

ENERGY PARTNERS LTD
Form 10-Q
May 04, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

OR

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

Commission file number: 001-16179

ENERGY PARTNERS, LTD.

(Exact Name of Registrant as Specified in Its Charter)

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Delaware
(State or Other Jurisdiction of

72-1409562
(I.R.S. Employer

Incorporation or Organization)

Identification Number)

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

70170
(Zip code)

(504) 569-1875

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer ☐ Accelerated filer ☒

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

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

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

As of April 29, 2011, there were 40,192,255 shares of the Registrant's Common Stock, par value \$0.001 per share, outstanding.

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

(UNAUDITED)

(In thousands, except share data)		March 31, 2011	December 31, 2010
ASSETS			
Current assets:			
Cash and cash equivalents		\$ 44,422	\$ 33,553
Trade accounts receivable - net		33,850	21,443
Receivables from insurance		805	2,088
Fair value of commodity derivative instruments		29	186
Deferred tax assets		7,249	2,693
Prepaid expenses		2,910	3,303
Total current assets		89,265	63,266
Property and equipment, under the successful efforts method of accounting for oil and natural gas properties		945,795	719,147
Less accumulated depreciation, depletion and amortization		(199,906)	(168,055)
Net property and equipment		745,889	551,092
Restricted cash		7,216	8,489
Other assets		1,735	1,814
Deferred financing costs net of accumulated amortization of \$162 at March 31, 2011 and \$1,656 at December 31, 2010		5,870	2,245
		\$849,975	\$ 626,906
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable		\$ 14,122	\$ 18,358
Accrued expenses		29,471	28,394
Asset retirement obligations		9,878	16,902
Fair value of commodity derivative instruments		24,248	12,320
Total current liabilities		77,719	75,974
Long-term debt		203,878	
Asset retirement obligations		82,111	54,681
Deferred tax liabilities		18,228	22,469
Fair value of commodity derivative instruments		8,149	
Other		666	666
Commitments and contingencies (Note 8)			
		390,751	153,790
Stockholders' equity:			
Preferred stock, \$0.001 par value per share. Authorized 1,000,000 shares; no shares issued and outstanding at March 31, 2011 and December 31, 2010			

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Common stock, \$0.001 par value per share. Authorized 75,000,000 shares; shares issued and outstanding 40,192,255 and 40,091,664 at March 31, 2011 and December 31, 2010, respectively	40	40
Additional paid-in capital	503,181	502,556
Accumulated deficit	(43,989)	(29,480)
Treasury stock, at cost, 511 shares at March 31, 2011	(8)	
Total stockholders' equity	459,224	473,116
	\$849,975	\$ 626,906

See accompanying notes to condensed consolidated financial statements.

Table of Contents**ENERGY PARTNERS, LTD. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(UNAUDITED)

(In thousands, except per share data)	Three Months Ended March 31,	
	2011	2010
Revenue:		
Oil and natural gas	\$ 67,215	\$ 70,683
Other	34	36
	67,249	70,719
Costs and expenses:		
Lease operating	15,331	14,442
Transportation	135	490
Exploration expenditures and dry hole costs	548	1,854
Impairments	10,788	769
Depreciation, depletion and amortization	21,063	29,855
Accretion of liability for asset retirement obligations	3,575	3,222
General and administrative	5,287	4,188
Taxes, other than on earnings	3,318	2,037
Loss (gain) on abandonment activities	172	(197)
Other	(42)	(52)
Total costs and expenses	60,175	56,608
Income from operations	7,074	14,111
Other income (expense):		
Interest income	10	9
Interest expense	(2,470)	(4,202)
Loss on derivative instruments	(25,525)	(1,924)
Loss on early extinguishment of debt	(2,377)	
	(30,362)	(6,117)
Income (loss) before income taxes	(23,288)	7,994
Benefit from (provision for) income taxes	8,779	(2,878)
Net income (loss)	\$ (14,509)	\$ 5,116
Basic earnings (loss) per share	\$ (0.36)	\$ 0.13
Diluted earnings (loss) per share	\$ (0.36)	\$ 0.13
Weighted average common shares used in computing earnings (loss) per share:		
Basic	40,080	40,040
Effect of dilutive stock options and restricted shares		19
Diluted	40,080	40,059

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See accompanying notes to condensed consolidated financial statements.

