ENERGY PARTNERS LTD
Form S-3
March 14, 2003

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As filed with the Securities and Exchange Commission on March 14, 2003

Registration No. 333-

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-3

**REGISTRATION STATEMENT UNDER
THE SECURITIES ACT OF 1933**

ENERGY PARTNERS, LTD.

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**72-1409562** **(I.R.S. Employer Identification No.)**

201 St. Charles Avenue, Suite 3400

New Orleans, Louisiana 70170
(504) 569-1875
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

John H. Peper

Executive Vice President,
General Counsel and Corporate Secretary
Energy Partners, Ltd.
201 St. Charles Avenue, Suite 3400
New Orleans, Louisiana 70170
(504) 569-1875
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies of communications to:

John Schuster, Esq. **Cahill Gordon & Reindel** **80 Pine Street** **New York, New York 10005** **(212) 701-3000**	**Darrell W. Taylor, Esq.** **Baker Botts L.L.P.** **One Shell Plaza** **910 Louisiana Street** **Houston, TX 77002-4995** **(713) 229-1234**

Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. o

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. o

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to Be Registered	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee
Common Stock, par value $0.01 per share	$80,500,000	$6,512.45

(1) Includes $10,500,000 of common stock issuable upon exercise of the underwriters over-allotment option.

(2) Estimated pursuant to Rule 457 solely for the purpose of calculating the registration fee.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED MARCH 14, 2003

Shares

Energy Partners, Ltd.

Common Stock

We are selling shares of common stock and the selling stockholders are selling shares of common stock. We will not receive any of the proceeds from the shares of common stock sold by the selling stockholders.

Our common stock is listed on the New York Stock Exchange under the symbol EPL. The last reported sale price on March 12, 2003 was $10.70 per share.

The underwriters have an option to purchase from the selling stockholders a maximum of additional shares to cover over-allotments of shares.

Investing in our Common Stock involves risks. See Risk Factors on page 9.

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Energy Partners	Proceeds to Selling Stockholders
Per Share	$	$	$	$
Total	$	$	$	$

Delivery of the shares of common stock will be made on or about , 2003.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Credit Suisse First Boston **Merrill Lynch & Co.**

The date of this prospectus is , 2003.

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You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.

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PROSPECTUS SUMMARY

You should read the following summary together with the more detailed information appearing elsewhere in this prospectus and the financial statements and related notes and other information incorporated by reference in this prospectus. We have provided definitions for some of the oil and natural gas terms used in this prospectus in the Glossary of Oil and Natural Gas Terms included in this prospectus. Unless otherwise indicated, the information contained in this prospectus assumes that the underwriters do not exercise their over-allotment option.

About Energy Partners, Ltd.

We are an independent oil and natural gas exploration and production company focused on the shallow to moderate depth waters of the Gulf of Mexico Shelf. We concentrate on the Gulf of Mexico Shelf region because that area provides us with favorable geologic and economic conditions, including multiple reservoir formations, regional economies of scale, extensive infrastructure and comprehensive geologic databases. We believe that this region offers a balanced and expansive array of existing and prospective exploration, exploitation and development opportunities in both established productive horizons and deeper geologic formations. In addition, we believe the Gulf of Mexico is a critical supply basin in the United States. As of December 31, 2002, we had estimated proved reserves of approximately 127.0 Bcf of natural gas and 26.4 Mmbbls of oil, or an aggregate of approximately 47.5 Mmboe, with a present value of estimated pre-tax future net cash flows of $608.3 million, and of estimated after-tax future net cash flows of $476.9 million based upon year-end 2002 prices and a discount rate of 10%.

Since our incorporation in January 1998 by Richard A. Bachmann, our founder, chairman, president and chief executive officer, we have assembled a team of geoscientists and management professionals with considerable region-specific geological, geophysical, technical and operational experience. We have grown through a combination of exploration, exploitation and development drilling and multi-year, multi-well drill-to-earn programs, as well as strategic acquisitions of mature oil and natural gas fields in the Gulf of Mexico Shelf area, and in early 2002, the acquisition of Hall-Houston Oil Company (Hall-Houston). The acquisition of Hall-Houston strengthened our management team, expanded our property base, reduced our geographic concentration, and moved us to a more balanced oil and natural gas reserves and production profile. It also expanded our technical knowledge base through the addition of quality personnel and geophysical and geological data. Furthermore, the acquisition significantly improved our portfolio of exploration opportunities by adding 12 offshore exploratory blocks to complement our development and drill-to-earn portfolio.

Our principal executive offices are located at 201 St. Charles Avenue, Suite 3400, New Orleans, Louisiana 70170. Our telephone number is (504) 569-1875. We also maintain a web site at www.eplweb.com which contains information about us. Our web site and the information contained in it and connected to it will not be deemed incorporated by reference into this prospectus.

Key Company Strengths

We believe that we possess several strengths that will allow us to implement our strategy. These strengths include:

Track record of reserve and production growth. Over the past three years, from December 31, 1999 to December 31, 2002, we have increased our estimated year-end proved reserves from 5.9 Mmboe to 47.5 Mmboe and increased our annual average daily production from 1,431 Boe to 17,173 Boe. This growth has been a result of our successful drilling activities and acquisitions of producing properties, including those owned by Hall-Houston.

Large prospect inventory and history of successful drilling activities. Currently, we have more than 80 exploratory prospects and leads identified on our existing acreage. During 2002, we drilled 15 prospects and achieved an 80% success rate for these exploratory wells. We have budgeted to drill at least 17 prospects in 2003 and expect to identify a number of additional prospects and leads as we continue to evaluate our geoscience and technical databases.

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Experienced management and technical teams. Led by Richard A. Bachmann, our senior management and technical teams have extensive experience. Our senior management team has an average of 25 years of oil and natural gas industry experience and beneficially owns 19.2% of our common stock. Our technical team includes 26 geoscientists and engineers with an average of 23 years of region specific experience in their technical fields.

Our Strategy

Our goal is to generate an attractive return on capital employed by (a) being a strategic consolidator of assets in the Gulf of Mexico Shelf region and (b) executing a risk-balanced exploration, exploitation and development program on acquired properties, drill-to-earn acreage and newly acquired leases. We anticipate that this investment program will include lower risk exploitation and development activities in and around our existing fields and moderate risk exploration activities in the shallow to moderate depth waters of the Gulf of Mexico Shelf. A limited amount of our exploration budget each year will also be allocated to higher risk, higher potential exploration prospects in this region.

We were founded to address a challenge that major integrated and large independent energy companies face with respect to maximizing the value of their Gulf of Mexico Shelf assets. These companies are currently redirecting human and financial resources away from this area to the deepwater Gulf of Mexico and other areas around the world that have more material growth potential relative to their large existing asset bases. Many of these Shelf assets offer attractive upside potential to our company from a combination of exploitation and exploration drilling opportunities and cost reduction.

An important aspect of our growth strategy is to identify such attractive assets and to create vehicles to facilitate the exit of larger companies from their Gulf of Mexico Shelf assets. Since our inception, we have utilized a combination of multi-year, multi-well drill-to-earn arrangements and property acquisitions to capture targeted opportunities.

We also seek to grow by executing a moderate risk exploratory drilling program on prospects in the Gulf of Mexico Shelf region beyond those existing within our producing property portfolio. Our capability to undertake this expanded effort and our inventory of such opportunities were significantly enhanced by our acquisition of Hall-Houston in January 2002.

