in 2009 primarily reflecting the higher per Boe DD&A rates on new production in the deepwater and western properties; offset, in part, by

lower G&A expenses and Loe in 2009 as addressed below;

lower exploration expenditures and dry hole costs reflecting a significant decline in drilling activity in 2009; and

lower losses on derivative instruments in 2009.

As more fully addressed in Notes 1 and 3 of the condensed consolidated financial statements in Item 1, Part I of this Quarterly Report, amounts reported in subsequent financial statements may change materially due to the reorganization, which is subject to the closing of the Exit Facility, among other things. We expect our reorganization and fresh-start accounting adjustments will include conversion of the principal and accrued interest on the Senior Unsecured Notes and the 8.75% Senior Notes due 2010 into new common stock. We discontinued accruing interest on the Senior Unsecured Notes and our 8.75% Senior Notes due 2010 as of May 1, 2009, the date we filed the Chapter 11 Cases. Additionally, along with all of our assets and liabilities, our property and equipment assets and our asset retirement obligations will be reported at fair market values. As a result, our interest expense, accretion of liability for asset retirement obligations and our depreciation, depletion and amortization may be significantly different in periods after the effective date of the reorganization.

Our reported operating expenses for the three months ended June 30, 2009, and most notably our G&A expenses, were materially impacted by the presentation of the reorganization items separately from operating income. Our reorganization items are disclosed in Note 4 of the condensed consolidated financial statements in Item 1, Part I of this Quarterly Report.

Operating Expenses

Our operating expenses primarily consist of the following:

	Three Months Ended			
	June 30,		\$ Change	% Change
	2009	2008		
Loe	\$ 12,618	\$ 14,662	\$ (2,044)	(14)%
Exploration expenditures and dry hole costs	746	3,462	(2,716)	(78)%
Impairments of properties	1,467	1,809	(342)	(19)%
DD&A, including accretion expense	35,897	34,331	1,566	5%
G&A	10,010	13,485	(3,475)	(26)%
Taxes, other than on earnings	1,376	3,315	(1,939)	(58)%
Other	511	322	189	59%

Loe decreased in the three months ended June 30, 2009, as compared to the three months ended June 30, 2008, primarily due to fewer workovers in 2009, and ongoing efforts to reduce Loe costs during 2009.

Exploration expenditures and dry hole costs decreased in the three months ended June 30, 2009, as compared to the three months ended June 30, 2008, reflecting a significant decline in drilling activity in 2009. The expense in the three months ended

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June 30, 2009 is comprised of \$0.7 million of seismic expenditures and delay rentals. The expense in the three months ended June 30, 2008 is comprised of \$0.3 million of dry hole costs and \$3.2 million of seismic expenditures and delay rentals.

DD&A, including accretion of liability for asset retirement obligations, increased in the three months ended June 30, 2009 as compared to the three months ended June 30, 2008, primarily reflecting the higher per Boe DD&A rates on new production in the deepwater and western properties.

G&A expense, which includes cash and non-cash stock based compensation of \$0.8 million and \$1.3 million in the three months ended June 30, 2009 and 2008, respectively, decreased in the three months ended June 30, 2009 as compared to the three months ended June 30, 2008, primarily as a result of a decrease in personnel and consulting costs, offset, in part, by an increase in insurance costs.

Taxes, other than on earnings, decreased in the three months ended June 30, 2009 as compared to the three months ended June 30, 2008, due primarily to lower average sales prices for oil (which is taxed based on value).

Other Income and Expense

Interest expense decreased in the three months ended June 30, 2009 as compared to the three months ended June 30, 2008, primarily because we discontinued accruing interest on the Senior Unsecured Notes and our 8.75% Senior Notes due 2010 as of May 1, 2009, the date we filed the Chapter 11 Cases.