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

(In thousands)	Three Months Ended March 31,	
	2011	2010
Cash flows from operating activities:		
Net income (loss)	\$ (14,509)	\$ 5,116
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion and amortization	21,063	29,855
Accretion of liability for asset retirement obligations	3,575	3,222
Loss on early extinguishment of debt	2,377	
Unrealized loss (gain) on derivative contracts	20,234	(1,736)
Non-cash compensation	502	165
Deferred income taxes	(8,797)	2,878
In-kind interest on PIK Notes		3,225
Exploration expenditures	115	1,756
Impairments	10,788	769
Amortization of deferred financing costs and discount on debt	246	504
Loss (gain) on abandonment activities	172	(197)
Changes in operating assets and liabilities:		
Trade accounts receivable	(12,407)	(637)
Other receivables	1,283	1,413
Prepaid expenses	898	(1,872)
Other assets	79	(461)
Accounts payable and accrued expenses	(3,760)	(3,656)
Asset retirement obligations	(7,033)	(1,263)
Net cash provided by operating activities	14,826	39,081
Cash flows used in investing activities:		
Decrease in restricted cash	1,273	390
Property acquisitions	(195,734)	(50)
Exploration and development expenditures	(7,078)	(9,663)
Other property and equipment additions	(167)	(39)
Net cash used in investing activities	(201,706)	(9,362)
Cash flows provided by (used in) financing activities:		
Proceeds from indebtedness	203,794	
Deferred financing costs	(6,164)	
Repayments of indebtedness		(6,250)
Exercise of stock options	119	
Net cash provided by (used in) financing activities	197,749	(6,250)
Net increase in cash and cash equivalents	10,869	23,469
Cash and cash equivalents at beginning of period	33,553	26,745

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Cash and cash equivalents at end of period	\$ 44,422	\$ 50,214
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See accompanying notes to condensed consolidated financial statements.

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ENERGY PARTNERS, LTD. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(1) BASIS OF PRESENTATION

Energy Partners, Ltd. (we, our, us, or the Company) was incorporated as a Delaware corporation on January 29, 1998. We are an independent oil and natural gas exploration and production company. Our current operations are concentrated in the U.S. Gulf of Mexico shelf focusing on state and federal waters offshore Louisiana.

The financial information as of March 31, 2011 and for the three-month periods ended March 31, 2011 and March 31, 2010 has not been audited. However, in the opinion of management, all adjustments (which include only normal, recurring adjustments) necessary to present fairly the financial position and results of operations for the periods presented have been included therein. Certain information and footnote disclosures normally in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission. The condensed consolidated balance sheet at December 31, 2010 has been derived from the audited financial statements at that date. Certain reclassifications have been made to the prior period financial statements in order to conform to the classification adopted for reporting in the current period. These financial statements and footnotes should be read in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2010, as amended (the 2010 Annual Report). The results of operations and cash flows for the first three months of the year are not necessarily indicative of the results of operations which might be expected for the entire year.

(2) ACQUISITIONS

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

The ASOP Acquisition was financed with the proceeds from the sale of \$210 million in aggregate principal amount of 8.25% senior notes due 2018 (the 8.25% Notes), which were offered in a private placement only to qualified institutional buyers under Rule 144A promulgated under the Securities Act of 1933, as amended (the Securities Act), or to persons outside of the United States in compliance with Regulation S promulgated under the Securities Act. After deducting the initial purchasers' discount and offering expenses, we realized net proceeds of approximately \$202 million. See Note 5, Indebtedness for more information regarding our 8.25% Notes.

We have accounted for the ASOP Acquisition using the purchase method of accounting for business combinations, and therefore, we have estimated the fair value of the ASOP Properties as of the February 14, 2011 acquisition date. In the estimation of fair value, management uses various valuation methods including (i) comparable company analysis, which estimates the value of the ASOP Properties based on the implied valuations of other similar operations; (ii) comparable asset transaction analysis, which estimates the value of the acquired operations based upon publicly announced transactions of assets with similar characteristics; (iii) comparable merger transaction analysis, which, much like comparable asset transaction analysis, estimates the value of operations based upon publicly announced transactions with similar characteristics, except that merger analysis analyzes public to public merger transactions rather than solely asset transactions; and (iv) discounted cash flow analysis, which estimates the value of the ASOP Properties by determining the present value of estimated future cash flows. The fair value is based on subjective estimates and assumptions, which are inherently subject to significant uncertainties which are beyond our control. These assumptions represent Level 3 inputs, as further discussed in Note 7, Fair Value Measurements.

