ENERGY PARTNERS LTD
Form S-4
July 21, 2006
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As filed with the Securities and Exchange Commission on July 21, 2006

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM S-4

REGISTRATION STATEMENT

Under

THE SECURITIES ACT OF 1933

ENERGY PARTNERS, LTD.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	1311	72-1409562
(State or Other Jurisdiction of Incorporation or Organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

201 St. Charles Avenue, Suite 3400

New Orleans, Louisiana 70170

(504) 569-1875

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

(Address, Including Zip Code, and Telephone Number, **(Name, address, including zip code, and telephone number,**

Including Area Code, of Registrant s Principal Executive Offices) **including area code, of agent for service)**

Copies to:

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80 Pine Street

New York, New York 10005

(212) 701-3000

Andrew L. Gates, III

Senior Vice President, General

Counsel and Secretary

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26th Floor

New York, New York 10103-0040

(212) 237-0000

Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective and the satisfaction or waiver of all other conditions to the merger described herein.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. ¨

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. ¨

If this form is a post effective amendment filed pursuant to Rule 462(d) 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. ¨

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered (1)	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price (2)	Amount of Registration Fee
Common Stock, $0.01 par value per share	35,024,151	N/A	$ 553,593,555	$ 59,235

(1) Represents the maximum number of shares of Energy Partners, Ltd. (EPL) common stock issuable upon the consummation of the merger described herein.
(2) Pursuant to Rule 457(c) and 457(f) of the Securities Act of 1933, as amended and solely for purposes of calculating this registration fee, the proposed maximum aggregate offering price is equal to the market value of shares of Stone Common Stock (the securities to be cancelled in the merger) in accordance with Rule 457(c) under the Securities Act calculated as follows: (a) $45.42, the average of the high and low prices per share of Stone Common Stock on July 19, 2006, as reported on the New York Stock Exchange Composite Transactions Tape, multiplied by (b) 27,762,679, the aggregate number of shares of Stone Common Stock outstanding as of July 17, 2006, less (c) the minimum amount of cash to be paid by the Registrant in exchange for shares of Stone Common Stock ($707,387,325).

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.

The information in this joint proxy statement/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 document is not an offer to sell these securities and we are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to completion, dated July 21, 2006

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PROPOSED MERGER YOUR VOTE IS VERY IMPORTANT

The boards of directors of Energy Partners, Ltd. (EPL) and Stone Energy Corporation (Stone) have agreed upon a merger in which Stone will combine with EPL. We are sending this joint proxy statement/prospectus to you to ask you to vote in favor of this merger and other matters.

If the merger is consummated, the Stone common stock will be acquired for total consideration estimated at $2.1 billion, including the refinancing of approximately $800 million of debt and assuming the merger consideration is based on the closing price of EPL common stock of $17.50 on July 19, 2006. Each outstanding share of Stone common stock will be converted into the right to receive at the election of the holder (subject to the limitations described below): (i) $51.00 in cash, or (ii) EPL shares equivalent to the ratio determined by dividing $51.00 by the market price of EPL shares (based on a 20-day trading average prior to the third trading day preceding the closing), *provided* that the exchange ratio will not be greater than 2.525 or less than 2.066 EPL shares per Stone share. You will receive an election form in a separate mailing for you to indicate the number of your shares of Stone common stock and whether you prefer to receive either cash or EPL common stock. You must sign the form and return it in the separate envelope provided so that it is received prior to the election deadline, which will be 5:00 p.m. Eastern time on the date that is five business days following the effective date of the merger. The election of cash or stock will be subject to a limit on total cash consideration of approximately $723 million (which includes approximately $15.5 million attributable to stock options) and a limit on the total number of EPL shares issued of approximately 35 million. As a result, Stone stockholders will hold no more than approximately 46% of the combined company and EPL stockholders will hold no less than approximately 54% of the combined company, assuming the maximum number of shares is issued to Stone s stockholders.

The EPL common stock is listed on the New York Stock Exchange under the symbol EPL.

The Stone common stock is listed on the New York Stock Exchange under the symbol SGY.

Your vote is very important. We cannot complete the merger unless the EPL common stockholders vote to approve the issuance of EPL common stock and the Stone common stockholders vote to adopt the merger agreement.

This document is a prospectus relating to the shares of EPL common stock to be issued in the merger and a joint proxy statement for EPL and Stone to solicit proxies for their respective special meetings of stockholders. It contains answers to frequently asked questions and a summary of the important terms of the merger, the merger agreement, and related transactions, followed by a more detailed discussion.

For a discussion of certain significant matters that you should consider before voting on the proposed transaction, see *Risk Factors* beginning on page 17.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the EPL common stock to be issued in the merger or passed upon the adequacy or accuracy of this joint proxy statement/prospectus. Any representation to the contrary is a criminal offense.

This joint proxy statement/prospectus is dated , 2006 and is first being mailed to stockholders of EPL and Stone on or about , 2006.

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ENERGY PARTNERS, LTD.

201 St. Charles Avenue, Suite 3400

New Orleans, Louisiana 70170

(504) 569-1875

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

TO BE HELD ON , 2006

To the Stockholders of Energy Partners, Ltd.:

NOTICE IS HEREBY GIVEN that the special meeting of stockholders of Energy Partners, Ltd. will be held at , on , 2006 at a.m., Central time, for the following purposes:

1. to consider and vote upon a proposal for the EPL stockholders to approve the issuance of EPL common stock to Stone Energy Corporation s stockholders as a result of the merger of Stone with and into EPL Acquisition Corp. LLC, a wholly-owned subsidiary of EPL, as a result of the transactions contemplated by the Agreement and Plan of Merger, dated June 22, 2006, by and among EPL, EPL Acquisition Corp. LLC and Stone;

2. to consider and vote upon a proposed amendment to EPL s certificate of incorporation to increase the number of authorized common shares from 100,000,000 to 150,000,000 if the merger occurs;

3. to consider and vote upon the adoption of EPL s Amended and Restated 2006 Long Term Stock Incentive Plan; and

4. to transact such other business incident to the conduct of the meeting as may properly come before the meeting or any adjournments or postponements thereof.

Only stockholders of record at the close of business on , 2006 (the Record Date), are entitled to notice of and to vote at the special meeting or at any adjournments or postponements thereof, notwithstanding the transfer of any stock on the books of EPL after the Record Date. Each share of EPL common stock is entitled to one vote at the special meeting. The approval of the issuance of EPL common stock and the approval of the adoption of EPL s Amended and Restated 2006 Long Term Stock Incentive Plan require the affirmative vote of a majority of the shares of EPL common stock present and voting, except that broker non-votes will not be counted in determining whether a quorum exists. The approval of the amendment to EPL s certificate of incorporation requires the affirmative vote of a majority of the outstanding shares of EPL common stock. A complete list of stockholders entitled to vote at the special meeting will be available for examination at EPL s offices in New Orleans, Louisiana during normal business hours by any holder of EPL common stock for any purpose relevant to the special meeting for a period of ten days prior to the special meeting. This list will also be available at the special meeting and any EPL stockholder may inspect it for any purpose relevant to the special meeting.

The board of directors of EPL has approved and adopted the merger agreement and the transactions contemplated by it, declared its advisability, and recommends that EPL stockholders vote at the special meeting to approve the issuance of EPL common stock as a result of the transactions contemplated by the merger agreement and also to approve proposals 2 and 3 above. Approval of the merger is not conditioned upon approval of the proposal to increase the number of authorized common shares or the adoption of the Amended and Restated 2006 Long Term Stock Incentive Plan. As described on page 99, one EPL director has a financial interest as a result of the merger.

By Order of the Board of Directors

Richard A. Bachmann

Chairman of the Board and Chief Executive Officer

New Orleans, Louisiana

, 2006

Your vote is important. Even if you plan to attend the special meeting in person, we request that you sign and return the enclosed proxy or voting instruction card and thus ensure that your shares will be represented at the special meeting if you are unable to attend. If you do attend the special meeting and wish to vote in person, you may withdraw your proxy and vote in person.

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STONE ENERGY CORPORATION

625 E. Kaliste Saloom Road

Lafayette, Louisiana 70508

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

TO BE HELD ON , 2006

To the Stockholders of Stone Energy Corporation:

NOTICE IS HEREBY GIVEN that a special meeting of stockholders of Stone Energy Corporation will be held at , on , 2006 at 9:30 a.m., Central time, for the following purposes:

1. to consider and vote upon a proposal for the Stone stockholders to adopt the Agreement and Plan of Merger, dated June 22, 2006, by and among Stone, Energy Partners, Ltd. and EPL Acquisition Corp. LLC, pursuant to which Stone will merge with and into EPL Acquisition Corp. LLC, a wholly owned subsidiary of Energy Partners, Ltd.; and

2. to transact such other business incident to the conduct of the meeting as may properly come before the meeting or any adjournments or postponements thereof.

Only stockholders of record at the close of business on , 2006, are entitled to notice of and to vote at the special meeting or at any adjournments or postponements thereof. Each share of Stone common stock is entitled to one vote at the special meeting. The affirmative vote of a majority of the outstanding shares of Stone common stock is required to adopt the merger agreement. A complete list of stockholders entitled to vote at the special meeting will be available for examination at Stone s offices in Lafayette, Louisiana during normal business hours by any holder of Stone common stock for any purpose relevant to the special meeting for a period of ten days prior to the special meeting. This list will also be available at the special meeting and any Stone stockholder may inspect it for any purpose relevant to the special meeting. Holders of Stone common stock are entitled to dissenters appraisal rights under the Delaware General Corporation Law in respect of the merger.

The board of directors of Stone has determined that the merger agreement and the transactions contemplated by it are fair to and in the best interests of Stone and its stockholders, and the board of directors of Stone approved the merger agreement, declared its advisability, and recommends that Stone stockholders vote at the special meeting in favor of the adoption of the merger agreement. As described on pages 97 to 99, some Stone directors and executive officers will receive financial benefits as a result of the merger.

By Order of the Board of Directors,

David H. Welch

President and Chief Executive Officer

Lafayette, Louisiana

, 2006

Your vote is important. Even if you plan to attend the special meeting in person, we request that you sign and return the enclosed proxy or voting instruction card and thus ensure that your shares will be represented at the special meeting if you are unable to attend. If you do attend the special meeting and wish to vote in person, you may withdraw your proxy and vote in person.

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REFERENCES TO ADDITIONAL INFORMATION

This document incorporates important business and financial information about EPL from documents that are not included in or delivered with this document. You can obtain documents incorporated by reference in this document, other than certain exhibits to those documents, by requesting them in writing or by telephone from EPL at the following address:

Energy Partners, Ltd.

201 St. Charles Avenue, Suite 3400

New Orleans, Louisiana 70170

Attention: Corporate Secretary

(504) 569-1875

You will not be charged for any of these documents that you request. **If you would like to request documents from EPL, please do so by , 2006, to receive timely delivery of the documents in advance of the EPL special meeting.**

See Incorporation of Certain Documents by Reference on page 134 and Where You Can Find More Information on page 135.

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QUESTIONS AND ANSWERS ABOUT THE MERGER

Set forth below are commonly asked questions and answers about the merger, including parenthetical page references to the more complete discussion in this document of the questions answered in this section. For a more complete description of the legal and other terms of the merger, please read carefully this entire document and the other available information referred to in Where You Can Find More Information on page 135. For an explanation of certain oil and natural gas terms used throughout this document, see Glossary of Oil and Gas Terms beginning on page 136.

Q: What will happen in the merger?