Included in Other income (expense) in the three months ended June 30, 2009 is a loss of \$0.9 million on derivative instruments settled during the quarter. Included in Other income (expense) in the three months ended June 30, 2008 is an unrealized loss of \$25.9 million representing the change in fair market value of derivative instruments to be settled in the future and a loss of \$10.6 million in derivative instruments settled during the quarter for a total loss of \$36.5 million, primarily from the impact of a steep increase in oil and natural gas selling prices during the 2008 period.

Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008

Revenues and Net Income

	Six Months Ended			
	2009	June 30, 2008	\$ Change	% Change
	(in thousands)			
Oil and natural gas revenues	\$ 88,511	\$ 223,097	\$ (134,586)	(60)%
Net income (loss)	(65,532)	6,311	(71,843)	NM
NM	Not Meaningful			

Our oil and natural gas revenues declined primarily as a result of the 59% decline in average selling price per Boe for our oil and natural gas in the six months ended June 30, 2009, as compared to the six months ended June 30, 2008. Production decreased by 2% in the six months ended June 30, 2009 as compared to the six months ended June 30, 2008, due primarily to natural reservoir declines in our core eastern and central properties offset, in part, by new deepwater production, which averaged 1,733 Boe per day in the six months ended June 30, 2009, and higher production from our western properties. In addition to these factors, the change in net income (loss) in the six months ended June 30, 2009 as compared to the six months ended June 30 2008 was primarily attributable to:

higher DD&A in 2009 primarily reflecting the higher per Boe DD&A rates on new production in the deepwater and western properties;

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higher impairments in 2009 primarily reflecting commodity price declines and reservoir performance in two producing fields; offset, in part, by

lower exploration expenditures and dry hole costs reflecting a significant decline in drilling activity in 2009;

gains on derivative instruments in the six months ended June 30, 2009 reflecting the impact of a decline in oil and natural gas selling prices in 2009; and

lower G&A expenses and Loe in 2009 as addressed below.

Table of Contents**Operating Expenses**

Our operating expenses primarily consist of the following:

	Six Months Ended June 30,			
	2009	2008	\$ Change	% Change
	(in thousands)			
Loe	\$ 26,168	\$28,876	\$ (2,708)	(9)%
Exploration expenditures and dry hole costs	1,318	26,745	(25,427)	(95)%
Impairments of properties	6,580	1,735	4,845	NM
DD&A, including accretion expense	69,871	64,197	5,674	9%
G&A	21,726	22,852	(1,126)	(5)%
Taxes, other than on earnings	2,775	5,694	(2,919)	(51)%
Other	991	1,824	(833)	(46)%

NM Not Meaningful

Loe decreased in the six months ended June 30, 2009, as compared to the six months ended June 30, 2008, primarily due to fewer workovers in 2009, and ongoing efforts to reduce Loe costs during 2009.

Exploration expenditures and dry hole costs decreased in the six months ended June 30, 2009, as compared to the six months ended June 30, 2008, reflecting a significant decline in drilling activity in 2009. The expense in the six months ended June 30, 2009 is comprised of \$1.3 million of seismic expenditures and delay rentals. The expense in the six months ended June 30, 2008 is comprised of \$22.0 million of dry hole costs and \$4.7 million of seismic expenditures and delay rentals.

Impairment expense for the six months ended June 30, 2009, was primarily related to two producing fields which were determined to have future net cash flows less than their carrying values due primarily to commodity price declines and reservoir performance resulting in the write down of these properties to their estimated fair values as of March 31, 2009.

DD&A, including accretion of liability for asset retirement obligation, increased in the six months ended June 30, 2009 as compared to the six months ended June 30, 2008, primarily reflecting the higher per Boe DD&A rates on new production in the deepwater and western properties.

G&A expenses, which includes cash and non-cash stock based compensation of \$2.0 million and \$4.6 million in the six months ended June 30, 2009 and 2008, respectively, decreased in the six months ended June 30, 2009 from the six months ended June 30, 2008, primarily as a result of a decrease in personnel and consulting costs, offset, in part, by an increase in insurance costs.

Taxes, other than on earnings, decreased in the six months ended June 30, 2009 as compared to the six months ended June 30, 2008, due primarily to lower average sales prices for oil (which is taxed based on value).