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

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The following table summarizes the estimated values of assets acquired and liabilities assumed and reflects management's current estimate of adjustments to purchase price provided for by the purchase and sale agreement of approximately \$5.0 million to reflect an economic effective date of January 1, 2011.

(In thousands)	February 14, 2011
Oil and natural gas properties	\$ 219,282
Asset retirement obligations	(23,548)
Net assets acquired	\$ 195,734

Revenue and lease operating expenses attributable to the ASOP Properties for the three months ended March 31, 2011 were \$16.5 million and \$1.7 million, respectively. We have determined that the presentation of net income attributable to the ASOP Properties is impracticable due to the integration of the related operations upon acquisition. We incurred approximately \$0.5 million in fees related to the acquisition, which were included in general and administrative expenses in the accompanying consolidated statement of operations for the three months ended March 31, 2011.

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

	Pro Forma	
	Three Months Ended	
	March 31,	
	2011	2010
	(in thousands, except per share data)	
Revenue	\$ 80,007	\$ 91,073
Net income (loss)	\$ (12,605)	\$ 8,987
Basic and diluted earnings (loss) per share	\$ (0.31)	\$ 0.22

(3) EARNINGS PER SHARE

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during each period. Diluted earnings per share includes the effect, if dilutive, of potential common shares associated with stock option and restricted share awards outstanding during each period. For the three months ended March 31, 2011, the computation of diluted earnings per share excludes potentially dilutive stock options and non-vested restricted share awards totaling 117,409 weighted average shares because of the net loss for the period.

(4) ASSET RETIREMENT OBLIGATIONS

Changes in our asset retirement obligations were as follows:

	Three Months Ended March 31, 2011 (in thousands)
Balance at December 31, 2010	\$ 71,583

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ASOP Acquisition liabilities assumed	23,548
Accretion expense	3,575
Liabilities incurred	144
Revisions	172
Liabilities settled	(7,033)
 Balance at March 31, 2011	 91,989
Less: End of period, current portion	(9,878)
 End of period, noncurrent portion	 \$ 82,111

(5) INDEBTEDNESS

In connection with the ASOP Acquisition (see Note 2), on February 14, 2011, we issued \$210.0 million in aggregate principal amount of our 8.25% Notes due 2018 and our credit facility existing on that date was terminated and replaced with a new credit facility. The termination of our prior credit facility during the three months ended March 31, 2011 resulted in a loss on early

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extinguishment of debt of \$2.4 million, primarily due to writing off the unamortized deferred financing costs associated with the terminated facility.

Senior Notes Offering

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

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

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

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

At any time prior to February 15, 2014, we may, at our option, on any one or more occasions redeem with the net cash proceeds of certain equity offerings up to 35% of the aggregate principal amount of outstanding 8.25% Notes (which amount includes additional notes issued under the Indenture), upon not less than 30 nor more than 60 days' prior notice, at a redemption price equal to 108.250% of the principal amount of the notes redeemed, plus accrued and unpaid interest and special interest, if any, to the redemption date, provided that: (1) at least 65% of the aggregate principal amount of the 8.25% Notes issued under the Indenture (which amount includes additional notes issued under the Indenture) remains outstanding immediately after the occurrence of such redemption; and (2) the redemption occurs within 90 days of the date of the closing of such equity offering. This option to redeem up to 35% of the aggregate principal amount of outstanding 8.25% Notes with the net cash proceeds of certain equity offerings is considered an embedded derivative. We estimate that the fair value of this option at March 31, 2011 is not material.