A number of key principles underpin our business strategy. These include:

Maintaining a Gulf of Mexico Shelf focus. Initially, we focused on the large, established fields on the Gulf of Mexico Shelf and we intend to continue this focus as one facet of our multi-tiered strategy. Our industry contacts, track record and established credibility with significant Shelf operators position us to grow reserves and production by entering into strategic acquisitions, multi-well, multi-year drill-to-earn programs or other structured exit arrangements with such operators. We also intend to continue to pursue an exploratory drilling program in this area. We believe that we will successfully identify and develop each of these opportunities by leveraging our extensive geophysical, technical and operational expertise. Furthermore, we believe that this region s extensive infrastructure and favorable geologic conditions with multiple known oil and natural gas producing reservoirs will allow us to achieve attractive returns on our investments.

Pursuing a risk-balanced exploration, exploitation and development program. We seek to grow our reserve and production base by balancing the risk mix of our investment program. We intend to allocate approximately 65% of our capital budget on an annual basis to low risk exploitation and development activities, approximately 25% to moderate risk exploration opportunities and approximately 10% to higher risk, higher potential exploration opportunities. We do not consider acquisitions in our capital budget but adjust our capital spending to incorporate opportunities as we identify them.

Expanding our asset base. We intend to grow our asset base through exploration, strategic acquisitions and additional drill-to-earn programs. We believe that we have an inventory of future exploration, exploitation and development projects on our existing properties that should allow us to increase our reserves and production for the foreseeable future. To enhance our inventory, we

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continue to conduct detailed analyses of properties and acreage in our core area to identify new exploration, strategic acquisition and drill-to-earn opportunities. We combine our knowledge of regional geology with industry databases and other available data, including 2-D and 3-D seismic data, to identify these opportunities.

Consolidating strategic, contiguous acreage positions. Our geologists and geophysicists have extensive experience and expertise in the Gulf of Mexico Shelf region. We capitalize on this expertise by consolidating contiguous acreage positions to provide us with the opportunity to integrate numerous geophysical databases that have historically been analyzed separately. We believe the integration of these databases lends additional perspective on potential project opportunities near lease boundaries as well as better interpretation of the broad geologic characteristics of the project area. For instance, we are the first operator to control all of the existing geophysical data in the Greater Bay Marchand area, which we believe provides us with considerable advantages in evaluating our prospect inventory and new business initiatives in this area.

Maintaining a proactive financial risk management program. We use a number of approaches to limit our financial risk. First, we strive to limit annual capital spending for exploration, exploitation and development activities to discretionary cash flow from operations, which is operating cash flow before changes in working capital plus total exploration expenditures. We typically only use our revolving credit facility to balance working capital fluctuations and to support acquisition activities. Second, we set conservative guidelines to limit total leverage using a number of metrics to gauge appropriate debt levels, including our debt to total capitalization ratio, cash flow coverage ratios and debt per Boe of proved reserves. Finally, we engage in an active commodity price hedging program. We believe the maintenance of a conservative financial structure will position us to capitalize on opportunities as we identify them.

Continuing to operate our properties. We seek to retain operatorship of the majority of our properties. Operatorship provides us with the opportunity to exercise greater control over the cost, timing and nature of our exploration, exploitation and development activities as well as to influence the timing and amount of plugging and abandonment liabilities. As of December 31, 2002, we operated approximately 92% of our production.

Our Principal Oil and Natural Gas Properties

At December 31, 2002, we had interests in 19 producing fields and 5 fields under development, all of which are located in the Gulf of Mexico Shelf region. These fields fall into three focus areas which we identify as our Eastern, Central and Western areas. The Eastern area is comprised of two fields, including the East Bay field. The Central area is comprised of five fields, three of which are contiguous and together cover most of the Bay Marchand salt dome. The Western area is comprised of 12 producing fields consisting primarily of those acquired in the Hall-Houston acquisition.

Eastern Area

East Bay is the key asset in our Eastern area and is located 89 miles southeast of New Orleans near the mouth of the Mississippi River. East Bay contains producing wells located onshore along the coastline and in water depths ranging up to approximately 85 feet. The field encompasses nearly 48 square miles and is comprised of three primary oil and natural gas fields, South Pass 24, 27 and 39. Through two state lease sales in 2001 and the March 2002 federal lease sale, we acquired acreage that is contiguous to East Bay in several additional South Pass blocks. We are the operator of these fields and own an average 96.3% working interest with our net revenue interest ranging from 42% to 86%. Inclusive of all lease acquisitions, our lease area covers 31,703 gross acres (30,524 net acres).

Our Eastern area operations accounted for approximately 52% of our net daily production during 2002 and 27% ($18.1 million) of our 2002 capital expenditures.

Central Area

The focus of our Central area operations is Greater Bay Marchand, which is located approximately 60 miles south of New Orleans in water depths of 60 feet or less and encompasses nearly 100 square miles. Also included in the Central area are two producing properties acquired in the Hall-Houston acquisition. Our key assets in Greater Bay Marchand include the Bay Marchand and South Timbalier 26 fields.

We have interests in 36 producing wells which we have drilled under drill-to-earn arrangements with ChevronTexaco Corporation (ChevronTexaco). Our current drill-to-earn agreement with ChevronTexaco in the Bay Marchand field provides for a five-well drilling program. This five-well program commenced in the fourth quarter of 2002 with the drilling, through sidetracks, of two successful exploration wells. Pursuant to our drill-to-earn agreement, we acquired a 40% working interest in the two wells we have drilled and intend to retain a similar interest in the three remaining wells. We are the operator of the drilling and completion of wells under this program, and ChevronTexaco serves as operator of production operations.

In mid-1998, we purchased a 20% working interest in the South Timbalier 26 field. As a result of two transactions in early 2000, we increased our working interest position to 50%. We continue to serve as operator of this field where we have interests in 12 producing wells.

Our Central area operations accounted for approximately 25% of our net daily production during 2002 and 4% ($2.9 million) of our 2002 capital expenditures.

Western Area

In connection with the Hall-Houston acquisition, we added ten producing fields and one field under development to our property portfolio in our Western area. These properties are located in water depths ranging from 20 to 476 feet. We operate all of these properties, with working interests ranging from 25% to 100%. Subsequent to the acquisition, we acquired two leases at the March 2002 federal lease sale and also acquired working interests in several additional leases through trades with industry partners which, after accounting for our exploratory drilling activity in 2002, brought our total number of fields in this area at December 31, 2002 to 12 producing fields with another five under development.

Our Western area operations accounted for approximately 23% of our net daily production during 2002 and accounted for 69% ($47.1 million) of our 2002 capital expenditures.

The Offering

Common stock offered by Energy Partners	shares
Common stock offered by the selling stockholders	shares
Shares outstanding after the offering	shares
Use of proceeds	We intend to use our net proceeds from this offering to repay a portion of our outstanding borrowings under our revolving credit facility. We will not receive any of the proceeds of the sale of common stock by the selling stockholders.
Risk factors	Please read Risk Factors and other information included in this prospectus for a discussion of factors you should consider carefully before deciding to invest in shares of our common stock.
New York Stock Exchange symbol	EPL

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The number of shares outstanding after the offering is based on 27,658,801 shares of common stock outstanding as of February 28, 2003, and excludes:

- 373,591 shares of Series D preferred stock convertible into 4,374,600 shares of common stock;
- warrants expiring January 2007 to purchase 3,996,700 shares of common stock, of which 3,000,000 are exercisable at $11.00 per share and 996,700 are exercisable at $9.00 per share; and
- stock options to purchase an aggregate of 1,955,433 shares of common stock with a weighted average exercise price of $9.30, of which 851,368 options were exercisable as of February 28, 2003 with a weighted average exercise price of $9.31.