A: The proposed merger will combine the businesses of EPL and Stone. At the effective time of the merger, Stone will merge with and into EPL Acquisition Corp. LLC, a wholly-owned direct subsidiary of EPL, with EPL Acquisition Corp. LLC as the surviving entity. EPL will continue as a public company. Following the merger, the combined company will be a primarily domestic independent oil and natural gas company with an anticipated enterprise value of approximately $3.2 billion based on the closing price of EPL common stock on July 19, 2006.

Q: Why are EPL and Stone proposing the merger? (see pages 68 to 71)

A: EPL believes that the consummation of the proposed transaction will result in the following advantages:

Strengthens Gulf of Mexico Position The combination of EPL and Stone will create a premier offshore exploration and production company with a highly attractive portfolio of assets in the Gulf of Mexico. Of the approximately 108 Mmboe of proved reserves owned by Stone as of year end 2005 (inclusive of the additional interest recently acquired in Mississippi Canyon Blocks 109 and 108) that will be added to EPL s asset portfolio, approximately 72% are located in the Gulf of Mexico. The combined company will have a balanced natural gas/oil production ratio (65% natural gas / 35% oil) with a broad portfolio of low, medium and high potential projects across EPL s eastern, central and western Gulf of Mexico operational areas. The merger will also combine Stone s 3-D seismic portfolio and acreage position in the Gulf of Mexico with that of EPL, providing the combined company with a significant informational advantage in the selection of future drilling and development opportunities, including those in the significantly larger acreage position of the combined company. The combined company s increased scope, scale and 3-D seismic portfolio will significantly improve EPL s competitive position in the Gulf of Mexico and accelerate growth and diversification.

Establishes Rocky Mountain and Williston Basin Positions The merger will provide balance and geographic diversity through the addition of Stone s attractive, long-lived reserves located in the Rocky Mountain region, including the Williston Basin. At December 31, 2005, approximately 16% of Stone s estimated proved reserves (16 Mmboe) were located in several Rocky Mountain basins, a resource play characterized by stable, long-lived natural gas production. An additional 8% of Stone s estimated proved reserves (8 Mmboe) were located in the Williston Basin. The addition of the positions in the Rocky Mountain region creates a significant base that will greatly enhance the combined company s reserve and geographic diversification. They also provide significant future exploration and development opportunities in a number of the premier North American onshore resource plays (including the Pinedale Anticline and Jonah fields and the Bakken Shale), and position EPL to acquire additional acreage and drilling opportunities in this region.

Builds on EPL s Leading Technical and Production Expertise EPL and Stone s teams of geoscientists, engineers, landmen and other technical professionals average more than 23 and 24 years of respective experience in the exploration and production business. The addition of Stone s professionals who focus on the Gulf of Mexico provides a unique opportunity to enhance EPL s already strong team of technical professionals. Stone s team in the Rocky Mountain region will provide local expertise necessary to facilitate EPL s

geographic diversification. Given the shortage of experienced oil

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and natural gas personnel in the current labor market, the merger provides a cost effective way of increasing the depth of EPL s technical and finance and administrative teams, positioning EPL to generate and maintain a larger inventory of high-quality drilling prospects and to further develop and exploit a larger and better diversified asset base.

Provides Opportunities to Improve the Combined Company s Financial Returns EPL expects that the merger will:

Produce $55 million in annual synergies and associated cost savings. EPL expects to realize approximately $55 million in ongoing annual savings through the elimination of redundant transportation, shorebases and procurement, the consolidation of administrative and professional services and the reduction of annual insurance premiums. EPL has developed a comprehensive plan to be implemented promptly following the completion of the merger for achieving these benefits.

Permit EPL to high-grade the combined company s exploration, development and exploitation opportunities with increased cash flow used to augment EPL s balanced drilling program and reduce debt. The size and strength of the combined company are expected to allow EPL to high-grade the exploration, development and exploitation opportunities in the combined company s asset base. High-grading of the combined portfolio is anticipated to increase cash flow available for debt reduction through focused capital spending and the results of drilling a balanced portfolio of low, moderate and higher risk opportunities. In addition, the increased resources of the combined entity will enable EPL to pursue larger scale projects that have the potential for increased returns.

Allow EPL to rationalize the combined company s asset base through property dispositions. As part of the process of integrating Stone s Gulf of Mexico properties into its existing asset portfolio, EPL will rationalize its asset profile in the Gulf Coast region, including the Gulf of Mexico, by disposing of primarily lower tier properties. Proceeds generated from any such asset sales will be used to reduce debt.

Through its combination with Stone, EPL expects that the combined company s geographically diversified and high-graded assets, together with its exploration and production experience and its technical expertise, will provide a foundation for further increasing reserves, production and cash flow and a strong basis for creating stockholder value.

A: In reaching its decision to approve the merger, the Stone board of directors considered a number of factors, including the following:

in its opinion letter, dated June 17, 2006, to the Stone board of directors, Jefferies & Company, Inc. opined that, as of that date and subject to the assumptions, limitations, qualifications and other matters described in the opinion, the merger consideration was fair, from a financial point of view, to the holders of Stone common stock (other than EPL and its affiliates);

the merger consideration represented a premium of approximately 18% to the closing trading price of Stone s common stock on May 24, 2006, the day prior to the announcement of EPL s unsolicited offer to acquire Stone, and a premium of approximately 4% to the closing trading price of Stone s common stock on June 22, 2006, the day of the execution of the merger agreement;

the merger will permit the combined company to effectively compete with other exploration and production companies, many of which have recently grown through mergers or acquisitions;

the combined company will have increased technical expertise, seismic data, and undeveloped acreage;

the combined company will have the size and scope to materially participate in the deepwater Gulf of Mexico and other potential areas for growth where Stone believes that significant additional reserves are yet to be discovered;

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the merger is structured as a reorganization, which may permit stockholders tax-free treatment in whole or in part;

the terms of the merger agreement permit Stone to terminate the merger agreement at any time before the meeting to accept a superior proposal, subject to its obligation to comply with procedural requirements of the merger agreement and to pay a termination fee; and

EPL has advanced to Plains Exploration & Production Company (Plains) on behalf of Stone, the $43.5 million termination fee that Stone was required to pay to Plains upon termination of Stone s merger agreement with Plains.

In view of the wide variety of factors considered in connection with its evaluation of the merger and the complexity of these matters, the Stone board of directors did not find it useful and did not attempt to quantify or assign any relative or specific weights to the various factors that it considered in reaching its determination to approve the merger and the merger agreement and to recommend that Stone stockholders vote FOR approval of the merger agreement. In addition, individual members of the Stone board of directors may have given differing weights to different factors. The Stone board of directors conducted an overall analysis of the factors described above, including thorough discussions with, and questioning of, Stone s management and outside legal and financial advisors.

Q: What happened to the proposed merger with Plains Exploration & Production Company?

A. On June 22, 2006, in accordance with the terms of the Agreement and Plan of Merger, dated as of April 23, 2006, among Plains, Plains Acquisition Corporation and Stone (the Plains Merger Agreement), the Stone board of directors terminated the Plains Merger Agreement in order to proceed with the merger with EPL described in this joint proxy statement/prospectus. In connection with the termination of the Plains Merger Agreement, EPL advanced to Plains, on behalf of Stone, a termination fee of $43.5 million.

Q: How will the merger affect Stone common stockholders? What will Stone common stockholders receive for their shares? (see pages 103 to 106)

A. Under the terms of the merger agreement, Stone common stockholders will have the right to receive, at the election of the holder (subject to the limitations described below): (i) $51.00 in cash, or (ii) EPL shares equivalent to the ratio determined by dividing $51.00 by the market price of EPL shares (based on a 20-day trading average prior to the third trading day preceding the closing), *provided* that the exchange ratio will not be greater than 2.525 or less than 2.066 EPL shares per Stone share. The election of cash or stock will be subject to a limit on total cash consideration of approximately $723 million (which includes approximately $15.5 million attributable to stock options) and a limit on the total number of EPL shares issued of approximately 35 million. Therefore, based on the elections made by all of the Stone common stockholders, you may receive a different proportion of cash and/or stock than you elected. This re-allocation mechanism is more fully described in this proxy statement/prospectus under the caption Terms of the Merger Agreement Manner and Basis of Converting Shares Stockholder Elections; Allocation and Proration Procedures. Following the merger, Stone stockholders will own no more than approximately 46% of the combined company, assuming the maximum number of shares are issued to Stone s stockholders.

Q: What will happen to Stone s stock options and restricted stock in the merger? (see pages 103 to 106)

A: Before the merger is completed, Stone will repurchase all outstanding stock options for cash.

Immediately before the merger is completed, all restrictions on Stone restricted stock awards will expire and holders of restricted stock will make the same cash/stock election as holders of Stone common stock. For more information, please see Terms of the Merger

Agreement Manner and Basis of Converting Shares beginning on page 103.

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Q: What will happen at the EPL meeting in addition to voting on the issuance of EPL shares?

A: In addition to voting on the issuance of EPL shares as a result of the merger, at the special meeting EPL stockholders will vote to approve a proposed amendment to EPL s certificate of incorporation to increase the number of authorized common shares from 100,000,000 to 150,000,000 if the merger occurs. In addition, EPL stockholders will vote to approve EPL s Amended and Restated 2006 Long Term Stock Incentive Plan. See EPL s Amended and Restated 2006 Long Term Incentive Plan beginning on page 126 for a description of the plan. Approval of the merger is not conditioned upon approval of the proposal to increase the number of authorized common shares or the adoption of the Amended and Restated 2006 Long Term Stock Incentive Plan.

Q: Will EPL stockholders receive any shares in the merger?

A: No. EPL stockholders will continue to hold the EPL common stock they owned prior to the effective time of the merger.

Q: How will EPL fund the cash portion of the merger consideration and the refinancing of the Stone debt?

A: EPL intends to finance the cash portion of the merger consideration and the refinancing of the Stone debt with its cash resources as well as through a new credit facility that EPL expects to enter into in connection with the merger that will replace its existing credit facility and either a bridge loan or an offering of senior notes. EPL has received a commitment letter from Bank of America, N.A. and affiliates with respect to the new credit facility and the bridge loan. The new credit facility is expected to have a senior secured revolving credit facility of $600 million, with an initial borrowing base availability of $350 million, and a second lien term loan of $700 million. The bridge loan or the senior notes offering is expected to generate gross proceeds to EPL of $730 million. If the merger had occurred on March 31, 2006, EPL would have borrowed approximately $125 million under the new senior secured revolving credit facility to fund the merger consideration and the related transactions. The closing of the credit facility and the bridge loan or the senior notes offering will be subject to customary closing conditions. EPL s obligation to complete the merger is not contingent on its ability to receive financing under this proposed new credit facility, the bridge loan or the senior notes. See Financing of the Merger beginning on page 113 for additional information.

Q: Where will my shares be traded after the merger?

A: EPL common stock will be traded on the New York Stock Exchange under the symbol EPL. Stone common stock will no longer be traded.

Q: When do you expect the merger to be completed?

A: We expect to complete the merger promptly following the EPL special meeting of stockholders and the Stone special meeting of stockholders.

Q: How do I vote my shares at my stockholder meeting? (see pages 25 to 28)

A: After carefully reading this document and the information incorporated by reference, indicate on the enclosed proxy how you want to vote, sign it and mail it in the enclosed return envelope as soon as possible so that your shares will be represented at your stockholder meeting.

