ENERGY PARTNERS LTD
Form 10-Q
November 12, 2003

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

FORM 10-Q

(Mark One)

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

For The Quarterly Period Ended September 30, 2003

OR

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

Commission file number 001-16179

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

Delaware	72-1409562
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)

201 St. Charles Avenue, Suite 3400 New Orleans, Louisiana	70170
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code: (504) 569-1875

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 [X] No [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined by Rule 12b-2 of the Exchange Act). Yes [X] No [ ]

As of October 31, 2003, there were 32,171,880 shares of the Registrant's Common Stock, par value $0.01 per share, outstanding.

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-1-

TABLE OF CONTENTS

PART I FINANCIAL STATEMENTS

Item 1. Financial Statements:
Consolidated Balance Sheets as of September 30, 2003 and December 31, 2002..........

Consolidated Statements of Operations for the three and nine months ended September 30, 2003 and 2002..........

Consolidated Statements of Cash Flows for the nine months ended September 30, 2003 and 2002..........

Notes to Consolidated Financial Statements ....

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 3. Quantitative and Qualitative Disclosures about Market Risk..........

Item 4. Controls and Procedures..........

PART II OTHER INFORMATION

Item 4. Submission of Matters to the Vote of Security Holders..........

Item 6. Exhibits and Reports on Form 8-K..........

-2-

ITEM 1. FINANCIAL STATEMENTS

ENERGY PARTNERS, LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	September 30, 2003	December 31, 2002
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 89,539	$ 116
Trade accounts receivable -- net of allowance for doubtful accounts of $1,351 in 2003 and 2002	30,150	25,824
Deferred tax asset	219	1,221
Prepaid expenses	1,882	1,868
Total current assets	121,790	29,029
Property and equipment, at cost under the successful efforts method of accounting for oil and natural gas properties	570,158	471,840
Less accumulated depreciation, depletion and amortization	(187,093)	(121,034)

Net property and equipment	383,065	350,806
Other assets	6,151	3,463
Deferred financing costs -- net of accumulated amortization of $3,035 in 2003 and $2,365 in 2002	4,640	922
	$ 515,646	$ 384,220

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	$ 14,560	$ 8,869
Accrued expenses	22,611	43,533
Fair value of commodity derivative instruments	608	3,392
Current maturities of long-term debt	98	92
Total current liabilities	37,877	55,886
Long-term debt	150,343	103,687
Deferred income taxes	25,575	9,033
Other	41,934	23,692
	255,729	192,298
Stockholders' equity:		
Preferred stock, $1 par value, authorized 1,700,000 shares; 368,076 issued and outstanding; aggregate liquidation value $36,807,590	34,684	35,359
Common stock, par value $0.01 per share. Authorized 50,000,000 shares; issued and outstanding: 2003 - 32,158,936 shares; 2002 - 27,550,466 shares	322	276
Additional paid-in capital	228,383	187,965
Accumulated other comprehensive loss	(389)	(2,171)
Accumulated deficit	(3,083)	(29,507)
Total stockholders' equity	259,917	191,922
Commitments and contingencies		
	$ 515,646	$ 384,220

See accompanying notes to consolidated financial statements.

-3-

ENERGY PARTNERS, LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share data)

	Three Months Ended September 30,		Nin
	2003	2002	200

Revenue:			
Oil and natural gas	$ 58,811	$ 33,596	$ 169
Other	68	82	
	58,879	33,678	170
Costs and expenses:			
Lease operating	10,671	8,723	28
Taxes, other than on earnings	1,768	1,676	5
Exploration expenditures and dry hole costs	3,999	4,509	9
Depreciation, depletion and amortization	22,341	16,059	59
General and administrative:			
Stock-based compensation	340	123	
Severance costs	-	-	
Other general and administrative	6,174	4,739	19
Total costs and expenses	45,293	35,829	122
Income (loss) from operations	13,586	(2,151)	47
Other income (expense):			
Interest income	133	17	
Interest expense	(3,120)	(1,799)	(6
	(2,987)	(1,782)	(6
Income (loss) before income taxes and cumulative effect of change in accounting principle	10,599	(3,933)	41
Income taxes	(3,875)	1,377	(15
Income (loss) before cumulative effect of change in accounting principle	6,724	(2,556)	26
Cumulative effect of change in accounting principle, net of income taxes of $1,276	-	-	2
Net income (loss)	6,724	(2,556)	28
Less dividends earned on preferred stock and accretion of discount	(883)	(876)	(2
Net income (loss) available to common stockholders	$ 5,841	$ (3,432)	$ 25
Earnings per share:			
Basic:			
Before cumulative effect of change in accounting principle	$ 0.18	$ (0.12)	$
Cumulative effect of change in accounting principle	-	-	
Basic earnings (loss) per share	$ 0.18	$ (0.12)	$
Diluted:			
Before cumulative effect of change in accounting principle	$ 0.18	$ (0.12)	$
Cumulative effect of change in accounting principle	-	-	

Diluted earnings (loss) per share	$ 0.18	$ (0.12)	$
Weighted average common shares used in computing income (loss) per share:			
Basic	32,101	27,509	30
Incremental common shares	4,806	-	4
Diluted	36,907	27,509	35

See accompanying notes to consolidated financial statements.

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

	Nine Months Ende September 30,	
	2003	200
Cash flows from operating activities:		
Net income (loss)	$ 28,470	$ (7
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Cumulative effect of change in accounting principle, net of tax	(2,268)	
Depreciation, depletion and amortization	59,445	50
Gain on sale of oil and natural gas assets	(207)	
Amortization of deferred revenue	-	(2
Stock-based compensation	819	
Deferred income taxes	15,266	(4
Exploration expenditures	6,120	3
Non-cash effect of derivative instruments	-	
Amortization of deferred financing costs	670	
Other	233	
	108,548	40
Changes in operating assets and liabilities, net of acquisition in 2002:		
Trade accounts receivable	(4,326)	
Prepaid expenses	(14)	
Other assets	(2,688)	(2
Accounts payable and accrued expenses	767	(25
Other liabilities	(663)	(1
Net cash provided by operating activities	101,624	12
Cash flows used in investing activities:		
Acquisition of business, net of cash acquired	(850)	(10

Property acquisitions	(4,365)	(1
Exploration and development expenditures	(86,224)	(21
Other property and equipment additions	(534)	
Proceeds from sale of oil and natural gas assets	579	1
Net cash used in investing activities	(91,394)	(32
Cash flows provided by financing activities:		
Bank overdraft	-	
Deferred financing costs	(4,392)	
Repayments of long-term debt	(118,338)	(15
Equity offering costs	(479)	
Proceeds from public stock offering, net of commissions	38,000	
Proceeds from senior notes offering	150,000	
Proceeds from long-term debt	15,000	43
Dividends paid	(1,304)	(1
Exercise of stock options and warrants	706	
Net cash provided by financing activities	79,193	25
Net increase in cash and cash equivalents	89,423	4
Cash and cash equivalents at beginning of period	116	
Cash and cash equivalents at end of period	$ 89,539	$ 4

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(1) BASIS OF PRESENTATION

Certain information and footnote disclosures normally in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission; however, management believes the disclosures which are made are adequate to make the information presented not misleading. These financial statements and footnotes should be read in conjunction with the financial statements and notes thereto included in Energy Partners, Ltd.'s (the Company) Annual Report on Form 10-K for the year ended December 31, 2002 and Management's Discussion and Analysis of Financial Condition and Results of Operations. The Company maintains a website at www.eplweb.com which contains information about the Company including links to the Company's Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all related amendments. The Company's website and the information contained in it and connected to it shall not be deemed incorporated by reference into this Report on Form 10-Q.