See - Three Months Ended June 30, 2009 Compared to Three Months Ended June 30, 2008 - Revenues and Net Income (Loss) for a discussion of the impact of the reorganization and the application of SOP 90-7 on our operating loss for the six months ended June 30, 2009.

Other Income and Expense

Interest expense decreased in the six months ended June 30, 2009 as compared to the six months ended June 30, 2008, primarily because we discontinued accruing interest on the Senior Unsecured Notes and our 8.75% Senior Notes due 2010 as of May 1, 2009, the date we filed the Chapter 11 Cases.

Included in Other income (expense) in the six months ended June 30, 2009 is a gain of \$2.7 million on derivative instruments settled during the period primarily from the impact of a decline in oil and natural gas selling prices during 2009. Included in Other income (expense) in our six months ended June 30, 2008 is an unrealized loss of \$29.0 million due to the change in fair market value of derivative instruments to be settled in the future and a loss of \$15.8 million in derivative instruments settled during the six months for a total loss of \$44.8 million primarily from the impact of a steep increase in oil and natural gas selling prices during the 2008 period.

Table of Contents**LIQUIDITY AND CAPITAL RESOURCES**

The following table sets forth our cash flows for the three months ended June 30, 2009 and 2008 (in thousands):

	2009	2008	Change
Cash flows provided by operating activities	\$ 9,160	\$ 119,423	\$ (110,263)
Cash flows used in investing activities	(27,574)	(120,195)	92,621
Cash flows provided by financing activities	40,000	527	39,473

Analysis of Cash Flows Six Months Ended June 30, 2009

The decrease in our 2009 cash flows from operations primarily reflects the impact of the precipitous decline in oil and natural gas sales prices realized during the six months ended June 30, 2009 as compared to the six months ended June 30, 2008.

Net cash used in investing activities declined in the six months ended June 30, 2009 as compared to the six months ended June 30, 2008 as a result of curtailed capital expenditures in response to declining oil and natural gas sales prices, contraction in the credit markets and reduced liquidity.

Net cash provided by financing activities increased during the six months ended June 30, 2009 as compared to the six months ended June 30, 2008, reflecting increased net utilization of our credit facility to fund working capital shortfalls caused by the decline in production and the precipitous decline in oil and natural gas sales prices in 2009.

We have not paid any cash dividends in the past on our common stock and do not intend to pay cash dividends in the foreseeable future. We intend to retain earnings for the future operations and development of our business. Any future cash dividends would depend on contractual limitations, future earnings, capital requirements, our financial condition and other factors determined by our board of directors.

Liquidity and Capital Resources

Our financial statements have been prepared on a going concern basis, which contemplates continuity of operations, realization of assets, and liquidation of liabilities in the ordinary course of business. The content under **Recent Events** above addresses important factors affecting our financial condition, liquidity and capital resources including the Chapter 11 Cases, the impact of the significant reduction in our borrowing base in 2009, debt compliance violations, defaults on our Credit Agreement, Senior Unsecured Notes and 8.75% Senior Notes due 2010, and surety obligations and anticipated decline in production and cash flows.

At June 30, 2009, our unrestricted cash on hand was \$23.6 million and we had \$537.5 million in indebtedness currently due as a result of the defaults described above.

We expect our cash flows from operations to decline in 2009 as a result of lower anticipated sales prices for oil and natural gas which, along with our plans to reduce capital expenditures, will negatively impact reserve replacement and production enhancement. We expect our cash used in investing activities will decline significantly as a result of our plans to reduce capital expenditures in 2009. Prior to receiving the reduced borrowing base redetermination on our bank credit facility, we had forecasted to use our bank credit facility to continue funding projected working capital shortfalls during 2009. As a result of the decline in our borrowing capacity, our strategic alternatives are significantly limited and will require that we implement and execute the Plan in order to continue to meet our obligations.