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

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

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

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Under the Registration Rights Agreement, we and our guarantor subsidiaries (the "Guarantors") agreed to file a registration statement with the Securities and Exchange Commission (the "SEC") offering to exchange a new series of freely tradable notes having substantially identical terms as the 8.25% Notes ("exchange notes") for the 8.25% Notes. We and the Guarantors have agreed to (i) file a registration statement for the exchange notes with the SEC within 150 days after the closing of the 8.25% Notes offering; (ii) use commercially reasonable efforts to cause the registration statement to be declared effective as soon as practicable, but in any event within 210 days after the closing of the 8.25% Notes offering; and (iii) use commercially reasonable efforts to close the exchange offer 30 business days after the registration statement is declared effective. In certain circumstances, we may be required to file a shelf registration statement to cover resales of the 8.25% Notes. The use of the shelf registration statement will be subject to certain customary suspension periods. If we and the Guarantors do not meet these deadlines, we will be required to pay special interest to holders of 8.25% Notes under certain circumstances.

New Senior Credit Facility

On February 14, 2011, we entered into our new credit facility with BMO Capital Markets, as lead arranger, and Bank of Montreal, as administrative agent and a lender. The terms of our new credit facility establish a revolving credit facility with a four-year term that may be used for revolving credit loans and letters of credit up to an aggregate principal amount of \$250.0 million, subject to an initial borrowing base of \$150.0 million. The maximum amount of letters of credit that may be outstanding at any one time is \$20.0 million, and the amount available under the revolving credit facility is limited by the borrowing base. With the consent of the agent, we also have the ability to increase the aggregate commitments under the new credit facility by up to \$100.0 million to the extent that existing and/or future lenders provide additional commitments. Upon the closing of our new credit facility, our existing credit facility was terminated. We had no amounts drawn under our new credit facility at March 31, 2011 or at the time of closing.

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

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

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

(6) DERIVATIVE TRANSACTIONS

We enter into derivative transactions to reduce exposure to fluctuations in the price of oil and natural gas for a portion of our production. Our fixed-price swaps fix the sales price for a limited amount of our production and, for the contracted volumes, eliminate our ability to benefit from increases in the sales price of the related production. Our put contracts limit our exposure to declines in the sales price of oil for a limited amount of our production. Our collars limit our exposure to declines in the sales price of oil while giving us the ability to benefit from increases to a certain level in the sales price of oil for a limited amount of our production. Derivative contracts are carried at their fair value on the condensed consolidated balance sheets as Fair value of commodity derivative instruments and in Other assets, and all unrealized and realized gains and losses are recorded in Gain (loss) on derivative instruments in Other income (expense) in the condensed consolidated statements of operations.

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As of March 31, 2011, the following derivative instruments were outstanding:

Oil Contracts

Remaining Contract Term	Fixed-Price Swaps			Puts		
	Daily Average		Average Swap Price (\$/Bbl)	Daily Average		Floor Price (\$/Bbl)
	Volume (Bbls)	Volume (Bbls)		Volume (Bbls)	Volume (Bbls)	
April 2011 - July 2011	5,764	703,200	\$ 85.26	502	61,200	\$ 60.00
August 2011 - November 2011	2,059	251,200	\$ 90.42	1,301	158,700	\$ 60.00
December 2011	3,368	104,400	\$ 90.25	1,302	40,350	\$ 60.00
January 2012 - July 2012	2,167	461,500	\$ 95.33			
August 2012 - November 2012	721	88,000	\$ 95.74			
December 2012	1,161	36,000	\$ 95.28			
January 2013 - July 2013	1,703	361,000	\$ 94.28			
August 2013 - November 2013	426	52,000	\$ 94.18			
December 2013	806	25,000	\$ 93.98			

Remaining Contract Term	Collars		
	Daily Average		Strike Price (\$/Bbl)
	Volume (Bbls)	Volume (Bbls)	
January 2012 - July 2012	500	106,500	\$ 85.00/118.85
August 2012 - November 2012	500	61,000	\$ 85.00/118.85
December 2012	500	15,500	\$ 85.00/118.85

The following table presents information about the components of our loss on derivative instruments:

	Three Months Ended March 31,	
	2011	2010
	(in thousands)	
Derivative contracts:		
Unrealized gain (loss) due to change in fair market value	\$ (20,234)	\$ 1,736
Realized loss on settlement	(5,291)	(3,660)
Total loss on derivative instruments	\$ (25,525)	\$ (1,924)

(7) FAIR VALUE MEASUREMENTS

ASC Topic 820, Fair Value Measurements and Disclosures, establishes a fair value hierarchy with three levels based on the reliability of the inputs used to determine fair value. These levels include: Level 1, defined as inputs such as unadjusted quoted prices in active markets for identical assets and liabilities; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs for use when little or no market data exists, therefore requiring an entity to develop its own assumptions.