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Summary Financial Data

The following table sets forth our summary financial data as of and for each of the years indicated. The consolidated statement of operations data for the three years ended December 31, 2002 and the consolidated balance sheet data as of December 31, 2002 were derived from our audited consolidated financial statements incorporated by reference in this prospectus. The following information should be read in conjunction with the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus and with our consolidated financial statements and accompanying notes incorporated by reference in this prospectus.

	Years Ended December 31,		
	2002	2001	2000
	(In thousands, except per share data)		
Statement of Operations Data:			
Revenue	$ 134,031	$ 146,201	$ 103,236
Costs and expenses:			
Lease operating	34,400	36,543	24,241
Taxes, other than on earnings	6,572	7,190	6,327
Exploration expenditures and dry hole costs	10,735	15,141	1,703
Depreciation, depletion and amortization	64,513	46,870	25,595
General and administrative (1)	24,168	19,833	54,091
Total costs and expenses	140,388	125,577	111,957
Income (loss) from operations	(6,357)	20,624	(8,721)
Interest income	107	329	596
Interest expense	(6,988)	(1,916)	(7,438)
Gain (loss) on sale of oil and natural gas assets	(243)	39	7,781
Income (loss) before income taxes	(13,481)	19,076	(7,782)
Income taxes	4,682	(7,102)	(10,902)
Net income (loss)	$ (8,799)	$ 11,974	$ (18,684)
Net income (loss) available to common stockholders (2)	$ (12,129)	$ 11,974	$ (25,387)
Basic earnings (loss) per share	$ (0.44)	$ 0.45	$ (2.27)
Diluted earnings (loss) per share	$ (0.44)	$ 0.44	$ (2.27)

	As of December 31, 2002
	(In thousands)
Balance Sheet Data:	
Total assets	$ 384,220
Long-term debt, excluding current maturities	103,687
Stockholders equity	191,922

(1)

In 2000, general and administrative expense includes a one time non-cash stock compensation charge for shares released from escrow to management and director stockholders of $38.2 million and a non-cash charge of $2.1 million for bonus shares awarded to employees at the time of the initial public offering. The after-tax amount of these charges totaled $39.5 million. Although these charges reduced our net income they increased paid-in-capital, and thus did not result in a net reduction of total stockholders equity.

(2) Net income (loss) available to common stockholders is computed by subtracting preferred stock dividends and accretion of discount of $3.3 million from net loss for the year ended December 31, 2002 and by subtracting preferred stock dividends and accretion of issuance costs of $0 and $6.7 million for the years ended December 31, 2001 and 2000, respectively.

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Summary Reserve and Operating Data

The following table presents our estimated net proved oil and natural gas reserves and the present value of our reserves at December 31, 2002, 2001 and 2000 and our historical operating data for the three years ended December 31, 2002. The December 31, 2002 estimates of proved reserves are based on reserve reports prepared by Netherland, Sewell & Associates, Inc. and Ryder Scott Company, L.P., independent petroleum engineers, and the December 31, 2001 and 2000 estimates are based on a reserve report prepared by Netherland, Sewell & Associates, Inc. Neither the present values, discounted at 10% per annum, of estimated future net cash flows before income taxes or the standardized measure of discounted future net cash flows shown in the table are intended to represent the current market value of the estimated oil and natural gas reserves we own. Letters prepared by Netherland, Sewell & Associates, Inc. and Ryder Scott Company, L.P. summarizing the reserve reports have been filed as exhibits to our 2002 Form 10-K and are incorporated herein by reference. There are numerous uncertainties inherent in estimating quantities of proved oil and natural gas reserves and in projecting future rates of production and timing of development expenditures. For a discussion of these uncertainties, please read Risk Factors and note 19 of the notes to our consolidated financial statements incorporated by reference in this prospectus.

Reserve Data

	As of December 31,		
	2002	2001	2000
Net oil reserves (Mbbls):			
Proved developed	21,070	22,176	25,024
Proved undeveloped	5,283	3,286	2,497
Total	26,353	25,462	27,521
Net natural gas reserves (Mmcf):			
Proved developed	70,014	38,099	39,522
Proved undeveloped	56,943	23,698	9,628
Total	126,957	61,797	49,150
Total estimated net proved reserves (Mboe)	47,513	35,762	35,712
Estimated future net revenues before income taxes (in thousands) (1)	$815,985	$168,007	$641,241
Present value of estimated future net revenues before income taxes (in thousands) (1)(2)	$608,273	$129,122	$489,945
Standardized measure of discounted future net cash flows (in thousands) (3)	$476,901	$123,377	$348,102

(1) The December 31, 2002 amount was calculated using a period-end oil price of $29.53 per barrel and a period-end natural gas price of $4.83 per Mcf while the December 31, 2001 amount was calculated using a period-end oil price of $18.21 per barrel and a period-end natural gas price of $2.71 per Mcf.

(2) The present value of estimated future net revenues attributable to our reserves was prepared using constant prices, as of the calculation date, discounted at 10% per year on a pre-tax basis.

(3) The standardized measure of discounted future net cash flows represents the present value of future cash flows after income tax discounted at 10%.

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Operating Data

	Years Ended December 31,		
	2002	2001	2000
Net production (per day):			
Oil (Bbls)	8,148	10,358	7,622
Natural gas (Mcf)	54,150	34,562	15,781
Total (Boe)	17,173	16,118	10,252
Oil & gas revenues (in thousands):			
Oil	$ 70,311	$ 88,633	$ 72,141
Natural gas	63,835	55,511	28,751
Total	134,146	144,144	100,892
Average sales prices (1):			
Oil (per Bbl)	$ 23.64	$ 23.44	$ 25.86
Natural gas (per Mcf)	3.23	4.40	4.98
Total (per Boe)	21.40	24.50	26.89
Average costs (per Boe):			
Lease operating expense	$ 5.49	$ 6.21	$ 6.46
Taxes, other than on earnings	1.05	1.22	1.69
Depreciation, depletion and amortization	10.29	7.97	6.82

(1) Prices are net of hedging transactions, which had the following impact:

Reduced oil price realizations by $0.51, $1.10 and $3.80 per barrel for the years ended December 31, 2002, 2001 and 2000, respectively.

Reduced natural gas price realizations by $0.18 per Mcf for the year ended December 31, 2002 and increased natural gas price realizations by $0.05 per Mcf for the year ended December 31, 2001. There were no natural gas hedges in place in 2000.

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RISK FACTORS

You should consider carefully each of the risks described below, together with all of the other information contained in this prospectus, before deciding to invest in shares of our common stock. If any of the following risks develop into actual events, our business, financial condition or results of operations could be materially adversely affected, the trading price of our common stock could decline and you may lose all or part of your investment.

Risks Relating to the Oil and Natural Gas Industry

Exploring for and producing oil and natural gas are high-risk activities with many uncertainties that could adversely affect our business, financial condition or results of operations.