The financial information as of September 30, 2003 and for the three and nine month periods ended September 30, 2003 and 2002 has not been audited. However, in the opinion of management, all adjustments (which include only

normal recurring adjustments) necessary to present fairly the results of operations for the periods presented have been included therein. The results of operations for the first nine months of the year are not necessarily indicative of the results of operations which might be expected for the entire year.

(2) STOCK-BASED COMPENSATION

The Company has two stock award plans, the Amended and Restated 2000 Long Term Stock Incentive Plan and the 2000 Stock Option Plan for Non-Employee Directors (the Plans). The Company accounts for its stock-based compensation in accordance with Accounting Principles Board's Opinion No. 25, "Accounting For Stock Issued to Employees" (Opinion No. 25). Statement of Financial Accounting Standards No. 123 (Statement 123), "Accounting For Stock-Based Compensation" and Statement of Financial Accounting Standards No. 148, "Accounting For Stock-Based Compensation - Transition and Disclosure," (Statement 148) permit the continued use of the intrinsic value-based method prescribed by Opinion No. 25, but require additional disclosures, including pro-forma calculations of earnings and net earnings per share as if the fair value method of accounting prescribed by Statement 123 had been applied. If compensation expense for the Plans had been determined using the fair-value method in Statement 123, the Company's net income (loss) and earnings (loss) per share would have been as follows (in thousands, except per share amounts):

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONT SEPTEMB
	2003	2002	2003
Net income (loss) available to common stockholders:			
As reported	$ 5,841	$ (3,432)	$ 25,779
Pro forma	$ 5,414	$ (4,116)	$ 24,780
Basic earnings (loss) per share:			
As reported	$ 0.18	$ (0.12)	$ 0.85
Pro forma	$ 0.17	$ (0.15)	$ 0.82
Diluted earnings (loss) per share:			
As reported	$ 0.18	$ (0.12)	$ 0.81
Pro forma	$ 0.17	$ (0.15)	$ 0.78
Stock-option based employee compensation cost, net of tax, included in net income (loss) as reported	$ --	$ 28	$ 28

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

(3) BUSINESS COMBINATION

On January 15, 2002, the Company closed the acquisition of Hall-Houston Oil Company (HHOC). The results of HHOC's operations have been included in the Company's consolidated financial statements since that date. HHOC was an oil and natural gas exploration and production company with operations focused in the shallow waters of the Gulf of Mexico. As a result of the acquisition, the Company has a strengthened management team, expanded exploration opportunities as well as a reserve portfolio and production that are more balanced between oil and natural gas.

The acquisition was completed for $38.4 million liquidation preference of newly authorized and issued Series D Exchangeable Convertible Preferred Stock (the Series D Preferred Stock), with an issue date fair value of $34.7 million discounted to give effect to the increasing dividend rate, $38.4 million of 11% Senior Subordinated Notes (the Notes) due 2009 (immediately callable at par), 574,931 shares of common stock with a fair value of approximately $3.0 million determined based on the average market price of the Company's common stock over the period of two days before and after the terms of the acquisition were agreed to and announced, $9.0 million of cash including $3.9 million of accrued interest and prepayment fees paid to former debt holders, and warrants to purchase four million shares of the Company's common stock. Of the warrants, one million have a strike price of $9.00 and three million have a strike price of $11.00 per share. The warrants had a fair value of approximately $3.0 million based on a third party valuation. In addition, the Company incurred approximately $3.6 million of expenses in connection with the acquisition and assumed HHOC's working capital deficit.

In addition, former preferred stockholders of HHOC have the right to receive contingent consideration based upon a percentage of the amount by which the before tax net present value of proved reserves related, in general, to exploratory prospect acreage held by HHOC as of the closing date of the acquisition (the Ring-Fenced Properties) exceeds the net present value discounted at 30%. The potential consideration is determined annually beginning March 3, 2003 and ending March 1, 2007. The cumulative percentage remitted to the participants is 20% for March 3, 2003, 30% for March 1, 2004, 35% for March 1, 2005, 40% for March 1, 2006 and 50% for March 1, 2007. The contingent consideration, if any, may be paid in the Company's common stock or cash at the Company's option (with a minimum of 20% in cash) and in no event will exceed a value of $50 million. On March 17, 2003, the Company capitalized, as additional purchase price, and paid additional consideration of $0.9 million related to the March 3, 2003 contingent consideration payment date. Due to the uncertainty inherent in estimating the value of future contingent consideration which includes annual revaluations based upon, among other things, drilling results from the date of the prior revaluation, and development, operating and abandonment costs and production revenues (actual historical and future projected, as contractually defined, as of each revaluation date) for the Ring-Fenced Properties, total final consideration will not be determined until March 1, 2007. All additional contingent consideration will be capitalized as additional purchase price.

Following the completion of the acquisition, management of the Company assessed the technical and administrative needs of the combined organization. As a result, 14 redundant positions were eliminated including finance, administrative, geophysical and engineering positions in New Orleans and Houston. All terminated employees were informed of their termination date and severance benefits prior to March 31, 2002. Total severance costs under the plan were $1.2 million.

(4) EARNINGS PER SHARE

Basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the potential dilution that could occur if the Company's convertible preferred stock, options and warrants were converted to common stock.

The following table reconciles the net earnings and common shares outstanding used in the calculations of basic and diluted earnings per share for the three and nine month periods ended September 30, 2003. The diluted loss per share calculation for the three and nine months ended September 30, 2002 produces results that are anti-dilutive, therefore, the diluted loss per share

amount

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

as reported for those periods in the accompanying consolidated statements of operations is the same as the basic loss per share amount.

	NET INCOME AVAILABLE TO COMMON STOCKHOLDER
	(IN THOUSAN
Three months ended September 30, 2003:	
Basic	$ 5,84
Effect of dilutive securities:	
Preferred stock	88
Stock options	-
Warrants	-
Diluted	$ 6,72

	NET INCOME AVAILABLE TO COMMON STOCKHOLDER
	(IN THOUSAN
Nine months ended September 30, 2003:	
Basic	$ 25,77
Effect of dilutive securities:	
Preferred stock	2,69
Stock options	-
Warrants	-
Diluted	$ 28,47

(5) HEDGING ACTIVITIES

The Company enters into hedging transactions with major financial institutions or counterparties with a credit rating of A or better to reduce exposure to fluctuations in the price of oil and natural gas. Crude oil hedges are settled based on the average of the reported settlement prices for West Texas Intermediate crude on the New York Mercantile Exchange (NYMEX) for each month. Natural gas hedges are settled based on the average of the last three days of trading of the NYMEX Henry Hub natural gas contract for each month. The Company also uses financially-settled crude oil and natural gas swaps, zero-cost

collars and options that provide floor prices with varying upside price participation.