As of March 31, 2011, we held certain financial assets and liabilities that are required to be measured at fair value on a recurring basis, primarily our commodity derivative instruments. The fair values of derivative instruments were measured using price inputs published by NYMEX. These price inputs are quoted prices for assets and liabilities similar to those held by us and meet the definition of Level 2 inputs within the fair value hierarchy. At March 31, 2011, the carrying amounts and fair values of our derivative instruments are reported as assets totaling \$29 thousand and liabilities totaling \$32.4 million. At December 31, 2010, the carrying amounts and fair values of our derivative instruments are reported as

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assets totaling \$0.2 million and liabilities totaling \$12.3 million.

As of March 31, 2011, the carrying amount of our 8.25% Notes is \$203.9 million, which reflects the \$210.0 million face amount, net of the unamortized amount of initial purchasers' discount of \$6.1 million. We estimate the fair value of the 8.25% Notes at approximately \$208.6 million, based on bid and offer prices indicated by brokers, which are Level 3 inputs within the fair value hierarchy. The 8.25% Notes are not traded and therefore quoted prices are not available.

We evaluate our capitalized costs of proved oil and natural gas properties for potential impairment when circumstances indicate that the carrying values may not be recoverable. Our assessment of possible impairment of proved oil and natural gas properties is based on our best estimate of future prices, costs and expected net future cash flows by property (generally analogous to a field or lease). An impairment loss is indicated if undiscounted net future cash flows are less than the carrying value of a property. The

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impairment expense is measured as the shortfall between the net book value of the property and its estimated fair value measured based on the discounted net future cash flows from the property. The inputs used to estimate the fair value of our oil and natural gas properties meet the definition of Level 3 inputs within the fair value hierarchy. Impairment expense for the three months ended March 31, 2011 was primarily related to reservoir performance at one of our producing fields where a production zone depleted prematurely. In the same field we experienced mechanical difficulties attempting to access a behind-pipe zone and currently do not expect that the behind-pipe reserves will be economically recoverable. This field was determined to have future net cash flows less than its carrying value resulting in the write down of this property to its estimated fair value at March 31, 2011.

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

(8) COMMITMENTS AND CONTINGENCIES

We maintain restricted escrow funds in a trust for future abandonment costs at our East Bay field. The trust was originally funded with \$15 million and, with accumulated interest, increased to \$16.7 million at December 31, 2008. We may draw from the trust upon completion of qualifying abandonment activities at our East Bay field. At March 31, 2011, we had \$7.2 million remaining in restricted escrow funds for decommissioning work in our East Bay field, \$1.0 million of which was drawn in April 2011 and \$0.2 million of which will be available for draw upon completion of certain decommissioning activities as that work progresses. The remaining \$6.0 million will remain restricted until substantially all required decommissioning in the East Bay field is complete. Amounts on deposit in the trust account are reflected in Restricted cash on our consolidated balance sheets.

We record liabilities when we deliver production that is in excess of our interest in certain properties. In addition to these imbalances, we may, from time to time, be allocated cash sales proceeds in excess of amounts that we estimate are due to us for our interest in production. These allocations may be subject to further review, may require more information to resolve or may be in dispute. In July 2010, we were notified by a purchaser of oil production from one of our non-operated fields that we were allocated, and received sales proceeds from, more oil production than we actually sold to that purchaser. These third party misallocations may date back to 2006. The oil purchaser's initial estimate of the oil volumes misallocated to us was approximately 74,000 barrels, which may be valued at up to \$6.9 million based on information provided by the oil purchaser. We have previously recorded an amount that we believe may be payable related to a potential reallocation, which amount is reflected in Accrued expenses in the accompanying condensed consolidated balance sheets as of March 31, 2011.

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

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

(9) Supplemental Condensed Consolidating Financial Information

In connection with the 8.25% Notes offering described in Note 5, all of our existing direct and indirect domestic subsidiaries (other than immaterial subsidiaries) (the Guarantor Subsidiaries) jointly, severally and unconditionally guaranteed the payment obligations under our 8.25% Notes. The following supplemental financial information sets forth, on a consolidating basis, the balance sheets, statements of operations and cash flow information for Energy Partners, Ltd. (Parent Company Only) and for the 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. Certain reclassifications were made to conform all of the financial information to the financial presentation on a consolidated basis. The principal eliminating entries eliminate investments in subsidiaries, intercompany balances and intercompany revenues and expenses.