To assure that we obtain your vote, please vote as instructed on your proxy card, even if you plan to attend your stockholder meeting in person. If you sign and send in your proxy card and do not indicate how you want to vote, your proxy will be counted as a vote in favor of the proposal submitted to EPL stockholders if you are an EPL stockholder and in favor of the proposals submitted to Stone stockholders if you are a Stone stockholder. You may revoke your proxy on or before the day of your stockholder meeting by following the instructions on page 28. You then may either change your vote or attend your stockholder meeting and vote in person.

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Q: What happens if I abstain from voting, or do not submit a proxy or vote? (see pages 26 to 27)

A: If you are an EPL stockholder, an abstention or failure to vote will have no effect on the approval of the issuance of EPL common stock and the approval of EPL s Amended and Restated 2006 Long Term Stock Incentive Plan. However, broker non-votes will not count for the purpose of determining whether a quorum exists. An abstention or failure to vote will have the effect of a vote against the amendment to EPL s certificate of incorporation.

A: If you are a Stone stockholder, any of these actions will have the effect of a vote against adopting the merger agreement.

Q: What should I do if I want to change my vote? (see page 28)

A: You can change your vote at any time before your proxy card is voted at your stockholder meeting. You can do this in one of three ways:

- you can send a written notice to the company of which you are a stockholder stating that you revoke your proxy;
- you can complete and submit a later dated proxy card to that company; or
- you can attend your stockholder meeting and vote in person.

However, your attendance alone will not revoke your proxy. If you have instructed a broker to vote your shares, you must follow the procedure your broker provides to change those instructions.

Q: What vote does my board of directors recommend?

A: The EPL board of directors recommends that its stockholders vote at the special meeting to approve the proposals, including the issuance of the EPL common stock as a result of the transactions contemplated by the merger agreement. The Stone board of directors recommends that its stockholders vote in favor of the adoption of the merger agreement. As described on pages 97 to 99, some of Stone s directors and executive officers will receive financial benefits as a result of the merger and one of EPL s directors has an interest in the closing of the merger.

Q: What votes are required? (see page 26)

A: The approval of the issuance of EPL common stock and of EPL s Amended and Restated 2006 Long Term Stock Incentive Plan require the affirmative vote of a majority of the shares of EPL common stock present and voting, except that broker non-votes will not be counted in determining whether a quorum exists for voting on such share issuance. The approval of the amendment to EPL s certificate of incorporation requires the affirmative vote of a majority of the outstanding shares of EPL common stock as of the record date. Approval of the merger is not conditioned upon approval of the proposal to increase the number authorized common shares or the adoption of the Amended and Restated 2006 Long Term Stock Incentive Plan. Adoption of the merger agreement by Stone stockholders requires the affirmative vote of a majority of the outstanding shares of Stone common stock as of the record date.

Q: If my broker holds my shares in street name, will my broker vote them for me without my instructions?

A: No. Your broker will not be able to vote your shares without instructions from you. You should receive instructions regarding election procedures directly from your broker. You should follow the directions provided by your broker to vote your shares or you should instruct your broker to vote your shares, following the procedure your broker provides.

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Q: What must Stone stockholders do to elect to receive cash or EPL common stock?

A: To elect to receive cash or EPL common stock for your shares of Stone common stock, you must indicate in the place provided on the election form, [which you will receive in a separate mailing], the number of your shares of Stone common stock and whether you prefer to receive cash or stock, sign the form, and return the form in the separate envelope provided so that it is received prior to the election deadline, which is 5:00 p.m. Eastern time on the date that is five business days following the effective date of the merger. If the merger occurs, Stone will promptly make a public announcement of this fact.

You will be able to make one of the following elections on the election form:

to elect to receive shares of EPL common stock with respect to all of your shares of Stone common stock;

to elect to receive cash with respect to all of your shares of Stone common stock; or

to indicate that you make no election, and thus have no preference, with respect to all of your shares of Stone common stock.

If you do not submit an election form prior to the election deadline, you will be deemed to have indicated that you are making no election, and thus have no preference, with respect to your shares of Stone common stock. See Terms of the Merger Agreement Manner and Basis of Converting Shares Stockholder Elections; Allocation; Proration Procedures beginning on page 103.

Q: Can I revoke or change my election after I mail my form of election?

A: Yes. You may revoke or change your election at any time before the election deadline. You can do this by sending a written notice of such revocation or change in your election to the exchange agent at the address contained on the election form.

If you revoke your election form and then do not re-submit an election form that is timely, you will be deemed to have indicated that you are making no election with respect to your shares of Stone common stock.

Q: Are Stone stockholders guaranteed to receive the amount of cash or EPL common stock that they request on their election form?

A: No. The election of cash or stock will be subject to a limit on total cash consideration of approximately $723 million (which includes approximately $15.5 million attributable to stock options) and a limit on the total number of EPL shares issued of approximately 35 million. It is possible, therefore, that if you elect cash for your shares of Stone common stock, you could receive a different proportion of stock and cash than you elected.

Q: If I make an election to receive cash, under what circumstances will my election be re-allocated?

A: Your election will be re-allocated if the total cash elections exceed approximately $723 million (which includes approximately $15.5 million attributable to stock options). In that circumstance, you will receive a combination of cash and EPL common stock following a pro rata adjustment of all elections for cash in order to stay within the cash limitation of approximately $723 million.

Q: If I make an election to receive EPL common stock, under what circumstances will my election be re-allocated?

A: Your election may be re-allocated if the total stock elections exceed approximately 35 million shares of EPL. In that circumstance, you will receive a combination of cash and EPL common stock following a pro rata adjustment of all elections for EPL common stock in order to stay within the share limitation of approximately 35 million EPL shares.

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Q: What happens if I do not make an election or my election form is not received timely?

A: If the total cash elections exceed approximately $723 million, you will receive shares of EPL common stock. If the total stock elections exceed approximately 35 million shares, you will receive cash.

In any other event, you will receive cash or EPL common stock based on the amount of each such type of consideration remaining after allocations are made to shares of Stone common stock that made an election.

Q: How will I receive my shares of EPL common stock or cash?

A: After receiving the proper documentation from you and determining the proper allocations of cash and EPL common stock to be paid to the Stone stockholders, the exchange agent will forward to you the cash and/or EPL common stock to which you are entitled. More information on the documentation you are required to deliver to the exchange agent may be found under the caption Terms of the Merger Agreement Manner and Basis of Converting Shares Surrender and Payment beginning on page 105.

Stockholders will not receive any fractional shares of EPL common stock. Instead, they will receive cash, without interest, for any fractional share of EPL common stock that they might otherwise have been entitled to receive.

Q: Are Stone stockholders entitled to appraisal rights?

A: Yes. Stone stockholders are entitled to appraisal rights. Under Delaware law, Stone stockholders have the right to dissent from the merger and, in lieu of receiving the merger consideration, obtain payment in cash of the fair value of your shares of Stone common stock as determined by the Delaware Chancery Court. To exercise appraisal rights, a stockholder must strictly follow the procedures prescribed by Section 262 of the Delaware General Corporation Law. See Appraisal or Dissenters Rights beginning on page 99. In addition, the full text of the applicable provisions of Delaware law is included as Annex F to this proxy statement/prospectus.

Q: Is the merger taxable to Stone stockholders for U.S. federal income tax purposes?

A: Stone and EPL each expect the merger to qualify as a reorganization pursuant to Section 368(a) of the Internal Revenue Code. The U.S. federal income tax consequences of a reorganization to an exchanging Stone stockholder will depend on the relative mix of cash and EPL common stock received by such Stone stockholder.

Please review carefully the information under the caption Material U.S. Federal Income Tax Consequences of the Merger beginning on page 115 for a description of the material U.S. federal income tax consequences of the merger. The tax consequences to you will depend on your own situation. Please consult your tax advisors for a full understanding of the tax consequences of the merger to you.

Q. Is the merger contingent on stockholder approval of all the EPL proposals?

A. No. The only vote required by the EPL stockholders to effect the merger is the approval regarding the issuance of EPL common stock.

Q. Is the consummation of the merger contingent on the approval of any party other than the stockholders of EPL and Stone?

A. In addition to stockholder approval, the consummation of the merger is contingent upon the following:

any applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (Hart-Scott-Rodino) must have expired or been terminated; and

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the EPL common stock to be issued in the merger must have been approved for listing on the New York Stock Exchange.

EPL and Stone currently expect each of these conditions to be satisfied prior to or promptly after the stockholder meetings.

Q: Are there any risks in the merger that I should consider?

A: Yes. There are risks associated with all business combinations, including the proposed merger. We have described these risks and other risks in more detail under Risk Factors beginning on page 17.

Q: Where can I find more information about the companies?

A: Both EPL and Stone file periodic reports and other information with the Securities and Exchange Commission, or SEC. You may read and copy this information at the SEC s public reference facility. Please call the SEC at 1-800-SEC-0330 for information about this facility. This information is also available through the Internet site maintained by the SEC at http://www.sec.gov and at the offices of the New York Stock Exchange.

In addition, you may obtain some of this information directly from the companies. For a more detailed description of the information available, please see Where You Can Find More Information on page 135.

Q: Who can help answer my questions?

A: If you have more questions about the merger, please call the Investor Relations Department of EPL at (504) 569-1875 or of Stone at (337) 237-0410.

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SUMMARY

This summary primarily highlights selected information from this document and may not contain all of the information that is important to you. To understand the merger fully and for a more complete description of the terms of the merger, you should read carefully this entire document and the other available information referred to under Where You Can Find More Information on page 135. We encourage you to read the merger agreement, the legal document governing the merger, which is included as Annex A to this document and incorporated by reference herein. We have included page references parenthetically to direct you to more complete descriptions of the topics presented in this summary. Unless otherwise stated, all discussions of EPL outstanding shares, shares of restricted stock and options, pro forma for the merger with Stone, assume that all Stone restricted stock is converted into EPL common stock and all Stone stock options are cancelled. We have defined certain oil and natural gas industry terms used in this document in the Glossary of Oil and Gas Terms beginning on page 136.

The Companies

Energy Partners, Ltd.

201 St. Charles Avenue, Suite 3400

New Orleans, Louisiana 70170

EPL is an independent oil and natural gas exploration and production company with current operations concentrated in the shallow to moderate depth waters of the Gulf of Mexico Shelf and the Gulf Coast onshore regions and, as a result of an acquisition of undeveloped acreage in early 2006, the deepwater Gulf of Mexico. As of December 31, 2005, EPL had estimated proved reserves of approximately 166.9 Bcf of natural gas and 31.5 Mmbbls of oil, or an aggregate of approximately 59.3 Mmboe, with a standardized measure of discounted future net cash flows of $1.3 billion. EPL common stock is listed on the New York Stock Exchange under the symbol EPL.

Stone Energy Corporation

625 E. Kaliste Saloom Road

Lafayette, Louisiana 70508

Stone is an independent oil and natural gas company engaged in the acquisition and subsequent exploration, development, operation and production of oil and natural gas properties located in the conventional shelf of the Gulf of Mexico, the deep shelf of the Gulf of Mexico, the deepwater of the Gulf of Mexico, the Rocky Mountain region and the Williston Basin. Stone is also engaged in an exploratory joint venture in Bohai Bay, China. As of June 30, 2006, Stone s property portfolio consisted of 58 active properties (fields) and 59 primary term leases in the Gulf Coast region and 21 active properties (fields) in the Rocky Mountain region. As of December 31, 2005, Stone had estimated proved reserves of approximately 593 Bcf of natural gas, or approximately 99 Mmboe, 73% of which were classified as proved developed and 58% of which were natural gas, with a standardized measure of discounted future net cash flows of $1.9 billion. Stone common stock is listed on the New York Stock Exchange under the symbol SGY.

