

ENERGY PARTNERS LTD

Form 424B4

April 17, 2003

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Filed Pursuant to Rule 424(b)(4)  
Registration No. 333-103833

6,796,116 Shares

**Energy Partners, Ltd.**

**Common Stock**

We are selling 4,210,526 shares of common stock and the selling stockholders are selling 2,585,590 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 April 16, 2003 was \$9.91 per share.

The underwriters have an option to purchase from the selling stockholders a maximum of 1,019,417 additional shares to cover over-allotments of shares.

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

	<b>Price to Public</b>	<b>Underwriting Discounts and Commissions</b>	<b>Proceeds to Energy Partners</b>	<b>Proceeds to Selling Stockholders</b>
Per Share	\$9.50	\$0.475	\$9.025	\$9.025
Total	\$64,563,102	\$3,228,155	\$37,999,997	\$23,334,950

Delivery of the shares of common stock will be made on or about April 23, 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  
Jefferies & Company, Inc.**

**Merrill Lynch & Co.**

**Howard Weil**  
A division of Legg Mason Wood Walker, Inc.

**Johnson Rice & Company L.L.C.**

The date of this prospectus is April 16, 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 particular the acquisition of Hall-Houston Oil Company ( Hall-Houston ) in early 2002. 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](http://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 24 geoscientists and engineers with an average of 22 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.



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**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.

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**The Offering**

Common stock offered by Energy Partners 4,210,526 shares

Common stock offered by the selling stockholders 2,585,590 shares

Shares outstanding after the offering 31,921,436 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

The number of shares outstanding after the offering is based on 27,710,910 shares of common stock outstanding as of April 15, 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 1,960,433 shares of common stock with a weighted average exercise price of \$9.30, of which 848,368 options were exercisable as of April 15, 2003 with a weighted average exercise price of \$9.32.

**Table of Contents****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)			
<b>Statement of Operations Data:</b>			
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
<b>Total costs and expenses</b>	<b>140,388</b>	<b>125,577</b>	<b>111,957</b>
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)

<b>Balance Sheet Data:</b>	
Total assets	\$ 384,220
Long-term debt, excluding current maturities	103,687
Stockholders' equity	191,922

(1)

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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.

**Table of Contents****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
<b>Net oil reserves (Mbbls):</b>			
Proved developed	21,070	22,176	25,024
Proved undeveloped	5,283	3,286	2,497
Total	<u>26,353</u>	<u>25,462</u>	<u>27,521</u>
<b>Net natural gas reserves (Mmcf):</b>			
Proved developed	70,014	38,099	39,522
Proved undeveloped	56,943	23,698	9,628
Total	<u>126,957</u>	<u>61,797</u>	<u>49,150</u>
<b>Total estimated net proved reserves (Mboe)</b>	<b><u>47,513</u></b>	<b><u>35,762</u></b>	<b><u>35,712</u></b>
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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	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

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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.



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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;