Table of Contents**Supplemental Condensed Consolidating Balance Sheet****As of March 31, 2011**

	Parent Company Only	Guarantor Subsidiaries	Eliminations (In thousands)	Consolidated
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 44,319	\$ 103	\$	\$ 44,422
Accounts receivable	80,887	235	(46,467)	34,655
Other current assets	8,514	1,674		10,188
Total current assets	133,720	2,012	(46,467)	89,265
Property and equipment	735,460	210,335		945,795
Less accumulated depreciation, depletion and amortization	(164,437)	(35,469)		(199,906)
Net property and equipment	571,023	174,866		745,889
Investment in affiliates	78,130		(78,130)	
Notes receivable, long-term		69,000	(69,000)	
Other assets	14,821			14,821
	797,694	245,878	(193,597)	849,975
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable and accrued expenses	\$ 43,608	\$ 56,330	\$ (46,467)	\$ 53,471
Fair value of commodity derivative instruments	24,248			24,248
Total current liabilities	67,856	56,330	(46,467)	77,719
Long-term debt	203,878	69,000	(69,000)	203,878
Other liabilities	66,736	42,418		109,154
	338,470	167,748	(115,467)	390,751
Stockholders' equity:				
Preferred stock		3	(3)	
Common stock	40	98	(98)	40
Additional paid-in capital	503,181	84,900	(84,900)	503,181
Retained earnings	(43,989)	(6,871)	6,871	(43,989)
Treasury stock, at cost	(8)			(8)
Total stockholders' equity	459,224	78,130	(78,130)	459,224
	797,694	245,878	(193,597)	849,975

Table of Contents**Supplemental Condensed Consolidating Balance Sheet****As of December 31, 2010**

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

Table of Contents**Supplemental Condensed Consolidating Statement of Operations****Three Months Ended March 31, 2011**

	Parent Company Only	Guarantor Subsidiaries	Eliminations (In thousands)	Consolidated
Revenue:				
Oil and natural gas	\$ 46,563	\$ 20,652	\$	\$ 67,215
Other	3,753	31	(3,750)	34
	50,316	20,683	(3,750)	67,249
Costs and expenses:				
Lease operating expenses	11,031	4,300		15,331
Taxes, other than on earnings	365	2,953		3,318
Exploration expenditures, dry hole cost and impairments	11,208	128		11,336
Depreciation, depletion, amortization and accretion	18,248	6,390		24,638
General and administrative	5,175	3,862	(3,750)	5,287
Other expenses	254	11		265
Total costs and expenses	46,281	17,644	(3,750)	60,175
Income from operations	4,035	3,039		7,074
Other income (expense):				
Interest expense, net	(2,460)			(2,460)
Loss on derivative instruments	(25,525)			(25,525)
Loss on early extinguishment of debt	(2,377)			(2,377)
Income from equity investments	1,893		(1,893)	
Income (loss) before income taxes	(24,434)	3,039	(1,893)	(23,288)
Income taxes	9,925	(1,146)		8,779
Net income (loss)	\$ (14,509)	\$ 1,893	\$ (1,893)	\$ (14,509)

Table of Contents**Supplemental Condensed Consolidating Statement of Operations****Three Months Ended March 31, 2010**

	Parent Company Only	Guarantor Subsidiaries (In thousands)	Eliminations	Consolidated
Revenue:				
Oil and natural gas	\$ 57,530	\$ 13,153	\$	\$ 70,683
Other	3,751	35	(3,750)	36
	61,281	13,188	(3,750)	70,719
Costs and expenses:				
Lease operating expenses	10,333	4,109		14,442
Taxes, other than on earnings	495	1,542		2,037
Exploration expenditures, dry hole cost and impairments	2,623			2,623
Depreciation, depletion, amortization and accretion	28,429	4,648		33,077
General and administrative	4,102	3,836	(3,750)	4,188
Other expenses	241			241
Total costs and expenses	46,223	14,135	(3,750)	56,608
Income (loss) from operations	15,058	(947)		14,111
10.9(16)	Employee Stock Purchase Plan of First Interstate BancSystem, Inc., as amended and restated effective April 30, 2003			
10.10(3)	Trademark License Agreements between Wells Fargo & Company and First Interstate BancSystem, Inc.			