The Merger

(see pages 57 to 102)

Pursuant to the merger agreement, Stone will merge with and into EPL Acquisition Corp. LLC, a wholly-owned subsidiary of EPL.

In the merger, Stone common stockholders will receive, at the election of the holder (subject to the limitations described below): (i) $51.00 in cash, or (ii) EPL shares equivalent to the ratio determined by dividing $51.00 by the market price of EPL shares (based on a 20-day trading average prior to the third trading day preceding the closing), *provided* that the exchange ratio will not be greater than 2.525 or less than 2.066 EPL

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shares per Stone share. The election of cash or stock will be subject to a limit on total cash consideration of approximately $723 million (which includes approximately $15.5 million attributable to stock options) and a limit on the total number of EPL shares issued of approximately 35 million.

The merger is expected to qualify as a reorganization under Section 368(a) of the Internal Revenue Code. Accordingly, it is expected that (i) the merger will be tax free to EPL stockholders for U.S. federal income tax purposes and (ii) the U.S. federal income tax consequences to an exchanging Stone stockholder will depend on the relative mix of cash and EPL common stock received by such Stone stockholder. It is a condition to the completion of the merger that Stone and EPL receive written opinions from their respective counsel to the effect that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Code. Neither EPL nor Stone intends to waive this closing condition. In the event that either EPL or Stone waives receipt of such opinion from its counsel, however, EPL and Stone will resolicit the approval of their stockholders after providing appropriate disclosure.

Stone Options. Before the merger is completed, Stone will repurchase all outstanding options for cash. For more information, please see Terms of the Merger Agreement Manner and Basis of Converting Shares beginning on page 103.

Stone Restricted Stock. Immediately before the merger is completed, all restrictions on Stone restricted stock awards will expire. For more information, please see Terms of the Merger Agreement Manner and Basis of Converting Securities beginning on page 103.

EPL. The board of directors of EPL has approved and adopted the merger agreement and the transactions contemplated by it, declared its advisability, and recommends that EPL stockholders vote at the special meeting to approve the issuance of EPL common stock as a result of the transactions contemplated by the merger agreement. See The Merger Background of the Merger beginning on page 57. In addition, the EPL board of directors recommends that EPL stockholders vote to approve the amendment to EPL s certificate of incorporation to increase EPL s authorized stock and the approval of EPL s Amended and Restated 2006 Long Term Stock Incentive Plan.

Stone. The board of directors of Stone has approved the merger agreement, declared the merger agreement advisable, determined that the merger agreement and the transactions contemplated by it fair to and in the best interests of Stone and its stockholders, and recommends that Stone stockholders vote at the special meeting in favor of the adoption of the merger agreement. See The Merger Background of the Merger beginning on page 57. As described on pages 97 to 99, some Stone directors and officers will receive financial benefits as a result of the merger.

Stockholder Election Mechanics

(see page 27)

To elect to receive cash or EPL common stock for your shares of Stone common stock, you must indicate in the place provided on the election form, which you will receive in a separate mailing, the number of shares of Stone common stock with respect to which you prefer to receive cash or EPL common stock, sign the form, and return the form in the separate envelope provided so that it is received prior to the election deadline, which is 5:00 p.m., Eastern time, on the date that is five business days following the effective date of the merger. If the merger occurs, Stone will promptly make a public announcement of this fact.

You will be able to make one of the following elections on the election form:

- to elect to receive shares of EPL common stock for your shares of Stone common stock;
- to elect to receive cash for your shares of Stone common stock; or
- to indicate that you make no election, and thus have no preference, with respect to the nature of the consideration for your shares of Stone common stock.

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If you do not submit an election form and the other required documents prior to the election deadline, you will be deemed to have indicated that you are making no election, and thus have no preference, with respect to your shares of Stone common stock.

Appraisal Rights

(see pages 99 to 102)

Under Delaware law, Stone stockholders are entitled to appraisal rights in connection with the merger. Any Stone stockholder of record who objects to the merger may elect to have his or her shares of Stone common stock appraised under the procedures of Delaware law and to be paid the fair value of his or her shares. The appraised value will not include any value arising from the merger, but may include a fair rate of interest. It is possible that the fair value determined may be more or less than the merger consideration. These procedures require, among other things, that a dissenter:

- file with Stone a written demand for appraisal of the stockholder s shares prior to the vote on the merger proposal;
- not vote in favor of the merger; and
- continuously hold his or her Stone common stock through the effective time of the merger.

If you fail to comply with any of these conditions and the merger is completed, you will lose your appraisal rights with respect to your shares of Stone common stock. See the relevant sections of Delaware law attached as Annex F to this proxy statement.

Opinions of Financial Advisors

(see pages 71 to 96)

In deciding to recommend the merger, we each considered opinions from our respective financial advisors.

The EPL board of directors received a written opinion from each of Evercore Group L.L.C. and Banc of America Securities LLC to the effect that, as of the date of such opinion, and subject to the assumptions, limitations, qualifications and other matters described therein, the merger consideration was fair, from a financial point of view, to EPL.

Stone received a written opinion from Jefferies & Company, Inc., through its Randall & Dewey division, to the effect that, as of the date of such opinion and subject to the assumptions, limitations, qualifications and other matters described in its opinion, the merger consideration contemplated by the merger was fair, from a financial point of view, to the holders of Stone common stock (other than EPL and its affiliates).

The full texts of these opinions describe, among other things, the assumptions made, the procedures followed, factors considered and limitations on the review undertaken, and are attached as Annexes B-1, B-2 and C. We urge you to read these opinions carefully and in their entirety. The opinions of Evercore Group L.L.C. and Banc of America Securities LLC were provided to the EPL board of directors, and the opinion of Jefferies & Company, Inc. was provided to the Stone board of directors, in each case in connection with their respective evaluations of the merger consideration. None of the opinions address any other aspect of the proposed merger, nor do they constitute a recommendation to any stockholders as to how to vote or act at the EPL or Stone special meetings.

Board of Directors and Management of EPL Following the Merger

(see page 97)

The board of directors of EPL following the merger will be increased by three director positions to a total of fourteen directors and James H. Stone, Richard A. Pattarozzi and Kay G. Priestly, each of whom is currently a

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director of Stone, will join the board of directors of EPL. The management of EPL following the merger will consist of the same persons as prior to the merger.

The Stockholder Meetings

(see pages 25 to 28)

EPL. The EPL special meeting will be held for the following purposes:

- to consider and vote upon a proposal to approve the issuance of EPL common stock to Stone s stockholders as a result of the merger;
- to consider and vote upon a proposed amendment to EPL s certificate of incorporation to increase the number of authorized common shares from 100,000,000 to 150,000,000 if the merger occurs; and
- to consider and vote upon approval of EPL s 2006 Amended and Restated Long Term Stock Incentive Plan.

Stone. The Stone special meeting will be held to consider and vote upon the approval and adoption of the merger agreement.

Record Dates

EPL. You may vote at the special meeting of EPL stockholders if you owned EPL common stock at the close of business on , 2006.

Stone. You may vote at the annual meeting of Stone stockholders if you owned Stone common stock at the close of business on , 2006.

Votes Required

(see page 26)

EPL. Each share of EPL common stock outstanding as of the record date will be entitled to one vote at the special meeting. The approval of the issuance of EPL common stock and EPL s Amended and Restated 2006 Long Term Stock Incentive Plan requires the affirmative vote of a majority of the shares of EPL common stock present and voting, except that broker non-votes will not be counted in determining whether a quorum exists. The approval of the amendment to EPL s certificate of incorporation requires the affirmative vote of a majority of the outstanding shares of EPL common stock. Approval of the merger is not conditioned upon approval of the proposal to increase the number of authorized common shares or the adoption of the Amended and Restated 2006 Long Term Stock Incentive Plan.

If you are a holder of EPL common stock and you do not vote your shares or abstain from voting your shares with respect to the proposal to amend the certificate of incorporation, such actions will be the equivalent of a no vote because the adoption of the amendment to the certificate of incorporation requires an affirmative vote of a majority of the outstanding shares of EPL common stock. In addition, broker non-votes will be the equivalent of a no vote because the amendment to the certificate of incorporation requires the affirmative vote of a majority of the outstanding shares of EPL common stock.

Stone. Each share of Stone common stock outstanding as of the record date is entitled to one vote at the special meeting. Adoption of the merger agreement by Stone stockholders requires the affirmative vote of a majority of the outstanding shares of Stone common stock.

If you are a holder of Stone common stock and you do not vote your shares or abstain from voting your shares, such actions will be the equivalent of a no vote because the adoption of the merger agreement requires an affirmative vote of a majority of the outstanding shares of Stone common stock. In addition, broker non-votes will be the equivalent of a no vote because the adoption of the merger agreement requires the affirmative vote of a majority of the outstanding shares of Stone common stock.

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Share Ownership of Management

(see pages 118 to 121)

EPL. As of the record date for the EPL special meeting, there were shares of EPL common stock outstanding. Directors and executive officers of EPL beneficially owned approximately % of the outstanding EPL common stock on the record date.

Stone. As of the record date for the Stone special meeting, there were shares of Stone common stock outstanding. Directors and executive officers of Stone beneficially owned approximately % of the shares of Stone common stock on the record date.

Voting Agreements. In connection with the merger agreement, the directors of EPL and Stone entered into voting agreements pursuant to which such directors agreed to vote their shares in favor of the transactions. The voting agreements cover all shares beneficially owned by the EPL directors and by the Stone directors.

Risks Associated with the Merger

(see pages 17 to 18)

You should be aware of and carefully consider the risks relating to the merger described under Risk Factors. These risks include possible difficulties in combining two companies that have previously operated independently.

Financing of the Merger

(see pages 113 to 114)

EPL intends to finance the cash portion of the merger consideration and the refinancing of the Stone debt with its cash resources as well as through a new credit facility that EPL expects to enter into in connection with the merger that will replace its existing credit facility and either a bridge loan or an offering of senior notes of EPL. EPL has received a commitment letter from Bank of America, N.A. and affiliates with respect to the new credit facility and the bridge loan. The new credit facility is expected to have a senior secured revolving credit facility of $600 million, with an initial borrowing base availability of $350 million, and a second lien term loan of $700 million. The bridge loan or the senior notes offering is expected to generate gross proceeds to EPL of $730 million. If the merger had occurred on March 31, 2006, EPL would have borrowed approximately $125 million under the new senior secured revolving credit facility to fund the merger consideration and the related transactions. The closing of the credit facility and the bridge loan or the senior notes offering will be subject to customary closing conditions. EPL s obligation to complete the merger is not contingent on its ability to receive financing under this proposed new credit facility, the bridge loan or the senior notes.

Accounting Treatment

(see page 96)

The merger will be accounted for as an acquisition of Stone by EPL using the purchase method of accounting. In addition, EPL will continue to use the successful efforts method of accounting for its oil and natural gas properties.

Conditions to the Merger

(see pages 109 to 110)

We will complete the merger only if the conditions to the merger are satisfied, including the following:

- the adoption of the merger agreement by Stone common stockholders;

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- the approval of the EPL common stock issuance in connection with the merger by the EPL common stockholders;

- the receipt of tax opinions from counsel for each of EPL and Stone that the merger constitutes a reorganization under Section 368(a) of the Internal Revenue Code;

- the absence of any material adverse effect upon either EPL or Stone;

- the absence of any law or court order that prohibits the merger;

- the applicable waiting period under Hart-Scott-Rodino has expired or been terminated; and

- the shares of EPL common stock to be issued in the merger have been approved for listing on the New York Stock Exchange.