Our future success will depend on the success of our exploration and production activities. Our oil and natural gas exploration and production activities are subject to numerous risks beyond our control, including the risk that drilling will not result in commercially viable oil or natural gas production. Our decisions to purchase, explore, develop or otherwise exploit prospects or properties will depend in part on the evaluation of data obtained through geophysical and geological analyses, production data and engineering studies, the results of which are often inconclusive or subject to varying interpretations. Please read Reserve estimates depend on many assumptions that may prove to be inaccurate for a discussion of the uncertainty involved in these processes. Our cost of drilling, completing and operating wells is often uncertain before drilling commences. Overruns in budgeted expenditures are common risks that can make a particular project uneconomical. Further, many factors may curtail, delay or cancel drilling, including the following:

- pressure or irregularities in geological formations;
- shortages of or delays in obtaining equipment and qualified personnel;
- equipment failures or accidents;
- adverse weather conditions, such as hurricanes and tropical storms;
- reductions in oil and natural gas prices;
- title problems; and
- limitations in the market for oil and natural gas.

We may incur substantial losses and be subject to substantial liability claims as a result of our oil and natural gas operations.

Losses and liabilities arising from uninsured and underinsured events could materially and adversely affect our business, financial condition or results of operations. Our oil and natural gas exploration and production activities are subject to all of the operating risks associated with drilling for and producing oil and natural gas, including the possibility of:

- environmental hazards, such as uncontrollable flows of oil, natural gas, brine, well fluids, toxic gas or other pollution into the environment, including groundwater and shoreline contamination;
- abnormally pressured formations;
- mechanical difficulties, such as stuck oil field drilling and service tools and casing collapse;
- fires and explosions;
- personal injuries and death; and

natural disasters.

Any of these risks could adversely affect our ability to conduct operations or result in substantial losses to our company. We maintain insurance at levels that we believe are consistent with industry practices, but we are not fully insured against all risks. We may elect not to obtain insurance if we believe that the cost of available insurance is excessive relative to the risks presented. In addition, pollution and environmental risks generally are not fully insurable. If a significant accident or other event occurs and is not fully covered by insurance, it could adversely affect us.

A substantial or extended decline in oil and natural gas prices may adversely affect our business, financial condition or results of operations and our ability to meet our capital expenditure obligations and financial commitments.

The price we receive for our oil and natural gas production heavily influences our revenue, profitability, access to capital and future rate of growth. Oil and natural gas are commodities and, therefore, their prices are subject to wide fluctuations in response to relatively minor changes in supply and demand. Historically, the markets for oil and natural gas have been volatile. These markets will likely continue to be volatile in the future. The prices we receive for our production, and the levels of our production, depend on numerous factors beyond our control. These factors include:

- changes in the global supply, demand and inventories of oil;
- domestic natural gas supply, demand and inventories;
- the actions of the Organization of Petroleum Exporting Countries, or OPEC;
- the price and quantity of foreign imports of oil;
- political conditions, including embargoes, in or affecting other oil-producing countries;
- economic and energy infrastructure disruptions caused by actual or threatened acts of war, or terrorist activities, or national security measures deployed to protect the United States from such actual or threatened acts or activities;
- economic stability of major oil and natural gas companies and the interdependence of oil and natural gas and energy trading companies;
- the level of worldwide oil and natural gas exploration and production activity;
- weather conditions;
- technological advances affecting energy consumption; and
- the price and availability of alternative fuels.

Lower oil and natural gas prices may not only decrease our revenues on a per unit basis, but also may reduce the amount of oil and natural gas that we can produce economically. A substantial or extended decline in oil and natural gas prices may materially and adversely affect our future business, financial condition, results of operations, liquidity or ability to finance planned capital expenditures. Further, oil prices and natural gas prices do not necessarily move together.

Reserve estimates depend on many assumptions that may prove to be inaccurate. Any material inaccuracies in these reserve estimates or underlying assumptions will materially affect the quantities and present value of our reserves.

The process of estimating oil and natural gas reserves is complex. It requires interpretations of available technical data and many assumptions, including assumptions relating to economic factors. Any significant inaccuracies in these interpretations or assumptions could materially affect the estimated quantities and present value of reserves shown in this prospectus.

In order to prepare our estimates, we must project production rates and timing of development expenditures. We must also analyze available geological, geophysical, production and engineering data. The extent, quality and reliability of this data can vary. The process also requires economic assumptions about matters such as oil and natural gas prices, drilling and operating expenses, capital expenditures, taxes and availability of funds. Therefore, estimates of oil and natural gas reserves are inherently imprecise.

Actual future production, oil and natural gas prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable oil and natural gas reserves most likely will vary from our estimates.

You should not assume that the present value of future net revenues from our proved reserves referred to in this prospectus is the current market value of our estimated oil and natural gas reserves. In accordance with SEC requirements, we generally base the estimated discounted future net cash flows from our proved reserves on prices and costs on the date of the estimate. Actual future prices and costs may differ materially from those used in the present value estimate.

Market conditions or operational impediments may hinder our access to oil and natural gas markets or delay our production.

Market conditions or the unavailability of satisfactory oil and natural gas transportation arrangements may hinder our access to oil and natural gas markets or delay our production. The availability of a ready market for our oil and natural gas production depends on a number of factors, including the demand for and supply of oil and natural gas and the proximity of reserves to pipelines and terminal facilities. Our ability to market our production depends in substantial part on the availability and capacity of gathering systems, pipelines and processing facilities owned and operated by third parties. Our failure to obtain such services on acceptable terms could materially harm our business. We may be required to shut in wells for lack of a market or because of inadequacy or unavailability of oil or natural gas pipeline or gathering system capacity. If that were to occur, we would be unable to realize revenue from those wells until production arrangements were made to deliver to market.

Risks Relating to Energy Partners

Our limited operating history makes evaluating our business difficult.

We have only a limited operating history upon which you can evaluate our business and prospects. Because of our limited operating history, our future results of operations are difficult to estimate accurately. We also completed two acquisitions in 2000 and the acquisition of Hall-Houston in January 2002, which have changed our company.

A significant part of the value of our production and reserves is concentrated in one property. Because of this concentration, any production problems or inaccuracies in reserve estimates related to this property could impact our business adversely.

During the month of December 2002, 57% of our net daily production came from our East Bay field. If mechanical problems, storms or other events curtail a substantial portion of this production, our cash flow would be affected adversely. Also, at December 31, 2002, approximately 58% of our proved reserves were located on this property. If the actual reserves associated with this property are less than our estimated reserves, our business, financial condition or results of operations could be adversely affected.

Relatively short production lives for Gulf of Mexico properties subject us to higher reserve replacement needs.

Producing oil and natural gas reservoirs generally are characterized by declining production rates that vary depending upon reservoir characteristics and other factors. High production rates generally result in recovery of a relatively higher percentage of reserves from properties during the initial few years of production. All of our operations are on the Gulf of Mexico Shelf. Production from reserves in reservoirs in the Gulf of Mexico generally declines more rapidly than from reservoirs in many other producing regions of the world. As a result, our reserve replacement needs from new investments are relatively greater. Our future oil and natural gas reserves and production, and, therefore, our cash flow and income, are highly dependent on our success in efficiently developing and exploiting our current reserves and economically finding or acquiring additional recoverable reserves.