Our exploration and development expenditures for 2008 totaled \$205.1 million. We expect that our exploration and development activities in 2009 will be significantly lower than in prior years. For 2009, we expect exploration and development expenditures to total less than \$10 million, which we expect would be directed primarily toward selective efforts to maintain existing production levels. Our planned expenditures for 2009 do not include any acquisitions or deepwater activities. We expect that any funding that may be approved for drilling in 2009 would be allocated primarily to lower risk development and exploitation opportunities. We also expect to incur abandonment costs of approximately \$18.1 million in 2009 on several of our properties in accordance with applicable regulatory requirements. We expect the abandonment work related to our East Bay field will be funded in part by expected draws from restricted escrow funds previously set aside for this work. We have made draws to date of approximately \$3.4 million in 2009.

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The level of our planned capital expenditures is based on several factors, but the primary items driving capital expenditure decisions currently include obligations for our cash flows related to principal and interest on our currently outstanding debt and, our potential future debt under the Plan, and other existing obligations including reducing our working capital deficit. Additionally, estimates for oil and natural gas sales prices, general industry conditions including the level of pricing for equipment and services, and the anticipated level of participation by other working interest owners and the costs of drilling rigs and other oilfield

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goods and services drive our planned level of capital expenditures. We believe that potential industry partners, including those with significantly more resources than us, may choose to defer significant projects and capital expenditures in an effort to preserve cash and strengthen their balance sheets. As a result, we believe the likelihood that we will be able to partner with other working interest owners to explore and develop new opportunities in the near term is diminished as compared to our past expectations.

Based on our planned capital expenditures, we expect that we will not be able to replace reserves at a rate that will allow us to maintain production levels. If actual experience does not improve significantly from the assumptions in our forecast, especially regarding sales prices for oil and natural gas, and our capital expenditures continue at the low levels projected for 2009, we expect that our production will decline significantly in the second half of 2009. Our forecasts do not consider any significant production disruptions that may occur due to hurricanes or other catastrophic events. At our current and anticipated production levels, combined with current sales prices, we do not expect to have sufficient cash flows to fully fund our operations and meet all of our financial obligations in 2009.

We have experienced and expect to again experience substantial working capital deficits. We had a working capital deficit at June 30, 2009 of \$96.1 million, including the impact of our secured bank credit facility of \$83.0 million which is classified as a current liability at June 30, 2009. Excluding the impact of our debt, our working capital deficit was \$13.1 million at June 30, 2009. Our working capital deficits have historically resulted from increased accounts payable and accrued expenses related to ongoing exploration and development costs, which are capitalized as noncurrent assets pending determination of the project's success.

Debt Compliance

We are in default on our Credit Agreement, Senior Unsecured Notes and our 8.75% Senior Notes due 2010.

In March 2009, our borrowing base was redetermined at \$45 million, at which time we had \$83 million outstanding, resulting in a deficiency of \$38 million. The significant effects of this 2009 redetermination are addressed under *Recent Events* above. We are not able to borrow on the Credit Agreement. The Credit Agreement is secured by substantially all of our assets.

NEW ACCOUNTING PRONOUNCEMENTS

See Note 10 of the condensed consolidated financial statements in Item 1, Part I of this Quarterly Report.

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Cautionary Statement Concerning Forward Looking Statements

This Quarterly Report contains certain forward-looking statements within the meaning of Section 21E of the Exchange Act. When used herein, the words will, would, should, likely, estimates, thinks, strives, may, anticipates, expects, believes, intends, goals, expressions are intended to identify forward-looking statements, which are generally not historical in nature. While our management considers the expectations and assumptions to be reasonable when and as made, they are inherently subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties, most of which are difficult to predict and many of which are beyond our control. These risks, contingencies and uncertainties relate to, among other matters, the following:

our inability to continue business operations during the Chapter 11 proceedings;

our ability to consummate the Plan as currently planned and risks associated with negotiating and closing the Exit Facility;

the potential adverse effects of the Chapter 11 Cases on our liquidity and results of operations;

our ability to retain, recruit and motivate key executives and other necessary personnel while seeking to implement the Plan;

our ability to continue as a going concern;

changes in general economic conditions;

uncertainties in reserve and production estimates;

unanticipated recovery or production problems;

hurricane and other weather-related interference with business operations;