Either of us may choose to complete the merger even though a condition has not been satisfied if the law allows us to do so.

Termination of the Merger Agreement

(see pages 110 to 111)

We can agree to terminate the merger agreement at any time. In addition, either of us can unilaterally terminate the merger agreement in various circumstances, including the following:

- if the merger has not been completed by December 31, 2006 and if the terminating company has not materially breached its obligations under the merger agreement, which breach proximately contributed to the failure to consummate the merger on or prior to such date; and

- if EPL stockholders fail to approve the issuance of EPL common stock as a result of the merger or the Stone stockholders fail to adopt the merger agreement.

Termination Fee

(see pages 111 to 112)

Upon the occurrence of certain termination events in connection with an offer or proposal regarding a business combination, Stone may be required to pay EPL a termination fee of $44.0 million.

In addition, upon the occurrence of certain termination events, Stone may be required to reimburse EPL for all or part of the $43.5 million termination fee advanced by EPL to Plains on behalf of Stone in connection with the termination of Stone s merger agreement with Plains.

Upon the occurrence of certain termination events in connection with an offer or proposal regarding a business combination, EPL may be required to pay Stone a termination fee of $26.5 million.

Interests of Certain Persons in the Merger that Differ from Your Interests

(see pages 97 to 99)

Certain of EPL s and Stone s directors and executive officers have interests in the merger that differ from, or are in addition to, your interests as stockholders of Stone or EPL. These interests include:

- pursuant to Stone severance plans and retention policies, all Stone executive officers will receive cash payments as the result of merger;
- all restrictions on restricted stock awards held by Stone officers and directors will expire;
- stock options held by Stone officers and directors will be purchased for cash by Stone immediately prior to the merger;

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for six years after the merger, EPL Acquisition Corp. LLC will indemnify and maintain liability insurance for the officers and directors of Stone and its subsidiaries;

each of James H. Stone, Richard A. Pattarozzi and Kay G. Priestly will join EPL s board of directors upon the closing of the transactions contemplated by the merger agreement;

EPL will provide suitable office space for James H. Stone in EPL s headquarters building in lieu of Mr. Stone s current arrangements with Stone; and

William O. Hiltz, a director of EPL, is a senior managing director of Evercore Partners, which is an affiliate of Evercore Group L.L.C., one of EPL s financial advisors that has issued a fairness opinion in connection with the transactions. Evercore Group L.L.C. received a fee upon execution of the merger agreement and will receive an additional fee upon the closing of the transactions.

As of the date of this document, there are no agreements with EPL for the employment of any of Stone s directors (other than as set forth above) or the continuing employment of any of Stone s executive officers. Other than as set forth above, the interests of Stone s directors and executive officers in the merger are limited to their interests as stockholders of Stone.

Stone s directors and executive officers beneficially owned approximately % of the shares of Stone common stock as of the record date for the Stone special meeting.

Acquisition Proposals

(see page 108)

Until the termination of the merger agreement, Stone, and its officers, directors and agents, will not (i) solicit, initiate or encourage an acquisition proposal or any inquiries or the making of any proposal that constitutes or reasonably could be expected to lead to an acquisition proposal, (ii) enter into any agreement with respect to an acquisition proposal or (iii) engage or participate in discussions or negotiations with, or disclose any nonpublic information or furnish any information with respect to, or otherwise cooperate in any way with, an acquisition proposal. Stone may, however, communicate with third parties that make bona fide unsolicited written acquisition proposals that, in its board s good faith determination after consultation with its financial advisors and outside legal counsel, may reasonably be expected to result in a transaction more favorable from a financial point of view to its stockholders.

Material Differences in the Rights of Stockholders

(see pages 122 to 124)

Stone and EPL are both Delaware corporations. Upon completion of the merger, your rights as stockholders of EPL will be governed by its charter and bylaws, and Delaware law. Stone stockholders should consider the fact that EPL s charter and bylaws differ in some material respects from Stone s charter and bylaws.

Comparative Per Share Market Price Information

(see page 24)

EPL common stock is listed on the New York Stock Exchange under the symbol EPL and Stone common stock is listed on the New York Stock Exchange under the symbol SGY. On May 24, 2006, the last full trading day prior to public announcement of EPL s unsolicited offer to acquire Stone, EPL common stock closed at $21.56 per share and Stone common stock closed at $40.76 per share. On July 19, 2006, EPL common stock closed at $17.50 per share and Stone common stock closed at $45.60 per share. We urge you to obtain current market quotations before making any decision with respect to the merger.

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Summary Selected Financial Information and Other Data

EPL

The following table sets forth EPL s selected consolidated historical financial information that has been derived from (a) the audited financial statements for each of the years in the five year period ended December 31, 2005 and (b) the unaudited financial statements for the three month periods ended March 31, 2006 and 2005. This disclosure does not include the effect of the merger. You should read this financial information in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations in EPL s Form 10-K for the year ended December 31, 2005 and Form 10-Q for the quarter ended March 31, 2006 and the EPL financial statements and notes thereto incorporated by reference in this document (in thousands, except per share data).

	Three Months Ended March 31, (unaudited)		Years Ended December 31,				
	2006	2005	2005	2004	2003	2002	2001
Statement of Operations Data:							
Revenue	$ 110,118	$ 97,478	$ 402,947	$ 295,210	$ 230,187	$ 133,788	$ 146,240
Costs and expenses:							
Lease operating	12,613	12,603	51,482	40,617	36,693	34,400	36,543
Taxes, other than on earnings	2,995	2,764	10,372	9,263	7,650	6,572	7,190
Exploration expenditures and dry hole costs	19,596	10,755	82,844	35,935	17,353	10,735	15,141
Depreciation, depletion and amortization	47,145	25,513	103,649	92,353	81,927	64,513	46,870
General and administrative	12,456	9,900	43,205	30,974	28,004	24,168	19,833
Total costs and expenses	94,805	61,535	291,552	209,142	171,627	140,388	125,577
Business interruption recovery	12,689		20,632				
Income (loss) from operations	28,002	35,943	132,027	86,068	58,560	(6,600)	20,663
Interest expense, net	(4,805)	(3,863)	(17,340)	(13,136)	(9,794)	(6,881)	(1,587)
Income (loss) before income taxes and cumulative effect of change in accounting principle	23,197	32,080	114,687	72,932	48,766	(13,481)	19,076
Income taxes	(8,394)	(11,659)	(41,592)	(26,516)	(17,784)	4,682	(7,102)
Net income (loss) before cumulative effect of change in accounting principle	14,803	20,421	73,095	46,416	30,982	(8,799)	11,974
Cumulative effect of change in accounting principle					2,268		
Net income (loss) (1)	14,803	20,421	73,095	46,416	33,250	(8,799)	11,974
Net income (loss) available to common stockholders (2)	$ 14,803	$ 19,477	$ 72,151	$ 43,017	$ 29,705	$ (12,129)	$ 11,974
Earnings and dividends per share:							
Basic:							
Before cumulative effect of change in accounting principle	$ 0.39	$ 0.56	$ 1.94	$ 1.31	$ 0.89	$ (0.44)	$ 0.45
Earnings (loss) per share	$ 0.39	$ 0.56	$ 1.94	$ 1.31	$ 0.96	$ (0.44)	$ 0.45
Diluted:							
Before cumulative effect of change in accounting principle	$ 0.37	$ 0.51	$ 1.79	$ 1.20	$ 0.87	$ (0.44)	$ 0.44
Earnings (loss) per share	$ 0.37	$ 0.51	$ 1.79	$ 1.20	$ 0.93	$ (0.44)	$ 0.44
Cash dividends declared	$	$	$	$	$	$	$

(1) The 2003 net income includes a cumulative effect of change in accounting principle resulting from the adoption of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations (Statement 143), which increased net income $2.3 million, net of deferred income taxes of $1.3 million.

(2) Net income (loss) available to common stockholders is computed by subtracting preferred stock dividends and accretion of discount of $0.9 million, $3.4 million, $3.5 million and $3.3 million from net income (loss) for the years ended December 31, 2005, 2004, 2003 and 2002, respectively.

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	Three Months Ended March 31,		Years Ended December 31,				
	2006	2005	2005	2004	2003	2002	2001
	(unaudited)						
Cash Flow Data:							
Net cash provided by operating activities	$ 63,870	$ 69,443	$ 269,969	$ 165,074	$ 136,702	$ 25,417	$ 91,847
Net cash used in investment activities	(57,857)	(221,453)	(449,159)	(176,713)	(110,057)	(54,380)	(121,067)
Net cash provided by (used in) financing activities	(10,077)	61,662	92,442	784	77,631	29,079	25,871
Balance Sheet Data (at end of period):							
Total assets	$ 953,805	$ 765,933	$ 931,285	$ 647,678	$ 544,181	$ 384,220	$ 242,777
Long-term debt, including current maturities	225,000	210,191	235,109	150,217	150,416	103,779	25,493
Stockholders equity	420,497	333,135	394,593	315,049	261,485	191,922	164,867

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Stone

The following table sets forth a summary of Stone s selected historical financial information for the three-month periods ended March 31, 2006 and 2005 and for each of the years in the five-year period ended December 31, 2005. The financial data for the three-month periods ended March 31, 2006 and 2005 is unaudited and reflects all adjustments (consisting only of normal recurring adjustments) which are, in the opinion of Stone s management, necessary for a fair presentation of Stone s financial position and operating results for such interim periods. The results of operations for the three-month period ended March 31, 2006 are not necessarily indicative of results for the full year. This disclosure does not include the effect of the merger. You should read this financial information in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations of Stone and Stone s financial statements and notes thereto elsewhere in this document (in thousands, except per share data).

	Three Months Ended March 31,		Year Ended December 31,				
	2006	2005	2005	2004	2003	2002	2001
	(unaudited)						
Statement of Operations Data:							
Operating revenue:							
Oil production	$ 61,512	$ 64,631	$ 244,469	$ 214,153	$ 174,139	$ 155,913	$ 103,053
Natural gas production	96,922	91,522	391,771	330,048	334,166	221,582	292,446
Total operating revenue	158,434	156,153	636,240	544,201	508,305	377,495	395,499
Operating expenses:							
Lease operating expenses	34,876	27,924	114,664	100,045	72,786	76,673	54,072
Production taxes	4,217	2,427	13,179	7,408	5,975	5,039	6,408
Depreciation, depletion and amortization	65,571	62,021	241,426	210,861	188,813	175,496	164,150
Accretion expense	3,043	1,790	7,159	5,852	6,292		
Write-down of oil and gas properties							302,161
Derivative expense			3,388	4,099	8,711	15,968	2,604
Bad debt expense (1)							2,343
Salaries, general and administrative expenses	8,709	5,472	23,957	16,629	17,506	14,041	13,527
Total operating expenses	116,416	99,634	403,773	344,894	300,083	287,217	545,265
Income (loss) from operations	42,018	56,519	232,467	199,307	208,222	90,278	(149,766)
Other (income) expenses:							
Interest expense	5,915	5,831	23,151	16,835	19,860	23,141	4,895
Other expense				1,541	538		
Early extinguishment of debt				845	4,661		
Merger expenses							25,785
Other income	(922)	(589)	(3,894)	(4,018)	(3,133)	(3,328)	(2,997)
Total other expenses, net	4,993	5,242	19,257	15,203	21,926	19,813	27,683
Income (loss) before income taxes	37,025	51,277	213,210	184,104	186,296	70,465	(177,449)
Income tax provision (benefit)	13,017	17,853	76,446	64,436	65,203	24,662	(60,784
Income (loss) before cumulative effects of accounting changes, net of tax	24,008	33,424	136,764	119,668	121,093	45,803	(116,665)
Cumulative effects of accounting changes, net of tax (2)					2,099		
Net income (loss)	$ 24,008	$ 33,424	$ 136,764	$ 119,668	$ 123,192	$ 45,803	$ (116,665)
Earnings and dividends per common share:							
Income (loss) before cumulative effects of accounting changes per share	$ 0.88	$ 1.25	$ 5.07	$ 4.50	$ 4.60	$ 1.74	$ (4.47)
Earnings (loss) per common share	$ 0.88	$ 1.25	$ 5.07	$ 4.50	$ 4.67	$ 1.74	$ (4.47)
	$ 0.88	$ 1.24	$ 5.02	$ 4.45	$ 4.56	$ 1.73	$ (4.47)

Income (loss) before cumulative effects of accounting changes per share assuming dilution														
Earnings (loss) per common share assuming dilution	$	0.88	$	1.24	$	5.02	$	4.45	$	4.64	$	1.73	$	(4.47)
Cash dividends declared	$		$		$		$		$		$		$	

(1) Relates to 100% allowance for production receivable due from Enron North America.
(2) Cumulative effects of accounting changes relate to the adoption of Statement 143 and change to the Units of Production method of DD&A.