Rapid growth may place significant demands on our resources.

We have experienced rapid growth in our operations and expect that expansion of our operations will continue. Our acquisition of Hall-Houston generated most of our growth in 2002. Our rapid growth has

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placed, and our anticipated future growth will continue to place, a significant demand on our managerial, operational and financial resources due to:

- the need to manage relationships with various strategic partners and other third parties;
- difficulties in hiring and retaining skilled personnel necessary to support our business;
- complexities in integrating acquired businesses and personnel;
- the need to train and manage our employee base; and
- pressures for the continued development of our financial and information management systems.

If we have not made adequate allowances for the costs and risks associated with these demands or if our systems, procedures or controls are not adequate to support our operations, our business could be harmed.

Properties that we buy may not produce as projected, and we may be unable to fully identify liabilities associated with the properties or obtain protection from sellers against them.

Our strategy includes acquisitions. The successful acquisition of producing properties requires assessments of many factors, which are inherently inexact and may be inaccurate, including:

- the amount of recoverable reserves;
- future oil and natural gas prices;
- estimates of operating costs;
- estimates of future development costs;
- estimates of the costs and timing of plugging and abandonment; and
- potential environmental and other liabilities.

Our assessments will not reveal all existing or potential problems, nor will they permit us to become familiar enough with the properties to evaluate fully their deficiencies and capabilities. In the course of our due diligence, we may not inspect every well, platform or pipeline. We cannot necessarily observe structural and environmental problems, such as pipeline corrosion or groundwater contamination, when an inspection is conducted. We may not be able to obtain contractual indemnities from the seller for liabilities that it created. We may be required to assume the risk of the physical condition of the properties in addition to the risk that the properties may not perform in accordance with our expectations.

Substantial acquisitions, drill-to-earn programs or other transactions could require significant external capital and could change our risk and property profile.

In order to finance acquisitions of additional producing properties, finance the development of any discoveries made through any expanded exploratory program that might be undertaken or enter into significant drill-to-earn programs, we may need to alter or increase our capitalization substantially through the issuance of debt or equity securities, the sale of production payments or other means. These changes in capitalization may significantly affect our risk profile. Additionally, significant acquisitions, drill-to-earn programs or other transactions can change the character of our operations and business. The character of the new properties may be substantially different in operating or geological characteristics or geographic location than our existing properties. Furthermore, we may not be able to obtain external funding for any such acquisitions, drill-to-earn programs or other transactions or to obtain external funding on terms acceptable to us.

Our principal stockholder is in a position to affect our ongoing operations, corporate transactions and other matters.

Our principal stockholder, Evercore Capital Partners L.P., together with its affiliates (Evercore), will beneficially own approximately % of our outstanding shares of common stock after giving effect to this offering and Evercore is entitled to nominate four of our nine directors. Evercore s approval is required to take a number of corporate actions, including making acquisitions, selling assets, adopting or amending

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capital and operating budgets, incurring indebtedness, increasing compensation, issuing our stock, declaring dividends, engaging in hedging transactions and entering joint ventures. As a result, Evercore is in a position to control or influence substantially the manner in which our business is operated and the outcome of stockholder votes on the election of directors and other matters.

The unavailability or high cost of drilling rigs, equipment, supplies, personnel and oilfield services could adversely affect our ability to execute on a timely basis our exploration and development plans within our budget.

All of our operations are on the Gulf of Mexico Shelf. Shortages or the high cost of drilling rigs, equipment, supplies or personnel could delay or adversely affect our exploration and development operations, which could have a material adverse effect on our business, financial condition or results of operations. Periodically, drilling activity in the Gulf of Mexico has increased, and we have experienced increases in associated costs, including those related to drilling rigs, equipment, supplies and personnel and the services and products of other vendors to the industry. Increased drilling activity in the Gulf of Mexico also decreases the availability of offshore rigs. We cannot assure you that costs will not increase again or that necessary equipment and services will be available to us at economical prices.

The loss of key personnel could adversely affect us.

To a large extent, we depend on the services of our founder and chairman, president and chief executive officer, Richard A. Bachmann, and other senior management personnel. The loss of the services of Mr. Bachmann or other senior management personnel could have a material adverse effect on our operations. We do not maintain any insurance against the loss of any of these individuals.

The Gulf of Mexico Shelf area is highly competitive, and our success there will depend largely on our ability to attract and retain experienced geoscientists and other professional staff.

Our hedging transactions could result in losses or limit our potential gains.

We enter into hedging transactions with major financial institutions to reduce exposure to fluctuations in the price of oil and natural gas. Our hedging program uses financially-settled crude oil and natural gas swaps, zero-cost collars and a combination of options used to provide floor prices with varying upside price participation. Our hedged volume as of December 31, 2002 approximated 26% of our estimated production from proved reserves through the balance of the terms of our hedging contracts.

We may in the future enter into these and other types of hedging arrangements to reduce our exposure to fluctuations in the market prices of oil and natural gas. Hedging transactions expose us to risk of financial loss in some circumstances, including if production is less than expected, the other party to the contract defaults on its obligations, or there is a change in the expected differential between the underlying price in the hedging agreement and actual prices received. Hedging transactions may limit the benefit we would have otherwise received from increases in the prices for oil and natural gas. Furthermore, if we do not engage in hedging transactions, we may be more adversely affected by declines in oil and natural gas prices than our competitors who engage in hedging transactions.

Competition in the oil and natural gas industry is intense, which may adversely affect our ability to compete.

We operate in a highly competitive environment for acquiring oil and natural gas properties, marketing oil and natural gas and securing trained personnel. Many of our competitors possess and employ financial, technical and personnel resources substantially greater than ours, which can be particularly important in Gulf of Mexico activities. Those companies may be able to pay more for productive oil and natural gas properties and exploratory prospects and to define, evaluate, bid for and purchase a greater number of properties and prospects than our financial or personnel resources permit. Our ability to acquire additional prospects and to discover reserves in the future will depend on our ability to evaluate and select suitable properties and to consummate transactions in a highly competitive environment. Also, there is substantial competition for capital available for investment in the oil and natural gas industry. We cannot make assurances that we will be able to compete successfully in the future in acquiring prospective reserves, developing reserves, marketing hydrocarbons, attracting and retaining quality personnel and raising additional capital.

Risks Relating to the Offering

The market price of our common stock could be adversely affected by sales of substantial amounts of our common stock in the public markets.

Our largest stockholders, Evercore, Energy Income Fund, L.P. and Richard A. Bachmann, our chairman, president and chief executive officer, could sell a substantial number of shares of our common stock in the public market, either pursuant to exemptions afforded to affiliates under Rule 144 under the Securities Act or pursuant to an effective registration statement. Affiliates may sell under Rule 144 of the Securities Act the greater of 1% of the number of shares of common stock then outstanding and the average weekly trading volume of our common stock on the New York Stock Exchange during the four calendar weeks preceding the filing of a required notice of such sale. Such sales by our largest stockholders, sales by other securityholders or the perception that such sales might occur, could have a material adverse effect on the price of our common stock or could impair our ability to obtain capital through an offering of equity securities.