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

oil and natural gas prices and competition;

the impact of derivative positions;

production expense estimates;

cash flow estimates;

future financial performance;

planned capital expenditures; and

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

These statements are based on current expectations and projections about future events and involve known and unknown risks, uncertainties, and other factors that may cause actual results and performance to be materially different from any future results or performance expressed or implied by these forward-looking statements. Investors are cautioned that all such statements involve risks and uncertainties. Our actual decisions, performance and results may differ materially. Important trends or factors that could cause actual results to differ materially from those in the forward-looking statements include, but are not limited to, those described in the section *Risk Factors* in Part 1, Item 1A and elsewhere in our 2008 Annual Report, elsewhere in this Quarterly Report, in our reports and registration statements filed from time to time with the SEC, and other announcements we make from time to time.

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We are exposed to changes in interest rates which affect the interest earned on our interest-bearing deposits and the interest rate paid on borrowings under our bank credit facility and \$150 million aggregate principal amount of senior floating rate notes due 2013. Currently, we do not use interest rate derivative instruments to manage exposure to interest rate changes. At June 30, 2009, \$233 million of our indebtedness had variable interest rates while the remaining \$304.5 million had fixed interest rates. If the market interest rates had averaged 1% higher in the second quarter of 2009, interest rates for the period on variable rate debt outstanding during the period would have increased, and net loss before income taxes would have increased, by approximately \$0.6 million based on total variable debt outstanding during the period. If market interest rates had averaged 1% lower in the second quarter of 2009,

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interest expense for the period on variable rate debt would have decreased, and net loss before income taxes would have decreased, by approximately \$0.6 million.

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 reduce the amount of oil and natural gas that we can economically produce. We currently sell all of our oil and natural gas production under price sensitive or market price contracts.

Historically, we have used derivative commodity instruments to manage commodity price risks associated with future oil and natural gas production. However, as a result of our liquidity challenges that led to the Chapter 11 Cases, we settled all of our outstanding derivative contracts during March and May of 2009. We expect to enter into new derivative contracts under the anticipated terms of the Exit Facility.

Item 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) are designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. This information is also accumulated and communicated to management, including our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions regarding required disclosure. Our management, under the supervision and with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the most recent fiscal quarter reported on herein. Based on that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were not effective as of June 30, 2009 because of the material weaknesses discussed below.

As part of our quarterly evaluation of the effectiveness, design and operation of our disclosure controls and procedures described above, we have concluded that the following material weaknesses in internal control over financial reporting that existed at December 31, 2008 continued to exist at June 30, 2009 :

Control Environment over Financial Reporting. We lacked sufficient resources and accounting expertise to perform effective supervisory reviews and monitoring activities over financial reporting matters and controls related to matters involving judgments and estimates.

These deficiencies contributed to the development of the *Complex and Non-Routine Accounting Matters* and *Period-End Financial Reporting Process* material weaknesses described below.

Complex or Non-Routine Accounting Matters. We lacked sufficient expertise and resources within our organization to effectively identify and evaluate the financial reporting implications of complex or non-routine accounting matters, such as application of SFAS No. 143, Accounting for Asset Retirement Obligations.

Period-End Financial Reporting Process. We also lacked sufficient expertise and resources within our organization to ensure journal entries, both recurring and non-recurring, were accompanied by sufficient supporting documentation and were adequately reviewed and approved prior to being recorded.

There were material errors in asset retirement obligations and impairments resulting from the material weaknesses and the errors were corrected prior to the issuance of the financial statements.

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In light of the material weaknesses described above, we performed additional procedures that were designed to provide reasonable assurance regarding the reliability of (1) our financial reporting; and (2) the preparation of the consolidated financial statements contained in this Quarterly Report. Accordingly, management believes that the condensed consolidated financial statements included in this Quarterly Report fairly present, in all material respects, our financial position, results of operations and cash flows for the periods presented.