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	Three Months Ended March 31,		Year Ended December 31,				
	2006	2005	2005	2004	2003	2002	2001
	(unaudited)						
Cash Flow Data:							
Net cash provided by operating activities	$ 81,306	$ 110,979	$ 461,213	$ 369,668	$ 390,811	$ 222,891	$ 315,617
Net cash used in investing activities	(140,557)	(180,546)	(499,932)	(475,159)	(341,180)	(216,570)	(656,847)
Net cash provided by (used in) financing activities	1,631	80,877	94,170	112,648	(60,140)	8,133	275,828
Balance Sheet Data (at end of period):							
Working capital (deficit)	$ (15,317)	$ (34,944)	$ 16,506	$ (28,598)	$ (38,474)	$ (1,212)	$ (18,097)
Oil and natural gas properties, net	1,891,451	1,657,729	1,810,959	1,517,308	1,216,141	963,494	924,229
Total assets	2,199,373	1,853,635	2,140,317	1,695,664	1,332,485	1,094,930	1,032,105
Long-term debt, less current portion	563,000	558,000	563,000	482,000	370,000	431,000	426,000
Stockholders equity	980,558	802,144	944,123	772,934	644,111	522,601	484,735

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Summary Oil and Natural Gas Reserve and Operating Data

The following table sets forth certain information with respect to EPL s and Stone s oil and natural gas reserve and operating data. The following information should be read in connection with the information contained in the financial statements and notes thereto incorporated by reference in and included elsewhere in this document. The information set forth below is not necessarily indicative of future results (in thousands, except per unit amounts).

	For the Three Months Ended March 31,		Years Ended December 31,		
	2006	2005	2005	2004	2003
	(unaudited)				
EPL:					
Estimated net proved reserves (at end of period):					
Oil (Mbbls)			31,478	28,770	27,414
Natural gas (Mmcf)			166,949	149,835	134,404
Total (Mboe)			59,303	53,743	49,815
Percent oil			53%	54%	55%
Percent proved developed			72%	78%	69%
Standardized measure of discounted future net cash flows (unaudited)			$ 1,261,246	$ 667,668	$ 529,415
Net Production:					
Oil (Mbbls)	647	898	2,914	3,171	2,912
Natural gas (Mmcf)	8,535	8,655	32,277	30,048	28,688
Total (Mboe)	2,070	2,341	8,293	8,179	7,693
Average sales price, net of hedging:					
Oil (per Bbl)	$ 59.16	$ 45.68	$ 46.45	$ 35.01	$ 28.02
Natural gas (per Mcf)	8.30	6.52	8.26	6.11	5.16
Total (per Boe)	52.74	41.64	48.47	36.01	29.86
Impact of hedging:					
Oil (per Bbl)	$	$ (1.17)	$ (3.15)	$ (4.40)	$ (1.67)
Natural gas (per Mcf)	(0.11)		(0.24)	(0.04)	(0.23)
Average costs (per Boe):					
Lease operating expense	$ 5.98	$ 5.32	$ 6.08	$ 4.93	$ 4.76
Taxes, other than on earnings	1.45	1.18	1.25	1.13	0.99
Depreciation, depletion and amortization	22.78	10.90	12.50	11.29	10.65
Stone:					
Estimated net proved reserves (at end of period):					
Oil (Mbbls)			41,509	42,385	44,508
Natural gas (Mmcf)			344,088	413,902	380,280
Total (Mboe)			98,857	111,369	107,888
Percent oil			42%	38%	41%
Percent proved developed			73%	77%	79%
Standardized measure of discounted future net cash flows			$ 1,932,979	$ 1,612,459	$ 1,464,076
Net Production:					
Oil (Mbbls)	1,037	1,357	4,838	5,438	5,727
Natural gas (Mmcf)	11,269	15,249	54,129	55,544	62,536
Total (Mboe)	2,915	3,899	13,860	14,695	16,150
Average sales price, net of hedging:					
Oil (per Bbl)	$ 59.32	$ 47.63	$ 50.53	$ 39.38	$ 30.41
Natural gas (per Mcf)	8.60	6.00	7.24	5.94	5.34
Total (per Boe)	54.35	40.05	45.91	37.03	31.47
Impact of hedging:					
Oil (per Bbl)	$	$ (0.33)	$ (2.26)	$	$
Natural gas (per Mcf)	0.38	(0.19)	(0.57)	(0.18)	(0.03)
Production expense (including production taxes) (per Boe)	$ 13.41	$ 7.79	$ 9.22	$ 7.31	$ 4.88

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Summary Unaudited Pro Forma Condensed Consolidated Financial Data

The following table sets forth summary unaudited pro forma condensed consolidated financial data which are presented to give effect to the merger and related transactions and the acquisition of additional interests in Mississippi Canyon Blocks 109 and 108. The pro forma adjustments are described in the notes accompanying our unaudited pro forma condensed consolidated financial statements included elsewhere in this proxy statement and are based on preliminary estimates and certain assumptions that management of the companies believes are reasonable under the circumstances. The unaudited pro forma condensed consolidated statement of operations data assumes the merger occurred on January 1, 2005 and the unaudited pro forma condensed consolidated balance sheet data assumes the merger occurred on March 31, 2006. This unaudited pro forma condensed consolidated financial data is not necessarily indicative of the results of operations or the financial position that would have occurred had the merger been consummated on the assumed dates nor is it necessarily indicative of future results of operations or financial position. The unaudited pro forma financial data should be read together with the historical financial statements of EPL incorporated by reference into this document and the historical financial statements of Stone and the unaudited pro forma condensed consolidated financial statements and accompanying notes included in this document.

	Pro Forma	
	Three Months Ended March 31, 2006	Year Ended December 31, 2005
	(amounts in thousands, except per share data)	
Statement of Operations:		
Revenues:		
Oil and natural gas	$ 267,558	$ 1,038,245
Other	1,916	4,836
	269,474	1,043,081
Costs and expenses:		
Lease operating expenses	52,099	185,575
Exploration expenditures, dryhole costs and impairments	89,197	220,169
Depreciation, depletion and amortization	121,442	449,586
Derivative expense		3,388
General and administrative	29,045	92,346
Total costs and expenses	291,783	951,064
Business interruption recovery	12,689	20,632
Income from operations	(9,620)	112,649
Interest expense, net	(39,915)	(157,221)
Income (loss) before income taxes	(49,535)	(44,572)
Income taxes	17,832	16,046
Net income (loss)	(31,703)	(28,526)
Less dividends earned and accretion of discount on preferred stock		(944)
Net income (loss) available to common stockholders	$ (31,703)	$ (29,470)

Basis earnings (loss) per share	$	(0.43)	$	(0.41)
Diluted earnings (loss) per share	$	(0.43)	$	(0.41)
Weighted average common shares used in computing earnings (loss) per share:				
Basic		73,052		72,121
Diluted		73,052		72,121

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	March 31, 2006
Balance Sheet Data:	
Assets	
Cash and cash equivalents	$ 24,813
Other current assets	390,290
Property and equipment, net	3,784,227
Other assets	19,842
Liabilities and Stockholders Equity Data:	
Current liabilities	$ 440,535
Long-term debt	1,779,065
Other long-term liabilities	181,636
Deferred income taxes	741,087
Stockholders equity	1,076,850

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Summary Unaudited Pro Forma Oil and Natural Gas Reserve and Operations Data

The following table sets forth summary unaudited pro forma information with respect to EPL s and Stone s combined estimated net proved oil and natural gas reserves, average prices and expenses for the three months ended March 31, 2006 and as of and for the year ended December 31, 2005.

	As of or for the Three Months Ended March 31, 2006	Year Ended December 31, 2005
Estimated net proved reserves:		
Proved reserves:		
Oil (Mbbls)		72,987
Natural gas (Mmcf)		511,037
Total (Mboe)		158,160
Net proved developed reserves:		
Oil (Mbbls)		57,203
Natural gas (Mmcf)		344,974
Total (Mboe)		114,699
Percent oil		46%
Percent proved developed		73%
Reserve additions (Mboe)		17,450
Reserve life (years)		7.3
Standardized measure of discounted future net cash flows (in thousands):		
Future cash inflows		$ 9,306,862
Future production costs		(1,938,975)
Future development costs		(1,042,161)
Future income tax expense		(1,758,759)
Future net cash flows, after tax		4,566,967
10% annual discount for estimated timing of cash flows		(1,372,742)
Standardized measure of discounted future net cash flows		$ 3,194,225
Net production:		
Oil (Mbbls)	1,684	7,752
Natural gas (Mmcf)	19,804	86,406
Total (Mboe)	4,985	22,153
Average sales price, net of hedging:		
Oil (per Bbl)	$ 59.24	$ 49.00
Natural Gas (per Mcf)	8.47	7.62
Total (per Boe)	53.67	49.08
Production expense (per Boe)	$ 9.00	$ 7.31

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Comparative Per Share Data

The following table sets forth (a) the historical income from continuing operations and book value per share of EPL common stock in comparison to the pro forma income from continuing operations and book value per share after giving effect to the merger as a purchase of Stone and (b) the historical income from continuing operations and book value per share of Stone common stock in comparison with the equivalent pro forma income from continuing operations and book value per share attributable to the shares of EPL common stock which will be issued for each share of Stone (assuming each Stone stockholder receives 50% of the merger consideration in stock and 50% of the merger consideration in cash). Neither EPL nor Stone has declared dividends on their common stock since their respective formations. The information presented in this table should be read in conjunction with (i) the pro forma combined financial statements appearing elsewhere herein, (ii) the financial statements of EPL and the notes thereto incorporated by reference herein and (iii) the financial statements of Stone and the notes thereto appearing elsewhere herein.