Additionally, as of February 28, 2003, we had outstanding warrants and Series D exchangeable convertible preferred stock that can be exchanged or exercised for a total of up to 8,371,300 shares of our common stock. All of the common stock underlying the warrants and Series D preferred stock is freely tradable upon resale pursuant to a prospectus filed with the Securities and Exchange Commission. Also in connection with our acquisition of Hall-Houston, we entered into an earnout agreement. Depending on the performance of the oil and natural gas properties subject to the agreement, we could issue up to $40,000,000 market value of our common stock to the participants under the agreement, and such common stock is required to be publicly registered under the agreement.

The market price of our common stock has experienced substantial volatility and may continue to do so in the future.

Since our initial public offering in November 2000 at a price of $15.00 per share, the trading price for our common stock on the New York Stock Exchange has declined to $ as of   , 2003. The market price of our common stock may not exceed or even remain at current levels. The following factors may have an adverse impact on the market price of our common stock:

- lack of success in our drilling activities, including exploratory drilling;
- fluctuations in oil and natural gas prices;
- market conditions for oil and natural gas stocks;
- market conditions generally;
- governmental regulation; and
- fluctuations in our operating results.

Provisions in our organizational documents and under Delaware law could delay or prevent a change in control of our company, which could adversely affect the price of our common stock.

The existence of some provisions in our organizational documents and under Delaware law could delay or prevent a change in control of our company, which could adversely affect the price of our common stock. The provisions in our certificate of incorporation and bylaws that could delay or prevent an unsolicited change in control of our company include:

- the board of directors ability to issue shares of preferred stock and determine the terms of the preferred stock without approval of common stockholders; and
- a prohibition on the right of stockholders to call meetings and a limitation on the right of stockholders to act by written consent and to present proposals or make nominations at stockholder meetings.

In addition, Delaware law imposes some restrictions on mergers and other business combinations between us and any holder of 15% or more of our outstanding common stock. Evercore is generally exempted from these provisions.

FORWARD LOOKING STATEMENTS

All statements other than statements of historical fact contained in this prospectus, the documents incorporated by reference in this prospectus 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 statem 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 entitled Risk Factors, as well as the disclosure contained in our latest annual report on Form 10-K and the other documents incorporated by reference herein. Although we believe that the assumptions on which any forward-looking statements in this prospectus and 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 and elsewhere in this prospectus.

USE OF PROCEEDS

We estimate that we will receive net proceeds from this offering of approximately $, after deducting discounts and commissions and estimated offering expenses payable by us. We expect to use the net proceeds of the offering to repay a portion of our outstanding borrowings under our revolving credit facility. At March 12, 2003, we had $80,000,000 outstanding under our revolving credit facility. Our revolving credit facility is available through March 30, 2005 and permits both prime rate based borrowings and LIBOR borrowings plus a floating spread that is based on our utilization of the facility. The spread can range from 1.50% to 2.25% above LIBOR and 0% to 0.75% above prime. We will not receive any of the proceeds from the sale of shares by the selling stockholders.

PRICE RANGE OF COMMON STOCK

Our common stock is listed on the New York Stock Exchange under the symbol EPL. The following table sets forth, for the periods indicated, the range of the high and low sales prices of our common stock as reported by the New York Stock Exchange.

	High	Low
2001		
First Quarter	$13.63	$9.25
Second Quarter	14.00	9.00
Third Quarter	13.98	6.60
Fourth Quarter	8.60	5.60
2002		
First Quarter	$ 8.63	$5.90
Second Quarter	9.30	6.51
Third Quarter	9.00	6.40
Fourth Quarter	11.80	7.70
2003		
First Quarter (through March 12, 2003)	$11.60	$9.70

DIVIDEND POLICY

We have not paid any cash dividends in the past on our common stock and do not intend to pay cash dividends on our common stock in the foreseeable future. We intend to retain earnings for the future operation and development of our business. Any future cash dividends to holders of common stock would depend on future earnings, capital requirements, our financial condition and other factors determined by our board of directors. In addition, the consent of Evercore is required to pay common stock dividends. We currently pay dividends on our Series D preferred stock under the terms of the preferred stock issuance.

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CAPITALIZATION

The following table sets forth our capitalization as of December 31, 2002:

- on an actual basis; and

- on an as adjusted basis to give effect to the sale of the shares of our common stock by us in this offering and the anticipated use of the estimated net proceeds. Please read Use of Proceeds.

You should read this table in conjunction with our financial statements and the notes to those financial statements incorporated by reference in this prospectus.

	As of December 31, 2002	
	Actual	As Adjusted
	(In thousands)	
Cash and cash equivalents	$ 116	$
Long-term debt, including current maturities(1)	$ 103,779	$
Stockholders equity:		
Preferred stock: par value $1.00 per share; 1,700,000 shares authorized; 382,261 shares issued and outstanding; aggregate liquidation value $38,226,100.	35,359	
Common stock: par value $0.01 per share; 50,000,000 shares authorized; 27,550,466 shares issued and outstanding actual; shares issued and outstanding as adjusted	276	
Additional paid-in capital	187,965	
Accumulated other comprehensive loss	(2,171)	
Accumulated deficit	(29,507)	
Total stockholders equity	191,922	
Total capitalization	$ 295,701	$

(1) At December 31, 2002, we had $65,000,000 outstanding under our revolving credit facility and at March 12, 2003, we had $80,000,000 outstanding. We intend to use the net proceeds of the offering to repay a portion of our outstanding borrowings under that facility.

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SELECTED FINANCIAL DATA

The following table shows selected consolidated financial data derived from our audited consolidated financial statements. The data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in this prospectus and our consolidated financial statements and related notes incorporated by reference in this prospectus.

	Years Ended December 31,				January 29, 1998 (Inception) To December 31,
	2002	2001	2000	1999	1998
	(In thousands, except per share data)				
Statement of Operations Data:					
Revenue	$134,031	$ 146,201	$ 103,236	$ 9,509	$ 1,966
Income (loss) from operations (1)	(6,357)	20,624	(8,721)	(835)	(311)
Net income (loss)	$ (8,799)	$ 11,974	$ (18,684)	$ (2,284)	$ (705)
Net income (loss) available to common stockholders (2)	$ (12,129)	$ 11,974	$ (25,387)	$ (3,120)	$ (705)
Basic net income (loss) per common share	(0.44)	0.45	$ (2.27)	$ (0.22)	$ (0.09)
Diluted net income (loss) per common share	$ (0.44)	$ 0.44	$ (2.27)	$ (0.22)	$ (0.09)
Cash flows provided by (used in):					
Operating activities	$ 25,417	$ 91,847	$ 50,703	$ (4,594)	$ 8,044
Investing activities	(54,380)	(121,067)	(130,378)	(19,233)	(27,081)
Financing activities	29,079	25,871	60,742	45,457	19,689

	As of December 31,				
	2002	2001	2000	1999	1998
	(In thousands)				
Balance Sheet Data:					
Total assets	$384,220	$242,777	$208,149	$69,276	$40,015
Long-term debt, excluding current maturities	103,687	25,408	100	10,150	20,000
Mandatorily redeemable preferred stock				56,475	
Stockholders equity	191,922	164,867	150,591	(3,815)	(694)

(1) The 2000 loss from operations includes a one time non-cash stock compensation charge for shares released from escrow to management and director stockholders of $38.2 million and a non-cash charge of $2.1 million for bonus shares awarded to employees at the time of the initial public offering. The after-tax amount of these charges totaled $39.5 million. Although these charges reduced our net income, they increased paid-in-capital and thus did not result in a net reduction of total stockholders equity.