(b) Changes in Internal Control Over Financial Reporting

There have been no changes in our internal controls over financial reporting that occurred during our quarter ended June 30, 2009 that have materially affected or are reasonably likely to materially affect, our internal controls over financial reporting.

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(c) Management's Remediation Plans

We plan to remediate our material weaknesses caused by a lack of personnel when we are able to recruit and retain the required resources. Management believes that (1) hiring adequate accounting resources with appropriate accounting expertise and (2) enhancing policies and procedures will remedy the material weaknesses described above.

We are committed to finalizing our remediation action plan and implementing the necessary enhancements to our resources, policies and procedures to fully remediate the material weaknesses discussed above, and these material weaknesses will not be considered remediated until (1) new resources are fully engaged and new processes are fully implemented, (2) new processes are implemented for a sufficient period of time and (3) we are confident that the new processes are operating effectively.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS.

For information regarding legal proceedings, see the information in Note 11, Commitments and Contingencies in the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report.

Item 1A. RISK FACTORS.

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our 2008 Annual Report that could materially affect our business, financial condition or future results. The risks described in this Form 10-Q and in our 2008 Annual Report are not the only risks facing our company. Additional risks and uncertainties not currently known to us, or that we currently deem to be immaterial, also may materially adversely affect our business, financial condition and future results.

The following risk factor, included originally in our 2008 Annual Report, has been updated as a result of recent events:

The MMS may shut in production on the outer continental shelf in connection with our failure to provide cash or other adequate security to secure our obligations to plug, abandon and decommission our wellbores and related pipelines and facilities.

Most of our offshore operations are conducted on federal leases that are administered by the MMS and we are required to comply with the regulations and orders promulgated by the MMS under OCSLA. Among other things, MMS regulations establish construction and safety requirements for production facilities located on our federal offshore leases and govern the plugging and abandonment of wells and the operation, maintenance, and removal of production facilities from these leases.

On March 5, 2009, we were notified by the MMS that an Incident of Noncompliance (INC) had been issued as a result of our failure to provide supplemental bonds or other security in the amount of \$16.7 million that was due by February 27, 2009 to guarantee performance of our obligations to abandon wells, remove platforms and facilities, and clear the seafloor of obstructions on leases with associated lease obligations. The INC stated that our failure to correct this INC by the close of business on March 27, 2009 would result in a shut-in of our outer continental shelf facilities associated with South Pass Block 27 and South Pass Block 28 that are located in federal waters, which payment we informed the MMS we could not make by the March 27 deadline. We received an order from the MMS dated March 23, 2009. The March 23, 2009, order required, among other financial requirements, that we immediately shut-in production from all of our wells and facilities located in South Pass Blocks 27 and 28 in the federal portion of our East Bay field, while properly maintaining these facilities and wells with essential personnel. We promptly completed the shut-in of our federal East Bay facilities before the end of March 2009. After further discussions with the MMS, the MMS has requested that three of our unit wells producing in East Bay be shut-in in further to compliance with the March 23, 2009 MMS order affecting our federal leases in East Bay. This subsequent shut-in occurred on August 14, 2009. MMS has acknowledged, however, that production from these three unit wells held the leases while they were producing. Because federal leases would normally terminate if there is no production for 180 consecutive days, the affected leases could expire if (1) we do not comply with the requirements set forth by applicable MMS regulations and restore production to the shut-in federal leases by February 10, 2010; (2) we and the MMS do not otherwise come to an agreement that would prevent the leases from expiring on such date; or (3) there is no other unitized production that would prevent the termination provisions in the affected leases from being triggered.

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The production of oil and natural gas is subject to regulation under a wide range of local, state and federal statutes, rules, orders and regulations which are addressed under Part I, Item 1, Business Environmental Regulations in our 2008 Annual Report.

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

None

Item 3. DEFAULTS UPON SENIOR SECURITIES.