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

The Company had the following hedging contracts as of September 30, 2003:

NATURAL GAS POSITIONS

REMAINING CONTRACT TERM	CONTRACT TYPE	STRIKE PRICE ($/Mmbtu)	VOLUME (Mmbtu) DAILY	TOTAL
10/03 - 01/04..........	Collar	$3.50/$5.25	10,000	1,230,000
10/03 - 01/04..........	Collar	$3.50/$5.40	10,000	1,230,000
02/04 - 12/04..........	Collar	$3.50/$8.00	10,000	3,350,000
10/03 - 12/03..........	Combination options	$4.19/$6.12/$6.27	20,000	1,840,000
10/03 - 12/03..........	Combination options	$4.17/$6.12/$6.27	10,000	920,000

CRUDE OIL POSITIONS

REMAINING CONTRACT TERM	CONTRACT TYPE	STRIKE PRICE ($/Bbl)	VOLUME (Bbls) DAILY	TOTAL
10/03 - 12/03..........	Swap	$26.36	2,000	184,000
10/03 - 12/03..........	Swap	$24.81	1,000	92,000
01/04 - 12/04..........	Swap	$27.35	1,500	549,000
01/04 - 06/04..........	Collar	$25.00/$31.38	1,500	273,000
07/04 - 09/04..........	Collar	$24.00/$29.00	1,500	138,000

Subsequent to September 30, 2003 the Company entered into the following contracts:

CRUDE OIL POSITIONS

REMAINING CONTRACT TERM	CONTRACT TYPE	STRIKE PRICE ($/Bbl)	VOLUME (Bbls) DAILY	VOLUME (Bbls) TOTAL
10/04 - 12/04.........	Collar	$24.00/$28.75	1,500	138,000

Hedging activities reduced natural gas and crude oil revenues by $1.2 million and $10.0 million in the three and nine month periods ended September 30, 2003 and reduced natural gas and crude oil revenues by $1.6 million and $1.7 million in the three and nine month periods ended September 30, 2002.

The following table reconciles the change in accumulated other comprehensive income for the nine month periods ending September 30, 2003 and 2002:

	NINE MONTHS ENDED SEPTEMBER 30, 2003 (IN THOUSANDS)	
Accumulated other comprehensive loss as of December 31, 2002		$ (2,171)
Net income..	$ 28,470	
Other comprehensive income - net of tax		
Hedging activities		
Reclassification adjustments for settled contracts	6,416	
Changes in fair value of outstanding hedging positions..	(4,634)	
Total other comprehensive income..............	1,782	1,782
Comprehensive income...	$ 30,252	
Accumulated other comprehensive loss as of September 30, 2003		$ (389)

	NINE MONTHS ENDED SEPTEMBER 30, 2002 (IN THOUSANDS)	
Accumulated other comprehensive income as of December 31, 2001		$ 981
Net loss..	$ (7,924)	
Other comprehensive loss - net of tax		
Hedging activities		
Reclassification adjustments for settled contracts....	1,097	
Changes in fair value of outstanding hedging positions	(5,168)	
Total other comprehensive loss..............	(4,071)	(4,071)
Comprehensive loss..	$(11,995)	
Accumulated other comprehensive loss as of September 30, 2002		$ (3,090)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Based upon current prices, the Company expects to transfer approximately $0.7 million of net deferred losses in accumulated other comprehensive loss as of September 30, 2003 to earnings during the next twelve months when the forecasted transactions actually occur.

(6) ASSET RETIREMENT OBLIGATION

In 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" (Statement 143). Statement 143 requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred, a corresponding increase in the carrying amount of the related long-lived asset and is effective for fiscal years beginning after June 15, 2002. The Company adopted Statement 143 effective January 1, 2003, using the cumulative effect approach to recognize transition amounts for asset retirement obligations, asset retirement costs and accumulated depreciation. The Company previously recorded estimated costs of dismantlement, removal, site restoration and similar activities as part of its depreciation, depletion and amortization for oil and natural gas properties and recorded a separate liability for such amounts in other liabilities. The effect of adopting Statement 143 on the Company's results of operations and financial condition included a net increase in long-term liabilities of $14.2 million; an increase in net property, plant and equipment of $17.8 million; a cumulative effect of adoption income of $2.3 million, net of deferred income taxes of $1.3 million.

The following pro forma data summarizes the Company's net loss and net loss per share as if the Company had adopted the provisions of Statement 143 on January 1, 2002, including an associated pro forma asset retirement obligation on that date of $ 33.3 million (in thousands, except per share amounts):

	THREE MONTHS ENDED SEPTEMBER 30, 2002	NINE MONTHS ENDED SEPTEMBER 30, 2002
Net loss available to common stockholders, as reported..	$ (3,432)	$ (10,391)
Pro forma adjustments to reflect retroactive adoption of Statement 143..	(107)	(65)
Pro forma net loss....................................	$ (3,539)	$ (10,456)
Net loss per share:		
Basic - as reported.................................	$ (0.12)	$ (0.38)
Basic - pro forma..................................	$ (0.13)	$ (0.38)
Diluted - as reported...............................	$ (0.12)	$ (0.38)
Diluted - pro forma.................................	$ (0.13)	$ (0.38)

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The following table reconciles the beginning and ending aggregate recorded amount of the asset retirement obligation for the nine months ended September 30, 2003 (in thousands):

	ASSET RETIREMENT OBLIGATION
December 31, 2002	$ 22,669
Net impact of initial adoption	14,211
Accretion expense	1,375
Liabilities incurred	387
Liabilities settled	(1,244)
Revisions in estimated cash flows	3,437
September 30, 2003	$ 40,835

(7) NEW ACCOUNTING PRONOUNCEMENTS

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation -- Transition and Disclosure" (Statement 148). Statement 148 provides alternative methods of transition for a voluntary change to the fair value based method of

accounting for stock-based employee compensation. In addition, Statement 148 amends the disclosure requirements of Statement 123, "Accounting for Stock-Based Compensation," to require more prominent and frequent disclosures in financial statements about the effects of stock-based compensation. The transition guidance and annual disclosure provisions of Statement 148 are effective for fiscal years ending after December 15, 2002, while the interim disclosure provisions are effective for periods beginning after December 15, 2002. The Company is currently assessing the impact of the transition options presented in Statement 148. The disclosures required by Statement 148 are included in note 2.