(2) Net loss available to common stockholders is computed by subtracting preferred stock dividends and accretion of discount of $3.3 million from net loss for the year ended December 31, 2002 and by subtracting preferred stock dividends and accretion of issuance costs of $6.7 million and $0.8 million for the years ended December 31, 2000 and 1999, respectively.

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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. Seismic, 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.

On March 31, 2000, we acquired the 80% working interest in South Timbalier 26 that we did not previously own and subsequently, on April 20, 2000, sold 50% of our working interest in South Timbalier 26. On March 31, 2000, we closed the purchase of an average 96.1% working interest in the East Bay field and in September 2000, we closed the acquisition of a 14.5% working interest in South Timbalier 22, 23 and 27.

On January 15, 2002, we acquired Hall-Houston for consideration of $88.3 million and the assumption of Hall-Houston s working capital deficit. The consideration included the issuance of $38.4 million of 11% Senior Subordinated Notes due 2009. We also issued Series D Exchangeable Convertible Preferred Stock with a fair value at the issue date of $34.7 million ($38.4 million face amount) with an effective dividend rate of 10%. The acquisition moved our operations to a more balanced oil and natural gas reserves and production profile and reduced our production exposure to any particular field. Through the acquisition we added 59.1 Bcfe of proved reserves in January 2002, 98% of which were natural gas. The acquisition also included 10 producing properties and 12 offshore exploratory blocks.

We have included the results of operations from the East Bay and South Timbalier 26 acquisitions from the closing date of March 31, 2000, the South Timbalier 22, 23 and 27 from the closing date of September 7, 2000 and the Hall-Houston acquisition from the closing date of January 15, 2002. These acquisitions have significantly affected our results of operations and production growth.

For the foregoing reasons, the East Bay, South Timbalier 26, South Timbalier 22, 23 and 27 and Hall-Houston acquisitions will affect the comparability of our historical results of operations with results of operations from year to year.

On November 1, 2000, we consummated our initial public offering of 5.75 million shares of common stock. After payment of underwriting discounts and commissions, we received net proceeds of $80.2 million on November 7, 2000. With the proceeds, we retired outstanding debt of $73.9 million and paid approximately $5.1 million to redeem outstanding Series C Preferred Stock.

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. See Risk Factors for a more detailed discussion of these risks.

Results of Operations

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

	Years Ended December 31,		
	2002	2001	2000
Net production (per day):			
Oil (Bbls)	8,148	10,358	7,622
Natural gas (Mcf)	54,150	34,562	15,781
Total (Boe)	17,173	16,118	10,252
Oil & gas revenues (in thousands):			
Oil	$ 70,311	$ 88,633	$ 72,141
Natural gas	63,835	55,511	28,751
Total	134,146	144,144	100,892
Average sales prices (1):			
Oil (per Bbl)	$ 23.64	$ 23.44	$ 25.86
Natural gas (per Mcf)	3.23	4.40	4.98
Total (per Boe)	21.40	24.50	26.89
Average costs (per Boe):			
Lease operating expense	$ 5.49	$ 6.21	$ 6.46
Taxes, other than on earnings	1.05	1.22	1.69
Depreciation, depletion, and amortization	10.29	7.97	6.82

(1) Net of the effect of hedging transactions.

Production

Crude Oil and Condensate. Our net oil production for 2002 decreased to 8,148 Bbls per day from 10,358 Bbls per day in 2001. The decrease is the result of fewer workovers/recompletions on oil wells in 2002 combined with the impact of tropical weather in the Gulf of Mexico and natural reservoir declines.

Our net oil production for 2001 increased to 10,358 Bbls per day from 7,622 Bbls per day in 2000. The increase was the result of 33 successful oil well operations, which commenced production in 2001 combined with a full year of production from the acquisitions we made in 2000, and was partially offset by natural declines from other producing wells.

Natural Gas. Our net natural gas production for 2002 increased to 54,150 Mcf per day from 34,562 Mcf per day in 2001. The increase is the result of natural gas volumes added in the acquisition of Hall-Houston combined with new production from natural gas wells completed during the year and was partially offset by tropical weather in the Gulf of Mexico and natural reservoir declines.

Our net natural gas production for 2001 increased to 34,562 Mcf per day from 15,781 Mcf per day in 2000. The increase was the result of 43 successful natural gas well operations which commenced production in 2001 combined with a full year of production from the acquisitions we made in 2000, and was partially offset by natural declines from other producing wells.

Realized Prices

Crude Oil and Condensate. Our average realized oil price in 2002 was $23.64 per Bbl, consistent with the average realized price of $23.44 per Bbl in 2001. Hedging activities in 2002 reduced oil price realizations by $0.51 per Bbl or 2% from the $24.15 per Bbl that would have otherwise been received. In 2001, hedging activities reduced oil price realizations by $1.10 per Bbl or 4% from the $24.54 per Bbl that would have otherwise been received.

Our average realized oil price in 2001 was $23.44 per Bbl, a decrease of 9% from an average realized price of $25.86 per Bbl in 2000. Hedging activities in 2001 reduced oil price realizations by $1.10 per Bbl or 4% from the $24.54 per Bbl that would have otherwise been received. In 2000, hedging activities

reduced oil price realizations by $3.80 per Bbl or 13% from the $29.66 per Bbl that would have otherwise been received.

Natural Gas. Our average realized natural gas price in 2002 was $3.23 per Mcf, a significant decrease of 27% from an average realized price of $4.40 per Mcf in 2001. Hedging activities in 2002 reduced natural gas realizations by $0.18 per Mcf from the $3.41 per Mcf that would have otherwise been received. Hedging activities in 2001 increased natural gas realizations by $0.05 per Mcf from the $4.35 per Mcf that would have otherwise been received.

Our average realized natural gas price in 2001 was $4.40 per Mcf, a decrease of 12% from an average realized price of $4.98 per Mcf in 2000. Hedging activities in 2001 increased natural gas realizations by $0.05 per Mcf from the $4.35 per Mcf that would have otherwise been received. We did not have hedging positions for natural gas related to 2000 production.

Revenues and Net Income

Our oil and natural gas revenues decreased to $134.1 million in 2002 from $144.1 million in 2001. Although production volumes increased 7% on a barrel of oil equivalent basis, the 27% decline in natural gas price realizations more than offset this benefit and resulted in lower revenues.

Our oil and natural gas revenues increased to $144.1 million in 2001 from $100.9 million in 2000. The increase in revenues was primarily due to higher production volumes reflecting a full year of production from the acquisitions in 2000 combined with current year drilling activities. The impact of these increases was partially offset by lower commodity prices.

We recognized a net loss of $8.8 million in 2002 compared to net income of $12.0 million in 2001. The decrease in net income was primarily due to the decrease in oil and natural gas revenues previously discussed, combined with higher depletion, depreciation and amortization expense incurred primarily as a result of the Hall-Houston acquisition. We recognized net income of $12.0 million in 2001 compared to a loss of $18.7 million in 2000. The following items had a significant impact on our net income or loss in 2002, 2001 and 2000 and affect the comparability of our results of operations for those years:

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

In December 2001, we purchased a financially-settled put swaption (the put swaption), which provided us with a financially-settled natural gas swap at $2.95 per Mmbtu for 30,000 Mmbtu per day for the period from February 2002 through January 2003. The put swaption also provided us the option to cancel the swap on January 15, 2002. In the fourth quarter of 2001, we recognized an expense of $1.9 million, related to the change in time value of the option portion of the contract compared to $0.5 million expensed in January 2002 related to the remaining change in time value. This expense is classified as other revenue in the consolidated statements of operations in 2002 and 2001.