We were required to make annual interest payments of approximately \$45.0 million each year on the Senior Unsecured Notes, of which \$17 million was due on April 15, 2009 and remains unpaid. Our failure to make these interest payments within 30 days of the due date was an event of default under the indenture governing the Senior Unsecured Notes and under the cross-default provision of the Credit Agreement.

On May 1, 2009, we and certain of our subsidiaries filed the Chapter 11 Cases under Chapter 11 of Title 11 of the United States Code, 11 U.S.C. §§ 101 et seq., as amended, in the Bankruptcy Court. The Chapter 11 Cases and related matters are addressed in Note 3 Subsequent Events, Liquidity and Capital Resources of this Quarterly Report. Important additional information regarding the Chapter 11 Cases is available in our 2008 Annual Report, our Current Reports on Form 8-K filed from time to time with the SEC, and other announcements we make from time to time.

Subsequent to our filing the Chapter 11 Cases, we were also required to make an interest payment on the 8.75% Senior Notes due 2010, which amount remains unpaid. Our failure to make the required interest payment within 30 days of the due date was an event of default under the indenture governing the 8.75% Senior Notes due 2010.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None

Item 5. OTHER INFORMATION.

None

Item 6. EXHIBITS.

The exhibits marked with the asterisk symbol (*) are filed or furnished (in the case of Exhibits 32.1 and 32.2) with this Quarterly Report. The exhibits marked with the cross symbol () are management contracts or compensatory plans or arrangements filed pursuant to Item 601(b)(10)(iii) of Regulation S-K.

We have not filed with this Quarterly Report copies of the instruments defining rights of all holders of the long-term debt of us and our consolidated subsidiaries based upon the exception set forth in Item 601(b)(4)(iii)(A) of Regulation S-K. Copies of such instruments will be furnished to the SEC upon request.

Exhibit Number	Description
3.1	Restated Certificate of Incorporation of Energy Partners, Ltd. dated as of November 16, 1999 (incorporated by reference to Exhibit 3.1 to Energy Partners, Ltd. s Form S-1 (File No. 333-42876)).
3.2	Amendment to Restated Certificate of Incorporation of Energy Partners, Ltd. dated as of September 15, 2000 (incorporated by reference to Exhibit 3.2 to Energy Partners, Ltd. s Form S-1 (File No. 333-42876)).
3.3	Certificate of Amendment of the Restated Certificate of Incorporation of Energy Partners, Ltd. dated as of May 5, 2006 (incorporated by reference to Exhibit 3.6 to Energy Partners, Ltd. s Form 10-Q filed May 9, 2006 (File No. 001-16179)).
3.4	

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Certificate of Elimination of the Series A Convertible Preferred Stock, Series B Convertible Preferred Stock and Series C Preferred Stock of Energy Partners, Ltd. (incorporated by reference to Exhibit 4.2 of Energy Partners, Ltd. s Form 8-K filed January 22, 2002 (File No. 001-16179)).

- 3.5 Certificate of Elimination of the Series D Exchangeable Convertible Preferred Stock of Energy Partners, Ltd. (incorporated by reference to Exhibit 3.4 to Energy Partners, Ltd. s Form 10-K filed February 27, 2006 (File No. 001-16179)).
- 3.6 Amended and Restated Bylaws of Energy Partners, Ltd. (incorporated by reference to Exhibit 3.5 of Energy Partners, Ltd. s Form 10-K filed March 3, 2008 (File No. 001-16179)).
- 4.1 Indenture dated as of August 5, 2003 between Energy Partners, Ltd., as Issuer, and Wells Fargo Bank, N.A., as Trustee (incorporated by reference to Exhibit 4.1 to Energy Partners, Ltd. s Form 10-K filed on August 5, 2009 (File No. 011-16179)).
- 4.2 Indenture dated as of April 23, 2007 between Energy Partners, Ltd., as Issuer, and Wells Fargo Bank, N.A., as Trustee (incorporated by reference to Exhibit 4.1 to Energy Partners, Ltd. s Form 8-K filed on April 26, 2007 (File No. 011-16179)).