On April 30, 2003, the FASB issued Statement of Financial Accounting Standards No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" (Statement 149). Statement 149 amends and clarifies the accounting guidance on (1) derivative instruments (including certain derivative instruments embedded in other contracts) and (2) hedging activities that fall within the scope of FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities ("Statement 133"). Statement 149 also amends certain other existing pronouncements, which will result in more consistent reporting of contracts that are derivatives in their entirety or that contain embedded derivatives that warrant separate accounting. Statement 149 is effective (1) for contracts entered into or modified after June 30, 2003, with certain exceptions, and (2) for hedging relationships designated after June 30, 2003. The guidance is to be applied prospectively. The Company has adopted Statement 149 which did not have a material impact on its financial position or

results of operations or cash flows.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" (Statement 150). Statement 150 establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. In accordance with the standard, financial instruments that embody obligations for the issuer are required to be classified as liabilities. Statement 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise shall be effective at the beginning of the first interim period beginning after June 15, 2003. The Company has adopted Statement 150 which did not have a material impact on its financial position or results of operations or cash flows.

Statement of Financial Accounting Standards No. 141, "Business Combinations," and No. 142, "Goodwill and Intangible Assets," became effective for us on July 1, 2001 and January 1, 2002, respectively. On adoption, the Company did not believe that these statements changed the existing authoritative literature specific to accounting for oil and natural gas producing properties. The Company believes accounting standards setters are currently reviewing the application of the accounting prescribed by these statements to the oil and natural gas industry. The result may be to require that mineral use rights, such as leasehold interests, be separately classified in the balance sheets of oil and natural gas companies. Specifically these standards may require that mineral use rights, including proved leaseholds acquired subsequent to June 30, 2001, be classified on the balance sheet as intangible assets. Accordingly, in a future filing the Company may be required to reclassify, on the balance sheets presented, mineral use rights, including leasehold interests, acquired subsequent to July 1, 2001. The reclassification would result in amounts being reclassified from "property and equipment" to "intangible acquired proved leaseholds" and "unproved intangible oil and natural gas properties." At September 30, 2003 the Company estimates that it had unproved and proved leaseholds of approximately $6.0 million and $100.0 million that would have been classified on the balance sheet as unproved intangible oil and natural gas properties and intangible acquired proved leaseholds, respectively, if the interpretation currently being deliberated had been applied. The amounts reclassified from "net property and equipment" would have no effect on depreciation, depletion and amortization, net income (loss) available to common stockholders, total assets or total accumulated depreciation, depletion and amortization for the periods presented.

(8) PUBLIC OFFERING

On April 16, 2003, the Company completed the public offering of approximately 6.8 million shares of its common stock (the Equity Offering), which was priced at $9.50 per share. The Equity Offering included 4.2 million shares offered by the Company, 1.7 million shares offered by Evercore Capital Partners L.P.

and certain of its affiliates, and 0.9 million shares offered by Energy Income Fund, L.P. In addition, the underwriters exercised their option to purchase 1.0 million additional shares to cover over-allotments, the proceeds from which went to selling shareholders and not to the Company. After payment of underwriting discounts and commissions, the offering generated net proceeds to the Company of approximately $38.0 million. After expenses of approximately $0.4 million, the

proceeds were used to repay a portion of outstanding borrowings under the Company's bank credit facility.

(9) INDEBTEDNESS

On August 5, 2003, the Company issued $150 million of 8.75% Senior Notes Due 2010 (the Senior Notes) in a Rule 144A private offering (the Debt Offering) which allows unregistered transactions with qualified institutional buyers. In October 2003, the Company consummated an exchange offer pursuant to which it exchanged registered Senior Notes having substantially identical terms as the Senior Notes for the privately placed Senior Notes. After discounts and commissions and estimated offering expenses, the Company received $145.6 million, which was used to redeem all of the outstanding 11% Senior Subordinated Notes Due 2009 (see note 3) and to repay substantially all of the borrowings outstanding under the Company's bank credit facility. The remainder of the net proceeds will be used for general corporate purposes, including acquisitions.

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

On July 28, 2003 the Company amended its bank credit facility in connection with the Debt Offering. The amendment reduced the borrowing base under the bank credit facility to $60 million upon consummation of the Debt Offering. The borrowing base will remain subject to redetermination based on the proved reserves of the oil and natural gas properties.

(10) SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEET
AS OF SEPTEMBER 30, 2003
(IN THOUSANDS)

	PARENT COMPANY ONLY	GUARANTOR SUBSIDIARIES	ELIMINATIONS
ASSETS			
Current assets:			
Cash and cash equivalents	$ 89,539	$ --	$ --
Trade accounts receivable	24,826	5,324	--
Other current assets	(8,199)	10,300	--
Total current assets	106,166	15,624	--
Property and equipment	394,258	175,900	--
Less accumulated depreciation, depletion and amortization	(124,612)	(62,481)	--
Net property and equipment	269,646	113,419	--
Investment in affiliates	93,563	--	(93,563)
Notes receivable, long-term	--	80,000	(80,000)
Other assets	10,791	--	--
	$ 480,166	$ 209,043	$ (173,563)
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable and accrued expenses	$ 36,640	$ 531	$ --
Fair value of commodity derivative instruments	608	--	--
Current maturities of long-term debt	--	98	--
Total current liabilities	37,248	629	--
Long-term debt	150,100	80,243	(80,000)
Other liabilities	32,901	34,608	--
	220,249	115,480	(80,000)
Stockholders' equity			
Preferred stock	34,684	--	--
Common stock	322	--	--
Additional paid-in capital	228,383	--	--
Accumulated other comprehensive loss	(389)	--	--
Accumulated deficit	(3,083)	93,563	(93,563)
Total stockholders' equity	259,917	93,563	(93,563)
	$ 480,166	$ 209,043	$ (173,563)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
NINE MONTHS ENDED SEPTEMBER 30, 2003

(IN THOUSANDS)

	PARENT COMPANY ONLY	GUARANTOR SUBSIDIARIES	ELIMINATION
Revenue:			
Oil and gas	$ 106,405	$ 63,50	$ -
Other	21,724	203	(21,50
	128,129	63,709	(21,50
Costs and expenses:			
Lease operating expenses	14,959	13,156	-
Taxes, other than on earnings	946	4,973	-
Exploration expenditures	8,935	300	-
Depreciation, depletion and amortization	44,873	14,572	-
General and administrative	19,932	11,301	(11,25
Total Operating expenses	89,645	44,302	(11,25
Income (loss) from operations	38,484	19,407	(10,25
Interest expense, net	(6,347)	(23)	-
Income before income taxes and cumulative effect of change in accounting principle	32,137	19,384	(10,25
Income taxes	(15,066)	--	-
Income before cumulative effect of change in accounting principle	17,071	19,384	(10,25
Cumulative effect of change in accounting principle	11,399	(9,131)	-
Net income (loss)	$ 28,470	$ 10,253	$ (10,25

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
NINE MONTHS ENDED SEPTEMBER 30, 2003
(IN THOUSANDS)

	PARENT COMPANY ONLY	GUARANTOR SUBSIDIARIES	ELIMINATION
Net cash provided by operating activities	$ 82,354	$ 19,270	$ -

Cash flows used in investing activities:			
Acquisition of business, net of cash acquired	(850)	--	-
Property acquisitions	(4,363)	(2)	-
Exploration and development expenditures	(67,029)	(19,195)	-
Other property and equipment additions	(529)	(5)	-
Proceeds from the sale of oil and natural gas assets	579	--	-
Net cash used in investing activities	(72,192)	(19,202)	-
Cash flows provided by (used in) financing activities:			
Deferred financing costs	(4,391)	--	-
Repayments of long-term debt	(118,271)	(68)	-
Equity offering costs	(479)	--	-
Proceeds from public offering net of commissions	38,000	--	-
Proceeds from senior notes offering	150,000	--	-
Proceeds from long-term debt	15,000	--	-
Dividends paid	(1,304)	--	-
Exercise of stock options and warrants	706	--	-
Net cash provided by (used in) financing activities	79,261	(68)	-
Net increase in cash and cash equivalents	89,423	--	-
Cash and cash equivalents at the beginning of the period	116	--	-
Cash and cash equivalents at the end of the period	$ 89,539	$ --	$ -

(11) CONTINGENCIES

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

(12) RECLASSIFICATIONS

Certain reclassifications have been made to the prior period financial statements in order to conform to the classification adopted for reporting in fiscal 2003.