	Three Months Ended March 31, 2006	Year Ended December 31, 2005
Historical EPL		
Earnings Per Share:		
Basic	$ 0.39	$ 1.94
Diluted	$ 0.37	$ 1.79
Book Value Per Share Diluted	$ 10.42	$ 9.68
Historical Stone		
Earnings Per Share:		
Basic	$ 0.88	$ 5.07
Diluted	$ 0.88	$ 5.02
Book Value Per Share Diluted	$ 35.85	$ 34.65
Pro Forma Combined (unaudited)		
Earnings (Loss) Per Share:		
Basic	$ (0.43)	$ (0.41)
Diluted	$ (0.43)	$ (0.41)
Book Value Per Share Diluted	$ 14.28	$ 14.21

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RISK FACTORS

You should consider carefully the following risk factors, together with all of the other information included in, or incorporated by reference into, this document before deciding how to vote. This document also contains forward-looking statements that involve risks and uncertainties. Please read Cautionary Statements Concerning Forward-Looking Statements.

Risks Relating to the Merger

Stone stockholders may receive merger consideration that is inconsistent with their elections.

Although Stone stockholders will be able to elect to receive cash or EPL common stock for their shares, the merger agreement provides that the election of cash or stock will be subject to a limit on total cash consideration of approximately $723 million (which includes approximately $15.5 million attributable to stock options) and a limit on the total number of EPL shares issued of approximately 35 million. Because of this limitation, if you elect to receive cash, your election may be re-allocated if the total cash elections exceed approximately $723 million. Conversely, if you elect to receive EPL common stock, your election may be re-allocated if the total stock elections exceed approximately 35 million shares.

For a more detailed description of the merger consideration, see Terms of the Merger Agreement Manner and Basis of Converting Shares Stockholder Elections; Allocation; Proration Procedures beginning on page 103.

The value of the consideration to Stone stockholders who receive EPL stock in the merger will decrease if the value of EPL s stock decreases.

At the effective time of the merger, the value of the stock portion of the merger consideration will depend on the trading price of EPL common stock. The exchange ratio that determines the number of shares of EPL common stock that Stone stockholders will receive in the merger is subject to a collar that limits the maximum number of EPL shares that will be exchanged for each share of Stone stock. Below the lower bound of the collar, there is no price protection mechanism contained in the merger agreement that would adjust the number of shares that Stone stockholders will receive based on any increases or decreases in the trading price of EPL common stock. If EPL s stock price decreases, the market value of the stock portion of the consideration will also decrease. Stock price changes may result from a variety of factors (many of which are beyond both companies control), including the following factors:

- changes in both companies businesses, operations and prospects;
- changes in market assessments of the business, operations and prospects of either company;
- interest rates, general market and economic conditions and other factors generally affecting the price of EPL s and Stone s common stock;
- the conditions of the capital markets for the financing EPL will need to incur to consummate the transactions; and
- federal, state and local legislation, governmental regulation and legal developments in the businesses in which EPL and Stone operate.

The prices of EPL and Stone common stock at the closing of the merger may vary from their respective prices on the date the merger agreement was executed, on the date of this document and on the date of the respective stockholder meetings. As a result, the value of the merger consideration will also vary. For example, based on the range of closing prices of EPL common stock during the period from May 24, 2006, the last trading day before public announcement of EPL s unsolicited offer to acquire Stone, through , 2006, the

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latest practicable date before the date of this document, and assuming that each stockholder receives 50% cash and 50% stock, the value of the merger consideration would have ranged from $ to $.

Certain directors and executive officers may have interests in the merger different from the interests of other stockholders.

Certain of the directors and executive officers of Stone and EPL are parties to agreements or participate in other arrangements that give them interests in the merger that are different from your interests as a stockholder of Stone. You should consider these interests in voting on the merger. We have described these different interests under The Merger Interests of Certain Persons in the Merger beginning on page 97.

The failure to obtain all necessary third party consents and regulatory approvals from governmental entities could prevent or delay the closing of the merger.

The merger agreement requires that EPL and Stone obtain consents from third parties prior to completion of the merger. EPL or Stone may waive these requirements with respect to consents to be obtained by the other party at its discretion. If one party waives the other s requirement to obtain one or more of these third party consents and they are not obtained, the third party entitled to give the consent may have a claim against the surviving company, which may result in adverse financial and legal consequences to the surviving company. Further, the delay or denial of any requisite consents, approvals or exemptions could prevent or delay the closing of the merger.

EPL and Stone will incur transaction, integration and restructuring costs in connection with the merger.

EPL and Stone expect to incur significant costs associated with transaction fees, professional services, taxes and other costs related to the merger. Specifically, EPL expects to incur approximately $40.0 million for transaction costs related to the merger. Furthermore, EPL has advanced to Plains on behalf of Stone a termination fee of $43.5 million in connection with the termination of the Plains merger agreement. In addition, the combined company will incur integration and restructuring costs following the completion of the merger as the combined company integrates the businesses of Stone with those of EPL. Although EPL and Stone expect that the realization of efficiencies related to the integration of the businesses may offset incremental transaction, merger-related and restructuring costs over time, no assurances can be made that this net benefit will be achieved in the near term, or at all.

Risks Relating to the Combined Company After the Merger.

For a discussion of the risks relating to EPL s business, see Risk Factors in EPL s Form 10-K for the year ended December 31, 2005.

After the merger, EPL will be highly leveraged and its high level of debt may limit its financial and operating flexibility.

EPL is incurring a significant amount of debt to consummate the acquisition and to refinance Stone s existing debt. Upon consummation of the merger, as of March 31, 2006 on a pro forma basis, and based upon the anticipated financing sources for the transaction, EPL would have had outstanding (i) $150.0 million of 8.75% senior notes due 2010, (ii) approximately $200 million aggregate principal amount of debt under its new senior secured revolving credit facility (approximately $125 million of which would have been drawn to fund the merger and related transactions), (iii) a new $700.0 million second lien term loan and (iv) either a $730 million bridge loan or $730 million in aggregate principal amount of new senior notes. On a pro forma basis for the year ended December 31, 2005 and the three months ended March 31, 2006, EPL would have incurred additional interest expense of $116.7 million and $29.2 million, respectively, and would have had a net loss of $29.5 million and $31.7 million, respectively, for such periods.

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The substantial debt of EPL following the merger could have important consequences to you. For example, it could:

- increase EPL s vulnerability to general adverse economic and industry conditions;
- make it more difficult for EPL to satisfy its financial obligations;
- limit EPL s ability to fund future working capital and capital expenditures, to engage in future acquisitions or development activities, or to otherwise realize the value of its assets and opportunities fully because of the need to dedicate a substantial portion of its cash flow from operations to payments on its debt or to comply with any restrictive terms of its debt;
- limit EPL s flexibility in planning for, or reacting to, changes in the industry in which it operates; and
- place EPL at a competitive disadvantage as compared to its competitors that have less debt.

EPL s ability to satisfy its obligations and to reduce total debt depends on future operating performance and on economic, financial, competitive and other factors, many of which are beyond the company s control. EPL s business may not generate sufficient cash flow, and future financings may not be available to provide sufficient net proceeds, to meet these obligations or to successfully execute the company s business strategy. Realization of any of these factors could adversely affect EPL s financial condition.

In addition, upon consummation of the merger, EPL and all of its restricted subsidiaries must comply with various covenants contained in its credit agreement, the indentures related to its notes and any of its future debt arrangements. These covenants will, among other things, limit the ability of the respective restricted entities to:

- incur additional debt or liens;
- make payments in respect of or redeem or acquire any debt or equity issued by EPL;
- sell assets;
- make loans or investments;
- acquire or be acquired by other companies; and
- enter into commodities price hedging transactions.

Stone has identified a material weakness in its internal controls relating to the estimation of proved reserves.

This joint proxy/prospectus contains estimates of Stone s proved oil and natural gas reserves and the estimated future net cash flows from such reserves. These estimates are based upon various assumptions, including assumptions required by the SEC relating to oil and natural gas prices,

drilling and operating expenses, capital expenditures, taxes and availability of funds. The process of estimating oil and natural gas reserves is complex. This process requires significant decisions and assumptions in the evaluation of available geological, geophysical, engineering and economic data for each reservoir and is therefore inherently imprecise. Additionally, Stone s interpretations of the rules governing the estimation of proved reserves could differ from the interpretation of staff members of regulatory authorities resulting in estimates that could be challenged by these authorities.

Actual future production, oil and natural gas prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable oil and gas reserves will most likely vary from those estimated. Any significant variance could materially affect the estimated quantities and present value of reserves set forth in this document and the information incorporated by reference. Stone s properties may also be susceptible to hydrocarbon drainage from production by other operators on adjacent properties. In addition, we may adjust

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estimates of proved reserves to reflect production history, results of exploration and development, prevailing oil and natural gas prices and other factors, many of which are beyond our control.

As articulated in Item 4. Controls and Procedures of Stone s Quarterly Report on Form 10-Q for the quarter ended March 31, 2006, in October 2005 Stone completed an internal review of its estimates of proved oil and natural gas reserves. As a result of this review, Stone revised its proved reserves for the period from December 31, 2001 to June 30, 2005 and restated its financial statements for the first six months of 2005 and for the years ended December 31, 2004, 2003, 2002 and 2001. Stone identified deficiencies in its internal controls that did not prevent the overstatement of its proved oil and natural gas reserves. Stone management concluded that these deficiencies constituted a material weakness in Stone s internal controls over financial reporting. As of the date of its Quarterly Report on Form 10-Q for the quarter ended March 31, 2006, Stone had not completely mitigated the causes of this weakness because it had not had an adequate passage of time to monitor the progress of its continuing training programs. In addition, Stone s outside engineering firm had not yet fully engineered 100% of its proved reserves.

Stone is subject to ongoing inquiries by the Securities and Exchange Commission and the Philadelphia Stock Exchange and has been named as a defendant in certain stockholder lawsuits resulting from its reserve revision, the ultimate resolution of which and their impact on Stone is uncertain.

In connection with the revisions of Stone s estimated proved reserve quantities and the restatement of its financial statements for the years ended December 31, 2004, 2003, 2002 and 2001, Stone received notice on or about November 10, 2005 from the staff of the Securities and Exchange Commission (the Staff) that the Staff is conducting an informal inquiry into the revision of Stone s proved reserves and the financial statement restatement. The Staff has also informed Stone that it is likely to seek a formal order of investigation in connection with its inquiry. In addition, Stone has received an inquiry from the Philadelphia Stock Exchange investigating matters including trading prior to Stone s October 6, 2005 announcement of its reserve revision. Additionally, a number of putative shareholder class actions and shareholder derivative actions related to the reserve revision and the financial statement restatement have been filed against Stone and certain of its current and former officers and directors. The derivative actions also assert claims related to the proposed merger transaction with Plains. Please read Stone s Business Legal Proceedings for additional information.

These actions are at an early stage and subject to substantial uncertainties concerning the outcome of material factual and legal issues relating to the litigation and the regulatory proceedings. Accordingly, based on the current status of the litigation and inquiries, we cannot currently predict the manner and timing of the resolution of these matters and are unable to estimate a range of possible losses or any minimum loss from such matters. Furthermore, to the extent that the combined company s insurance policies are ultimately available to cover any costs and/or liabilities resulting from these actions, they may not be sufficient to cover all costs and liabilities incurred by us and Stone s current and former officers and directors in these regulatory and civil proceedings.

Volatile oil and natural gas prices could adversely affect the combined company s financial condition and results of operations.