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10.12(10)	Employment Agreement between First Interstate BancSystem, Inc. and Lyle R. Knight
10.13(10)	First Interstate BancSystem, Inc. Executive Non-Qualified Deferred Compensation Plan dated November 20, 1998
10.14(7)	First Interstate BancSystem's Deferred Compensation Plan dated December 6, 2000
10.15(12)	First Interstate BancSystem, Inc. 2004 Restricted Stock Award Plan
10.16(17)	Form of First Interstate BancSystem, Inc. Restricted Stock Award Agreement
10.17(17)	Form of First Interstate BancSystem, Inc. Restricted Stock Award Notice of Restricted Stock Award
10.18(21)	First Interstate BancSystem, Inc. 2006 Equity Compensation Plan
31.1	Certification of Annual Report on Form 10-K pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer
31.2	Certification of Quarterly Report on Form 10-Q pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Financial Officer
32	Certification of Quarterly Report on Form 10-Q pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
	Management contract or compensatory plan or arrangement.
(1)	Incorporated by reference to the Registrant's Registration Statement on Form S-1, No. 33-84540.
(2)	Incorporated by reference to the Registrant's Form 8-K dated October 1, 1996.
(3)	Incorporated by reference to the Registrant's

Registration
Statement on
Form S-1,
No. 333-25633.

- (4) Incorporated by reference to the Registrant's Registration Statement on Form S-1, No. 333-3250.
- (5) Incorporated by reference to the Post-Effective Amendment No. 2 to the Registrant's Registration Statement on Form S-1, No. 33-84540.
- (6) Incorporated by reference to the Registrant's Registration Statement on Form S-1, No. 333-37847.
- (7) Incorporated by reference to the Registrant's Form 10-K for the fiscal year ended

December 31, 2002.
- (8) Incorporated by reference to the Registrant's Registration Statement on Form S-8, No. 333-106495.
- (9) Incorporated by reference to the

Registrant's
Registration
Statement on
Form S-8,
No. 333-76825.

- (10) Incorporated by
reference to the
Registrant's Form
10-K for the
fiscal year ended

December 31,
1999.

- (11) Incorporated by
reference to the
Registrant's
Registration
Statement on
Form S-8,
No. 333-69490.

- (12) Incorporated by
reference to the
Registrant's
Post-Effective
Amendment
No. 1 to
Registration
Statement on
Form S-8,
No. 333-76825.

- (13) Incorporated by
reference to the
Registrant's
Form 10-K for
the fiscal year
ended
December 31,
2000.

- (14) Incorporated by
reference to the
Registrant's
Post-Effective
Amendment
No. 2 to
Registration
Statement on

Form S-8,
No. 333-76825.

- (15) Incorporated by
reference to the
Registrant's
Quarterly Report
on Form 10-Q
for the quarter
ended

June 30, 2003.

- (16) Incorporated by
reference to the
Registrant's
Post-Effective
Amendment
No. 3 to
Registration
Statement on
Form S-8,
No. 333-76825.

- (17) Incorporated by
reference to
Registrant's
Quarterly Report
on Form 10-Q
for the quarter
ended

June 30, 2004.

- (18) Incorporated by
reference to
Registrant's
Post-Effective
Amendment
No. 4 to
Registration
Statement of
Form S-8,
No. 333-76825.

- (19) Incorporated by
reference to
Registrant's
Form 8-K dated
June 30, 2005.

(20) Incorporated by reference to the Registrant's Form 10-K for the fiscal year ended December 31, 2004.

(21) Incorporated by reference to the Registrant's Proxy Statement on Schedule 14A related to the Registrant's Annual Meeting of Shareholders held May 5, 2006.

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SIGNATURES

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.

FIRST INTERSTATE BANCSYSTEM,
INC.

Date July 30, 2007

/s/ LYLE R. KNIGHT
Lyle R. Knight
President and Chief Executive Officer

Date July 30, 2007

/s/ TERRILL R. MOORE
Terrill R. Moore
Executive Vice President and Chief
Financial Officer