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

OVERVIEW

We are an independent oil and natural gas exploration and production company, incorporated in January 1998, with operations concentrated in the

shallow to moderate depth waters of the Gulf of Mexico Shelf.

We use the successful efforts method of accounting for our investment in oil and natural gas properties. Under this method, we capitalize lease acquisition costs, costs to drill and complete exploration wells in which proven reserves are discovered and costs to drill and complete development wells. Geological and geophysical and delay rental expenditures are expensed as incurred. We conduct many of our exploration and development activities jointly with others and, accordingly, recorded amounts for our oil and natural gas properties reflect only our proportionate interest in such activities. Our annual report on Form 10-K for the fiscal year ended December 31, 2002, includes a discussion of our critical accounting policies, which have not significantly changed.

On January 15, 2002, we closed the acquisition of Hall-Houston Oil Company ("HHOC") and certain affiliated interests. At closing, we issued $38.4 million liquidation preference of newly authorized and issued Series D Exchangeable Convertible Preferred Stock, with an issue date fair value of $34.7 million, discounted to effect the increasing dividend rate, $38.4 million of 11% Senior Subordinated Notes ("the Notes") due 2009 (immediately callable at par) and 574,931 shares of common stock. We also paid $9.0 million of cash including $3.9 million of accrued interest and prepayment fees paid to former debt holders, assumed HHOC's working capital deficit and issued warrants, with a fair market value of approximately $3.0 million, to purchase four million shares of common stock. Former preferred stockholders of HHOC also received the right to receive contingent consideration related to future proved reserve additions generally to come from certain exploratory prospect acreage held by HHOC as of the closing date. We have included the results of operations from the HHOC acquisition with ours from the closing date of January 15, 2002.

On April 16, 2003, we completed the public offering of 4.2 million shares of our common stock. The shares were priced at $9.50 per share. After payment of underwriting discounts and commissions, the offering generated net proceeds to us of approximately $38.0 million. After expenses of approximately $0.4 million, the proceeds were used to repay a portion of outstanding borrowings under our bank credit facility.

On August 5, 2003, we issued $150 million of 8.75% Senior Notes Due 2010 ("the Senior Notes") in a Rule 144A private offering ("the Debt Offering") which allows unregistered transactions with qualified institutional buyers. In October 2003, we consummated an exchange offer pursuant to which we exchanged registered Senior Notes having substantially identical terms as the Senior Notes for the privately placed Senior Notes. After discounts and commissions and estimated offering expenses, we received $145.6 million, which was used to redeem all of our outstanding 11% Senior Subordinated Notes Due 2009 and to repay substantially all of the borrowings outstanding under our bank credit facility. The remainder of the net proceeds will be used for general corporate purposes, including acquisitions.

In October 2003, our principal stockholder, Evercore Capital Partners L.P., together with its affiliates ("Evercore"), exercised a contractual right to request us to register with the SEC for possible public sale all of their approximately 4.5 million shares of common stock. The registration statement was declared effective by the SEC on November 4, 2003. Under our Stockholder Agreement, Evercore is currently entitled to nominate two of our nine directors, and Evercore's approval is required to take a number of corporate actions. As a result, Evercore is in a position to control or influence substantially the manner in which our business is operated. Also under our Stockholder Agreement, the former HHOC shareholders and our management shareholders each have a right to nominate one director. Evercore has informed us that it has agreed with its underwriters to sell all of its shares of our common stock in a public offering, and expects the offering to close on November 17, 2003. If Evercore successfully

completes this sale, the Stockholder Agreement will terminate, Evercore's approval will no longer be required for any of our corporate actions, and no person will have a contractual right to nominate any of our directors.

We amended our bank credit facility in connection with the Debt Offering. The amendment reduced the borrowing base under our bank credit facility to $60 million upon consummation of the Debt Offering. The borrowing base will remain subject to redetermination based on the proved reserves of the oil and natural gas properties.

Our revenue, profitability and future growth rate depend substantially on factors beyond our control, such as economic, political and regulatory developments and competition from other sources of energy. Oil and natural gas prices historically have been volatile and may fluctuate widely in the future. Sustained periods of low prices for oil and natural gas could materially and adversely affect our financial position, our results of operations, the quantities of oil and natural gas reserves that we can economically produce and our access to capital.

RESULTS OF OPERATIONS

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MON SEPTEM
	2003	2002	2003
Net Production (per day):			
Oil (Bbls)	7,841	7,736	7,778
Natural gas (Mcf)	86,301	55,166	76,698
Total barrels of oil equivalent (Boe)	22,225	16,930	20,561
Oil and Natural Gas Revenues (in thousands):			
Oil	$ 19,364	$ 17,928	$ 59,441
Natural gas	39,447	15,668	110,470
Total oil & natural gas revenues	58,811	33,596	169,911
Average Sales Prices (1):			
Oil (per Bbl)	$ 26.84	$ 25.19	$ 27.99
Natural gas (per Mcf)	4.97	3.09	5.28
Average sales price (per Boe)	28.76	21.57	30.27
Average Costs (per Boe):			
Lease operating expense	$ 5.22	$ 5.60	$ 5.01
Taxes, other than on earnings	0.86	1.08	1.05
Depreciation, depletion and amortization	10.93	10.31	10.59

(1) Net of the effect of hedging transactions

PRODUCTION

CRUDE OIL AND CONDENSATE. Our net oil production for the third quarter of 2003 slightly increased to 7,841 Bbls per day from 7,736 Bbls per day in the third quarter of 2002. The increase was the result of some recompletions performed on oil wells that slightly increased production and Tropical Storm Isidore which adversely impacted volumes for the same period in 2002 offset by natural reservoir declines. Our net oil production for the first nine months of

2003 decreased to 7,778 Bbls per day from 8,555 Bbls per day in the same period of 2002. The decrease was the result of natural reservoir declines.

NATURAL GAS. Our net natural gas production for the third quarter of 2003 increased to 86,301 Mcf per day from 55,166 Mcf per day in the third quarter of 2002. Our net natural gas production for the first nine months of 2003 increased to 76,698 Mcf per day from 55,027 Mcf per day in the same period of 2002. The increase was the result of new production from 14 natural gas wells, primarily in federal waters, completed and brought on production subsequent to the third quarter 2002, the storm impact discussed above and partially offset by natural reservoir declines.