We recorded business interruption income of $3.5 million in 2001 compared to $1.8 million in 2000 as a result of the rupture of a high-pressure natural gas transfer line at our East Bay field. The rupture occurred in November 2000 and the transfer line was restored to service in February 2001. This income is classified as other revenue in the consolidated statements of operations in 2001 and 2000.

The net loss in 2000 is attributed to one-time non-cash stock compensation charges related to the initial public offering. We recognized charges of $38.2 million related to the release to management and director stock holders of shares placed in escrow in 1999 and $2.1 million related to bonus shares awarded to employees. After tax, these charges totaled $39.5 million. Although these charges reduced our net income, they increased paid-in-capital and thus did not result in a net reduction of total stockholders equity. Excluding the effect of the charges, we had net income of $20.8 million in 2000.

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Operating Expense

Operating expenses were impacted by the following:

Lease operating expense decreased $2.1 million to $34.4 million in 2002. The decrease is attributable to the concerted effort to reduce operating costs, primarily at our East Bay field, which more than offset additional costs from the Hall-Houston properties.

Lease operating expense increased $12.3 million to $36.5 million in 2001. The increase was primarily attributable to a full year of operations from the acquisitions we made in 2000.

Taxes, other than on earnings decreased $0.6 million to $6.6 million in 2002. This reduction was due to the decrease in the production volumes and prices received for our oil production on state leases subject to Louisiana severance taxes.

Taxes, other than on earnings increased $0.9 million to $7.2 million in 2001. The increase in production taxes are primarily attributable to a full year of production from the acquisition of the East Bay field where a portion of the production is subject to Louisiana severance taxes and property taxes.

Exploration expenditures decreased $4.4 million to $10.7 million in 2002. The expense in 2002 is primarily the result of an increase in seismic expenditures and delay rentals to $4.8 million and a decrease in dry hole charges to $5.9 million as a result of exploratory wells drilled during the year, which were found to be not commercially productive.

Exploration expenditures increased $13.4 million to $15.1 million in 2001. The expense in 2001 is primarily the result of seismic expenditures and delay rentals of $1.5 million and dry hole charges of $13.6 million as a result of our increased exploration program in 2001.

Depreciation, depletion and amortization increased $17.6 million to $64.5 million in 2002. The increase was due to the increased depreciable asset base resulting from the acquisition of Hall-Houston and drilling activities subsequent to December 31, 2001, increased production volumes, amortization of unproved leases awarded at the March 2002 lease sale and acquired with Hall-Houston and downward reserve revisions due to prices at December 31, 2001. This expense includes $6.8 million for the accrual of abandonment liabilities as compared to $8.1 million in 2001.

Depreciation, depletion and amortization increased $21.3 million to $46.9 million in 2001. This expense includes $8.1 million for the accrual of abandonment liabilities compared to $5.8 million in 2000. The overall increase was primarily due to increased production volumes and an increased depreciable asset base resulting primarily from development activities.

Other general and administrative expenses increased $4.3 million to $22.5 million in 2002. The increase was primarily due to a litigation settlement ($2.0 million), increased insurance costs ($0.9 million), increased rent and other office costs ($1.0 million) and other costs associated with the combination of Hall-Houston s operations with ours primarily in the first quarter of 2002 as we assimilated Hall-Houston.

Other general and administrative expenses increased $7.1 million to $18.2 million in 2001. The increase was primarily due to the hiring of additional personnel ($2.3 million), increased consultant fees ($0.7 million), increased insurance costs ($1.6 million), increased information technology costs ($0.7 million), $0.3 million to fully reserve our hedge contract receivable from Enron and other costs associated with our increased operations.

Non-cash stock-based compensation expense of $0.5 million was recognized in 2002, a decrease of $1.2 million from 2001. This expense relates to restricted stock and stock option grants made to employees.

Non-cash stock-based compensation expense of $1.7 million was recognized in 2001, a decrease of $1.1 million from 2000. This expense relates to restricted stock and stock option grants made to employees.

Other Income and Expense

Interest. Interest expense increased $5.1 million to $7.0 million in 2002. The increase was a result of increased borrowings under our bank facility and the issuance of Senior Subordinated Notes on January 15, 2002 related to the acquisition of Hall-Houston.

Interest expense decreased $5.5 million to $1.9 million in 2001. The decrease is a result of lower interest rates and the repayment of borrowings under our bank credit facility, which had been drawn for the acquisitions completed on March 31, 2000.

Gain on Sale of Oil and Natural Gas Assets. On April 20, 2000, we sold 50% of our working interest in the South Timbalier 26 field, resulting in a gain of approximately $7.8 million.

Liquidity And Capital Resources

The decline in revenues we experienced in 2002 in combination with the assumption of Hall-Houston s working capital deficit significantly reduced our cash flows from operations during 2002. Cash flows from operating activities totaled $25.4 million in 2002. 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 of oil and natural gas.

Net cash of $54.4 million used in investing activities in 2002 primarily included the $10.7 million of cash paid in conjunction with the acquisition of Hall-Houston, which is net of $1.9 million in cash received, oil and natural gas property capital and exploration expenditures of $43.0 million and lease acquisitions of $1.9 million. Exploration expenditures incurred are excluded from operating cash flows and included in investing activities. During 2002, we completed 17 drilling projects and 27 recompletion/workover projects, 34 of which were successful. During 2001, we completed 22 drilling projects and 66 recompletion/workover projects, 76 of which were successful.

We financed the amount by which our capital expenditures exceeded cash flows from operations by increasing our borrowings against our bank credit facility. Our bank credit facility, as amended on November 1, 2002, consists of a revolving line of credit with a group of banks available through March 30, 2005 (the bank facility). The bank facility currently has a borrowing base of $100 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 facility as set out in the reserve report delivered to the banks each April 1 and October 1. The bank facility permits both prime rate based borrowings and London interbank offered rate (LIBOR) borrowings plus a floating spread. The spread will float up or down based on our utilization of the bank 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 facility is secured by substantially all of our assets. The bank facility contains customary events of default and requires that we satisfy various financial covenants. At February 28, 2003, we had $80 million outstanding and $20 million of credit capacity available under the bank facility. Also included in long-term debt in the consolidated balance sheet is $38.4 million of Senior Subordinated Notes, which are due January 2009.

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 and reduce borrowings under our bank facility to levels in effect at year end 2002. Availability under the bank 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 2003 capital expenditure budget is focused on exploration, exploitation and development activities on our proved properties combined with moderate and higher risk exploratory activities on undeveloped leases. We currently intend to allocate approximately 65% of our budget on an annual basis on low risk exploitation and development 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 currently approximately $90 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

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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.

Long-Term Debt and Lease Obligations

The following summarizes our obligations under long-term debt and operating lease obligations as of December 31, 2002:

	Payments Due By Period				
	Total	**1 Year**	**2-3 Years**	**4-5 Years**	**Thereafter**
			(In thousands)		
Long-term debt	$ 103,779	$ 92			