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Exhibit Number	Description
10.1	Second Amended Joint Plan of Reorganization of Energy Partners, Ltd. and certain of its Subsidiaries Under Chapter 11 of the Bankruptcy Code, as Modified as of July 31, 2009 (incorporated by reference to Exhibit 99.1 to Energy Partners, Ltd. s Form 8-K filed on August 4, 2009 (File No. 001-16179)).
10.2	Plan of Support and Lock-Up Agreement dated as of April 30, 2009 between Energy Partners, Ltd., and the holders of claims against Energy Partners, Ltd. signatory thereto (incorporated by reference to Exhibit 10.1 to Energy Partners, Ltd. s Form 8-K filed on May 5, 2009 (File No. 001-16179)).
10.3	Credit Agreement dated as of April 23, 2007 among Energy Partners, Ltd., Bank of America, N.A., as Administrative Agent, L/C Issuer and Collateral Agent, JPMorgan Chase Bank, N.A. and BNP Paribas, as Co-Syndication Agents, The Bank of Nova Scotia and BMO Capital Markets Financing, Inc., as Co-Documentation Agents, and the other lenders party thereto (incorporated by reference to Exhibit 10.2 to Energy Partners, Ltd. s Form 8-K filed on April 26, 2007 (File No. 001-16179)).
10.4	Letter Agreement dated as of April 3, 2009 among Energy Partners, Ltd., Bank of America, N.A., as Administrative Agent, Lender, Collateral Agent and L/C Issuer, and the other loan parties and lenders party thereto (incorporated by reference to Exhibit 10.4 to Energy Partners, Ltd. s Form 10-K filed on August 5, 2009 (File No. 001-16179)).
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10.6	Term sheet with the United States Department of the Interior, Minerals Management Service dated April 30, 2009 (incorporated by reference to Exhibit 10.6 to Energy Partners, Ltd. s Form 10-K filed on August 5, 2009 (File No. 011-16179)).
10.35	Form of Senior Management Settlement Agreement (incorporated by reference to Exhibit 10.35 to Energy Partners, Ltd. s Form 10-K filed on August 5, 2009 (File No. 011-16179)).
10.36	Form of Omnibus Settlement Agreement (incorporated by reference to Exhibit 10.36 to Energy Partners, Ltd. s Form 10-K filed on August 5, 2009 (File No. 011-16179)).
10.42	Senior Management Settlement Agreement dated as of June 30, 2009 by and between Energy Partners, Ltd. and Thomas DeBrock (incorporated by reference to Exhibit 10.42 to Energy Partners, Ltd. s Form 10-K filed on August 5, 2009 (File No. 011-16179)).
10.50	Settlement Agreement dated as of June 23, 2009 by and between Energy Partners, Ltd. and Stephen D. Longon (incorporated by reference to Exhibit 10.50 to Energy Partners, Ltd. s Form 10-K filed on August 5, 2009 (File No. 011-16179)).
10.51	Settlement Agreement dated as of June 23, 2009 by and between Energy Partners, Ltd. and John H. Peper (incorporated by reference to Exhibit 10.51 to Energy Partners, Ltd. s Form 10-K filed on August 5, 2009 (File No. 011-16179)).
*31.1	Certification of Principal Executive Officer of Energy Partners, Ltd. pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
*31.2	Certification of Principal Financial Officer of Energy Partners, Ltd. pursuant to Section 302 of the Sarbanes Oxley Act of 2002.
*32.1	Section 1350 Certification of Principal Executive Officer of Energy Partners, Ltd. pursuant to Section 906 of the Sarbanes Oxley Act of 2002.
*32.2	Section 1350 Certification of Principal Financial Officer of Energy Partners, Ltd. pursuant to Section 906 of the Sarbanes Oxley Act of 2002.

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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: September 8, 2009

By: /s/ John H. Peper
John H. Peper
Executive Vice President and General Counsel

(authorized officer)

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