REALIZED PRICES

CRUDE OIL AND CONDENSATE. Our average realized oil price in the third quarter of 2003 was $26.84 per Bbl, an increase of 7% from an average realized price of $25.19 per Bbl in the third quarter of 2002. Hedging activities reduced oil price realizations by $1.55 per Bbl or 5% from the $28.39 per Bbl that would have otherwise been received in the third quarter of 2003. In the third quarter of 2002, hedging activities reduced oil price realizations by $1.01 per Bbl or 4% from the $26.20 per Bbl that would have otherwise been received.

Our average realized oil price in the first nine months of 2003 was $27.99 per Bbl, an increase of 21% from an average realized price of $23.07 per Bbl in the first nine months of 2002. Hedging activities reduced oil price realizations by $1.59 per Bbl or 5% from the $29.58 per Bbl that would have otherwise been received in the first nine months of 2003. In the first nine months of 2002, hedging activities reduced oil price realizations by $0.44 per Bbl or 2% from the $23.51 per Bbl that would have otherwise been received.

NATURAL GAS. Our average realized natural gas price in the third quarter of 2003 was $4.97 per Mcf, an increase of 61% from an average realized price of $3.09 per Mcf in the third quarter of 2002. Hedging activities reduced natural gas price realizations by $0.02 per Mcf from the $4.99 per Mcf that would have otherwise been received in the third quarter of 2003. Hedging activities reduced natural gas price realizations by $0.17 per Mcf or 5% from the $3.26 per Mcf that would have otherwise been received in the third quarter of 2002.

Our average realized natural gas price in the first nine months of 2003 was $5.28 per Mcf, an increase of 73% over an average realized price of $3.06 per Mcf in the first nine of 2002. In the first nine months of 2003, hedging activities decreased natural gas price realizations by $0.32 or 6% per Mcf from the $5.60 per Mcf that would have otherwise been received. In the first nine months of 2002, hedging activities decreased natural gas price realizations by $0.04 per Mcf from $3.10 per Mcf that would have otherwise been received.

NET INCOME AND REVENUES

Our oil and natural gas revenues increased to $58.8 million in the third quarter of 2003 from $33.6 million in the third quarter of 2002. The significant increase for this period is the result of the 31% increase in our Boe production volume and increased prices previously discussed.

Our oil and natural gas revenues increased to $169.9 million in the first nine months of 2003 from $99.9 million in the first nine months of 2002. The significant increase in this nine month period is a result of a Boe production volume increase of 16%, combined with an increase in oil and natural gas prices that was more significant than that experienced in the current quarter.

We recognized net income of $6.7 million in the third quarter of 2003 compared to a net loss of $2.6 million in the third quarter of 2002. We recognized net income of $28.5 million in the first nine months of 2003 compared to a net loss of $7.9 million in the first nine months of 2002. The increase in net income was primarily due to the increase in oil and natural gas revenues previously discussed and partially offset by higher operating costs. In addition, the following items had a significant impact on our net income or loss in these periods and affect the comparability of the results of operations for the periods:

- In January 2003, we adopted the Financial Accounting Standards Boards' Statement 143, Accounting for Asset Retirement Obligations, using the cumulative effect approach to recognize transition amounts for asset retirement obligations, asset retirement costs and accumulated depreciation. We previously recorded estimated costs of dismantlement, removal, site restoration and similar activities as part of our depreciation, depletion and amortization for oil and natural gas properties and recorded a separate liability for such amounts in other liabilities. The effect of adopting Statement 143 on the results of operations for the nine months ended September 30, 2003 included a cumulative effect of adoption income of $2.3 million net of deferred income taxes.

- In March 2002, in connection with management's plan to reduce costs and effectively combine the operations of HHOC with ours, we executed a severance plan and recorded an expense of $1.2 million.

OPERATING EXPENSES

Operating expenses during the three and nine month periods ended September 30, 2003 and 2002 were affected by the following:

- Lease operating expense increased to $10.7 million in the third quarter of 2003 from $8.7 million in the third quarter of 2002. This is a result of the addition of production from new fields, whereas the majority of our new production in the past was primarily from our large fields with existing infrastructure and lower variable cost.

  Lease operating expense increased to $28.1 million in the first nine months of 2003 from $26.1 million in the first nine months of 2002. The increase is due to the reason discussed above combined with higher than expected cost on non-operated fields.

- Taxes, other than on earnings increased to $1.8 million in the third quarter of 2003 from $1.7 million in the third quarter of 2002. Taxes, other than on earnings increased to $5.9 million in the first nine months of 2003 from $4.8 million in the first nine months of 2002. The increases were due to increases in the production volumes and prices received for our oil and natural gas production on state leases, primarily at East Bay and Bay Marchand, subject to Louisiana severance taxes.

- Depreciation, depletion and amortization increased to $22.3 million in the third quarter of 2003 from $16.1 million in the third quarter of 2002. Depreciation, depletion and amortization increased to $59.4 million in the first nine months of 2003 from $50.3 million in the first nine months of 2002. The increases in both periods were due to the increased depreciable asset base combined with higher production and a shift in the production contribution from our various fields.

- Other general and administrative expenses increased to $6.2 million in the third quarter of 2003 from $4.7 million in the third quarter of 2002. The increase was primarily due to increased personnel costs ($0.8 million) and increased insurance costs ($0.6 million).

  Other general and administrative expenses increased to $19.2 million in the first nine months of 2003 from $16.0 million in the first nine months of 2002. The increase was primarily due to additional personnel costs ($3.4 million) and increased insurance costs ($0.5 million), offset by eliminating redundant costs in the Houston and New Orleans offices and decreases in various other costs.

- As previously discussed, $1.2 million of severance costs were incurred in the first nine months of 2002 in connection with the HHOC acquisition. Management assessed the personnel needs of the combined companies and implemented a plan to terminate 14 employees.

- Non-cash stock-based compensation expense of $0.3 million was recognized in the third quarter of 2003 compared to $0.1 million in the third quarter of 2002. Non-cash stock-based compensation expense of $0.8 million was recognized in the first nine months of 2003 compared to $0.3 million recognized in the first nine months of 2002. The expense relates to restricted stock performance share awards and stock option grants made to employees.

OTHER INCOME AND EXPENSE

INTEREST. Interest expense increased to $3.1 million in the third quarter of 2003 from $1.8 million in the third quarter of 2002. Interest expense for the year to date period increased to $6.5 million in 2003 from $5.2 million in 2002. The increase was a result of interest expense on the 8.75% Senior Notes issued in August 2003 partially offset by the interest savings from the redemption of the Notes and the repayment of the bank credit facility.

LIQUIDITY AND CAPITAL RESOURCES

We intend to use cash flows from operations before changes in working capital to fund our future capital expenditure program. Our future cash flows from operations before changes in working capital will depend on our ability to maintain and increase production through our development and exploratory drilling program, as well as the prices we receive for oil and natural gas. We may, from time to time, use the availability of our bank credit facility for working capital needs.

Our bank credit facility, as amended on July 28, 2003, consists of a revolving line of credit with a group of banks available through March 30, 2005 (the "bank credit facility"). The bank credit facility currently has a borrowing base of $60 million that is subject to redetermination based on the proved reserves of the oil and natural gas properties that serve as collateral for the bank credit facility as set out in the reserve report delivered to the banks each April 1 and October 1. As of September 30, 2003 we had $59.9 million available under the bank credit facility. The bank credit facility permits both prime rate based borrowings and LIBOR based borrowings plus a floating spread. The spread will float up or down based on our utilization of the bank credit facility. The spread can range from 1.50% to 2.25% above LIBOR and 0% to 0.75% above prime. The borrowing base under the bank credit facility is secured by substantially all of our oil and natural gas assets. In addition, we pay an annual fee on the unused portion of the bank credit facility ranging between ..375% to .5% depending on the utilization of our borrowing base. The bank credit facility contains customary events of default and requires

that we satisfy various financial covenants.

On August 5, 2003, we issued, in a private placement, $150 million of 8.75% Senior Notes due 2010. The Senior Notes bear interest at a rate of 8.75% per annum with interest payable semi-annually on February 1 and August 1, beginning February 1, 2004. We may redeem the notes at our option, in whole or in part, at any time on or after August 1, 2007 at a price equal to 100% of the principal amount plus accrued and unpaid interest, if any, plus a specified premium which decreases yearly from 4.375% in 2007 to 0% in 2009 and thereafter. In addition, at any time prior to August 1, 2006, we may redeem up to a maximum of 35% of the aggregate principal amount with the net proceeds of certain equity offerings at a price equal to 108.75% of the principal amount, plus accrued and unpaid interest. The notes are unsecured obligations and rank equal in right of payment to all existing and future senior debt, including the bank credit facility, and will rank senior or equal in right of payment to all existing and future subordinated indebtedness. The Senior Notes were effectively registered with the Securities and Exchange Commission in October 2003 at 100% of principal amount.

Upon closing on the Senior Notes on August 5, 2003, we called our $38.4 million 11% notes due 2009 for redemption. The redemption of the Notes in aggregate principal and accrued interest were funded with a portion of the proceeds received from the Senior Notes and was completed in August 2003. The Notes were issued on January 15, 2001 as part of the acquisition of HHOC and bore interest at a rate of 11% per annum with interest payable semi-annually on January 15 and July 15. In addition, $39.9 million of the proceeds from the Senior Notes were used to pay substantially all of the borrowings under the bank credit facility. As a result of the issuance of the Senior Notes, our bank credit facility borrowing base was reduced from $100 million to $60 million requiring a non-cash charge of $0.3 million for the write-off of the pro rata remaining balance of unamortized issue costs.

Net cash of $91.4 million used in investing activities in the first nine months of 2003 consisted primarily of oil and natural gas property capital and exploration expenditures. Dry hole costs resulting from exploration expenditures are excluded from operating cash flows and included in investing activities. During the first nine months of 2003, we completed 11 drilling projects, 8 of which were successful and 26 recompletion/workover projects, 23 of which were successful. During the first nine months of 2002, we completed five drilling projects, four of which were successful and 21 recompletion/workover projects, 16 of which were successful.

Our 2003 capital expenditure budget is focused on exploration, exploitation and development activities on our proved properties combined with moderate risk and higher risk exploratory activities on undeveloped leases. We currently intend to allocate approximately 65% of our budget on an annual basis to low risk development and exploitation activities, approximately 25% to moderate risk exploration opportunities and approximately 10% to higher risk, higher potential exploration opportunities. Our capital expenditure budget for 2003 is approximately $110 million. During the first nine months of 2003, capital expenditures were approximately $74.4 million. The level of our capital expenditure budget is based on many factors, including results of our drilling program, oil and natural gas prices, industry conditions, participation by other working interest owners and the costs of drilling rigs and other oilfield goods and services. Should actual conditions differ materially from expectations, some projects may be accelerated or deferred and, consequently, may increase or decrease total 2003 capital expenditures.

We have experienced and expect to continue to experience substantial working capital requirements, primarily due to our active capital expenditure program. We believe that cash flows from operations before changes in working

capital will be sufficient to meet our capital requirements for at least the next twelve months. Availability under the bank credit facility will be used to balance short-term fluctuations in working capital requirements. However, additional financing may be required in the future to fund our growth.

Our annual report on Form 10-K for the year ended December 31, 2002 included a discussion of our contractual obligations; the only changes to that disclosure during the nine months ended September 30, 2003 is the decrease in borrowings under our bank credit facility, redemption of all of the Notes and the issuance of the Senior Notes, discussed herein.

-20-

NEW ACCOUNTING PRONOUNCEMENTS

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation -- Transition and Disclosure" ("Statement 148"). Statement 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, Statement 148 amends the disclosure requirements of Statement 123, "Accounting for Stock-Based Compensation," to require more prominent and frequent disclosures in financial statements about the effects of stock-based compensation. The transition guidance and annual disclosure provisions of Statement 148 are effective for fiscal years ending after December 15, 2002, while the interim disclosure provisions are effective for periods beginning after December 15, 2002. We are currently assessing the impact of the transition options presented in Statement 148. The disclosure provisions required by Statement 148 are included in note 2 of the financial statements.

On April 30, 2003, the FASB issued Statement of Financial Accounting Standards No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("Statement 149"). Statement 149 amends and clarifies the accounting guidance on (1) derivative instruments (including certain derivative instruments embedded in other contracts) and (2) hedging activities that fall within the scope of FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities ("Statement 133"). Statement 149 also amends certain other existing pronouncements, which will result in more consistent reporting of contracts that are derivatives in their entirety or that contain embedded derivatives that warrant separate accounting. Statement 149 is effective (1) for contracts entered into or modified after June 30, 2003, with certain exceptions, and (2) for hedging relationships designated after June 30, 2003. The guidance is to be applied prospectively. We have adopted Statement 149 which did not have a material impact on our financial position or results of operations or cash flows.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("Statement 150"). Statement 150 establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. In accordance with the standard, financial instruments that embody obligations for the issuer are required to be classified as liabilities. Statement 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise shall be effective at the beginning of the first interim period beginning after June 15, 2003. We have adopted Statement 150 which did not have a material impact on our financial position or results of operations or cash flows.

Statement of Financial Accounting Standards No. 141, "Business Combinations," and No. 142, "Goodwill and Intangible Assets," became effective

for us on July 1, 2001 and January 1, 2002, respectively. On adoption, we did not believe that these statements changed the existing authoritative literature specific to accounting for oil and natural gas producing properties. We believe accounting standards setters are currently reviewing the application of the accounting prescribed by these statements to the oil and natural gas industry. The result may be to require that mineral use rights, such as leasehold interests, be separately classified in the balance sheets of oil and natural gas companies. Specifically these standards may require that mineral use rights, including proved leaseholds acquired subsequent to June 30, 2001, be classified on the balance sheet as intangible assets. Accordingly, in a future filing we may be required to reclassify, on the balance sheets presented, mineral use rights, including leasehold interests, acquired subsequent to July 1, 2001. The reclassification would result in amounts being reclassified from "property and equipment" to "intangible acquired proved leaseholds" and "unproved intangible oil and natural gas properties." At September 30, 2003 we estimate that we had unproved and proved leaseholds of approximately $6.0 million and $100.0 million that would have been classified on the balance sheet as unproved intangible oil and natural gas properties and intangible acquired proved leaseholds, respectively, if the interpretation currently being deliberated had been applied. The amounts reclassified from "net property and equipment" would have no effect on depreciation, depletion and amortization, net income (loss) available to common stockholders, total assets or total accumulated depreciation, depletion and amortization for the periods presented.

FORWARD LOOKING INFORMATION

All statements other than statements of historical fact contained in this Report and other periodic reports filed by us under the Securities Exchange Act of 1934 and other written or oral statements made by us or on our behalf, are forward-looking statements. When used herein, the words "anticipates", "expects", "believes", "goals", "intends", "plans", or "projects" and similar expressions are intended to identify forward-looking statements. It is important to note that forward-looking statements are based on a number of assumptions about future events and are subject to various risks, uncertainties and other factors that may cause our actual results to differ materially from the views, beliefs and estimates expressed or implied in such forward-looking statements. We refer you specifically to the section "Additional Factors Affecting Business" in Items 1 and 2 of our Annual Report on Form 10-K for the year ended December 31, 2002. Although we believe that the assumptions on which any forward-looking statements in this Report and other periodic reports filed by us are reasonable, no assurance can be given that such assumptions will prove correct. All forward-looking statements in this document are expressly qualified in their entirety by the cautionary statements in this paragraph.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTEREST RATE RISK

We are exposed to changes in interest rates. Changes in interest rates affect the interest earned on our cash and cash equivalents and the interest rate paid on borrowings under the bank credit facility. Under our current policies, we do not use interest rate derivative instruments to manage exposure to interest rate changes. At September 30, 2003, $0.1 million of our long-term debt had variable interest rates, while the remaining long-term debt had fixed interest rates, therefore an increase in the variable interest rate would not have a material impact on net income.

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 the bank credit facility is subject to periodic redetermination based in part on changing expectations of future prices. Lower prices may also reduce the amount of oil and natural gas that we can economically produce. We currently sell all of our oil and natural gas production under price sensitive or market price contracts.

We use derivative commodity instruments to manage commodity price risks associated with future oil and natural gas production. As of September 30, 2003, we had the following contracts in place:

NATURAL GAS POSITIONS

REMAINING CONTRACT TERM	CONTRACT TYPE	STRIKE PRICE ($/Mmbtu)	VOLUME (Mmbtu) DAILY	VOLUME (Mmbtu) TOTAL
10/03 - 01/04............	Collar	$3.50/$5.25	10,000	1,230,00
10/03 - 01/04............	Collar	$3.50/$5.40	10,000	1,230,00
02/04 - 12/04............	Collar	$3.50/$8.00	10,000	3,350,00
10/03 - 12/03............	Combination options	$4.19/$6.12/$6.27	20,000	1,840,00
10/03 - 12/03............	Combination options	$4.17/$6.12/$6.27	10,000	920,00

CRUDE OIL POSITIONS

REMAINING CONTRACT TERM	CONTRACT TYPE	STRIKE PRICE ($/Bbl)	VOLUME (Bbls) DAILY	VOLUME (Bbls) TOTAL
10/03 - 12/03............	Swap	$26.36	2,000	184,000
10/03 - 12/03............	Swap	$24.81	1,000	92,000
01/04 - 12/04............	Swap	$27.35	1,500	549,000
01/04 - 06/04............	Collar	$25.00/$31.38	1,500	273,000
07/04 - 09/04............	Collar	$24.00/$29.00	1,500	138,000

-22-

Subsequent to September 30, 2003 the Company entered into the following contracts:

CRUDE OIL POSITIONS

REMAINING CONTRACT TERM	CONTRACT TYPE	STRIKE PRICE ($/Bbl)	VOLUME (Bbls) DAILY	VOLUME (Bbls) TOTAL

10/04 - 12/04............	Collar	$24.00/$28.75	1,500	138,000

Our hedged volume as of September 30, 2003 approximated 33% of our estimated production from proved reserves for the balance of the terms of the contracts.

We use a sensitivity analysis technique to evaluate the hypothetical effect that changes in the market value of crude oil and natural gas may have on the fair value of our derivative instruments. At September 30, 2003, the potential change in the fair value of commodity derivative instruments assuming a 10% adverse movement in the underlying commodity price was a $6.2 million increase in the combined estimated loss.

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

ITEM 4. CONTROLS AND PROCEDURES

Under the supervision and with the participation of certain members of the Company's management, including the Chief Executive Officer and Chief Financial Officer, the Company completed an evaluation of the effectiveness of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) to the Securities Exchange Act of 1934, as amended). Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer believe that the disclosure controls and procedures were effective as of the end of the period covered by this report with respect to timely communication to them and other members of management responsible for preparing periodic reports and all material information required to be disclosed in this report as it relates to the Company and its consolidated subsidiaries. There was no change in the Company's internal control over financial reporting during the Company's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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

disclosure controls and procedures were sufficiently effective to provide reasonable assurance that the objectives of our disclosure control system were met.

PART II. OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO THE VOTE OF SECURITY HOLDERS

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits:

10.1 Amendment No. 1 to Registration Rights Agreement between Energy Partners, Ltd., and Evercore Capital Partners L.P., Evercore Capital Partners (NQ) L.P. and Evercore Capital Offshore Partners L.P., Energy Income Fund, L.P., and certain individual shareholders of the Company effective November 3, 2003.

31.1 Rule 13a-14(a)/15d-14(a) Certification of Chairman, President, and Chief Executive Officer of Energy Partners, Ltd.

31.2 Rule 13a-14(c)/15d-14(a) Certification of Executive Vice President and Chief Financial Officer of Energy Partners, Ltd.

32.0 Section 1350 Certifications.

(b) Reports on Form 8-K:

On July 3, 2003 the Company filed/furnished a current report on Form 8-K, reporting, under Items 5 and 9, conformation with the transition provisions of Financial Accounting Standards Board (FASB) Statement 143, Accounting for Asset Retirement Obligations (Statement 143) and the issuance of a press release announcing two additional exploratory successes and updating production guidance for the second quarter of 2003.

On August 8, 2003 the Company filed a current report on Form 8-K, reporting, under Items 5 and 7, the agreement of Evercore Capital Partners, L.P. to sell 2,500,000 shares of the Company's common stock and enclosing the underwriting agreement dated August 7, 2003.

SIGNATURE

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

ENERGY PARTNERS, LTD.

Date: November 12, 2003   By: /s/ SUZANNE V. BAER

Suzanne V. Baer
Executive Vice President and Chief Financial

Officer (Authorized Officer and Principal
Financial Officer)

EXHIBIT INDEX

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