The combined company s success is largely dependent on oil and natural gas prices, which are extremely volatile and are or recently have been at historically high levels. Any substantial or extended decline in the price of oil and natural gas will have a negative impact on the combined company s business operations and future revenues. Moreover, oil and natural gas prices depend on factors that will be outside the combined company s control, such as:

- 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;

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the price and quantity of foreign imports of oil;

the price and availability of liquefied natural gas imports;

political conditions, including embargoes, in or affecting other oil-producing countries;

general economic conditions in the United Stated and worldwide;

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, including energy infrastructure disruptions resulting from those conditions;

technological advances affecting energy consumption; and

the price and availability of alternative fuels.

We may not realize the benefits of integrating our companies.

To be successful after the merger, EPL and Stone will need to combine and integrate the operations of their separate companies into one company. The integration will require substantial management attention and could divert attention away from the day-to-day business of the combined company. EPL and Stone could encounter difficulties in the integration process, such as the loss of key employees or commercial relationships. If EPL and Stone cannot integrate their businesses successfully, they may fail to realize the benefits they expect to realize from the merger. Potential difficulties the combined company may encounter in the integration process include the following:

if we are unable to successfully combine the businesses of EPL and Stone in a manner that permits the combined company to achieve the administrative and operating synergies and related cost savings anticipated to result from the merger, such anticipated benefits of the merger may not be realized fully or at all or may take longer to realize than expected;

complexities associated with managing the combined businesses;

potential unknown liabilities and unforeseen increased expenses or delays associated with the merger;

- performance shortfalls at one or both of the two companies as a result of the diversion of management s attention to the merger; and

- the loss of key employees, the disruption or interruption of, or the loss of momentum in, each company s ongoing businesses or inconsistencies in standards, controls, procedures and policies.

The realization of any of these potential difficulties could adversely affect the combined company s ability to maintain relationships with customers and employees or its ability to achieve the anticipated benefits of the merger, or could reduce earnings or otherwise adversely affect the business and financial results of the combined company.

The combined company may incur substantial losses and be subject to substantial liability claims as a result of its oil and natural gas operations.

Losses and liabilities arising from uninsured and underinsured events could materially and adversely affect the business, financial condition or results of operations of the combined company. Oil and natural gas

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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;
- unanticipated, 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, especially hurricanes and tropical storms in the Gulf of Mexico.

In addition, the combined company s operations in the Gulf Coast region (including the Gulf of Mexico), where all of EPL s estimated proved reserves and production in 2005 were located and where approximately 76% of Stone s estimated proved reserves at December 31, 2005 and 89% of Stone s production during 2005 were associated, are susceptible to hurricanes. Any of these operating hazards could cause serious injuries, fatalities, oil spills, discharge of hazardous materials, remediation and clean-up costs and other environmental damages, or property damage, which could expose the combined company to liabilities. The payment of any of these liabilities could reduce, or even eliminate, the funds available for exploration, development, and acquisition, or could result in a loss of the combined company s properties.

Consistent with insurance coverage generally available to the industry, EPL s insurance policies provide limited coverage for losses or liabilities. The insurance market in general and the energy insurance market in particular have been difficult markets in which to obtain coverage over the past several years, particularly as a result of the impact of Hurricanes Katrina and Rita. As a result, EPL does not believe that insurance coverage for the full potential liability, especially environmental liability, is currently available at reasonable cost. If the combined company incurs substantial liability and the damages are not covered by insurance or are in excess of policy limits, or if the combined company incurs liability at a time when it is not able to obtain liability insurance, then the combined company s business, results of operations and financial condition could be materially adversely affected.

The nature of the combined company s business and assets will expose it to significant compliance costs and liabilities.

The combined company s operations, involving the exploration, production, storage, treatment, and transportation of liquid hydrocarbons, including crude oil, will be subject to stringent federal, state, and local laws and regulations governing the discharge of materials into the environment. The combined company s operations are subject to laws and regulations relating to protection of the environment, operational safety, and related matters. Compliance with all of these laws and regulations will continue to represent a significant cost of doing business, including to construct, maintain, and upgrade equipment and facilities. Failure to comply with these laws and regulations may result in the assessment of administrative, civil, and criminal penalties; the imposition of investigatory and remedial liabilities; the issuance of injunctions that may restrict, inhibit or prohibit the combined company s operations; or claims of damages to property or persons.

With an expansion of its assets, the combined company may experience a corresponding increase in the number of releases of hydrocarbons or other materials to the environment. These releases will expose the combined company to potentially substantial expense, including cleanup and remediation costs, fines and penalties, and third-party claims for personal injury or property damage. Some of these expenses could increase by amounts disproportionately higher than the relative increase in assets and the increase in revenues associated therewith.

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CAUTIONARY STATEMENTS CONCERNING FORWARD-LOOKING STATEMENTS

This document includes forward-looking statements within the meaning of Section 27A of the Securities Act, Section 21E of the Exchange Act and the Private Securities Litigation Reform Act of 1995 about EPL and Stone that are subject to risks and uncertainties. All statements other than statements of historical fact included in this document are forward-looking statements. Forward-looking statements may be found under Summary, Stone s Business, Managements Discussion and Analysis of Financial Condition and Results of Operation of Stone, The Merger, EPL The Combined Company, Summary Unaudited Pro Forma Condensed Consolidated Financial Data, Summary Unaudited Pro Forma Oil and Natural Gas Reserve Data and the risk factors in the periodic reports filed under the Exchange Act by EPL and Stone and included elsewhere in this document regarding the financial position, business strategy, production and reserve growth, possible or assumed future results of operations, and other plans and objectives for the future operations of EPL and Stone, and statements regarding integration of the businesses of EPL and Stone and general economic conditions.

Forward-looking statements are subject to risks and uncertainties and include information concerning cost savings from the merger. Although we believe that in making such statements our expectations are based on reasonable assumptions, such statements may be influenced by factors that could cause actual outcomes and results to be materially different from those projected.

Except for their respective obligations to disclose material information under U.S. federal securities laws, neither EPL nor Stone undertakes any obligation to release publicly any revisions to any forward-looking statements, to report events or circumstances after the date of this document, or to report the occurrence of unanticipated events.

Statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as will, would, should, plans, likely, expects, anticipates, intends, believes, estimates, thinks, may, and similar expressions, are forward-look following important factors, in addition to those discussed under Risk Factors and elsewhere in this document, could affect the future results of the energy industry in general, and EPL and Stone after the merger in particular, and could cause those results to differ materially from those expressed in or implied by such forward-looking statements:

- uncertainties inherent in the development and production of and exploration for oil and natural gas and in estimating reserves;
- the effects of our substantial indebtedness, which could adversely restrict our ability to operate, could make us vulnerable to general adverse economic and industry conditions, could place us at a competitive disadvantage compared to our competitors that have less debt, and could have other adverse consequences;
- unexpected difficulties in integrating the operations of EPL and Stone;
- unexpected future capital expenditures (including the amount and nature thereof);
- impact of oil and natural gas price fluctuations;
- the effects of competition;
- the success of our risk management activities;

- the availability (or lack thereof) of acquisition or combination opportunities;
- the impact of current and future laws and governmental regulations;
- environmental liabilities that are not covered by an effective indemnity or insurance; and
- general economic, market or business conditions.

All written and oral forward-looking statements attributable to EPL or Stone or persons acting on behalf of EPL or Stone are expressly qualified in their entirety by such factors. For additional information with respect to these factors, see Where You Can Find More Information on page 135.

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MARKET PRICE AND DIVIDEND INFORMATION

Historical Market Prices of EPL and Stone

EPL common stock is listed on the New York Stock Exchange under the symbol EPL. Stone common stock is listed on the New York Stock Exchange under the symbol SGY. The following table sets forth the high and low trading prices per share of EPL common stock and Stone common stock on the New York Stock Exchange.

	EPL Common Stock		Stone Common Stock	
	High	Low	High	Low
2004				
First Quarter	$ 14.81	$ 12.60	$ 49.57	$ 40.55
Second Quarter	$ 15.45	$ 12.60	$ 51.35	$ 43.12
Third Quarter	$ 16.59	$ 14.00	$ 47.72	$ 38.95
Fourth Quarter	$ 20.91	$ 16.07	$ 48.35	$ 39.80
2005				
First Quarter	$ 27.97	$ 18.38	$ 52.21	$ 41.16
Second Quarter	$ 28.63	$ 19.06	$ 51.93	$ 40.51
Third Quarter	$ 32.98	$ 22.20	$ 62.50	$ 48.98
Fourth Quarter	$ 32.30	$ 21.25	$ 61.75	$ 42.00
2006				
First Quarter	$ 28.68	$ 20.62	$ 51.40	$ 38.55
Second Quarter	$ 28.85	$ 17.38	$ 51.50	$ 40.12
Third Quarter (through July 19, 2006)	$ 18.98	$ 17.08	$ 47.06	$ 45.10

The following table sets forth the closing sale prices of EPL common stock and Stone common stock, as reported on the New York Stock Exchange, on (i) May 24, 2006, the last full trading day before the public announcement of EPL s unsolicited offer to acquire Stone and (ii) , 2006, the last practicable trading day prior to mailing this proxy/prospectus.

The table also includes the equivalent value of the merger consideration per share of Stone common stock on those dates. The equivalent prices per share reflect the value that Stone stockholders would receive in exchange for each share of Stone common stock if the merger was completed on either of these dates assuming that each such stockholder received 50% of the merger consideration in cash and 50% of the merger consideration in EPL stock.

	EPL Closing Price	Stone Closing Price	Equivalent Per Share Value
May 24, 2006	$ 21.56	$ 40.76	$ 51.00
, 2006	$	$	$

As of , 2006, there were approximately record holders of EPL common stock. As of , 2006, there were approximately record holders of Stone common stock.

No History of Dividends and No Dividends Expected in the Foreseeable Future

EPL is not currently paying dividends on its common stock. The EPL credit facility and indenture restrict its ability to pay cash dividends. After the merger, EPL intends to retain its earnings to finance the expansion of its business and for general corporate purposes. Therefore, EPL does not anticipate paying cash dividends on its common stock in the foreseeable future to the extent it remains a separate company.

Stone s credit facility and indentures restrict Stone s ability to declare dividends on its common stock. Stone is not currently paying dividends and does not anticipate the payment of such dividends in the near future.

Following the merger, EPL s board of directors will have the authority to declare and pay dividends on its common stock in the board of directors discretion, provided EPL has funds legally available to do so. Upon consummation of the merger, EPL s credit facility and indentures will restrict EPL s ability to pay cash dividends.

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THE STOCKHOLDER MEETINGS

The EPL board is using this document to solicit proxies from EPL stockholders for use at EPL s special meeting of stockholders. The Stone board is using this document to solicit proxies from Stone stockholders for use at Stone s special meeting of stockholders. In addition, this document constitutes a prospectus covering the issuance of EPL common stock as a result of the transactions contemplated by the merger agreement.

Times and Places

The stockholder meetings will be held as follows:

For EPL stockholders:	For Stone stockholders:
10:00 a.m., Central time	9:30 a.m., Central time
, 2006	, 2006
New Orleans, Louisiana	625 E. Kaliste Saloom Road
	Lafayette, Louisiana 70508

Purposes of the Stockholder Meetings

EPL

The purpose of the EPL special meeting is as follows:

1. to consider and vote upon a proposal to approve the issuance of EPL common stock to Stone s stockholders as a result of the merger;

2. to consider and vote upon a proposed amendment to EPL s certificate of incorporation to increase the number of authorized common shares from 100,000,000 to 150,000,000 if the merger occurs; and

3. to consider and vote upon the adoption of EPL s Amended and Restated 2006 Long Term Stock Incentive Plan.

The board of directors of EPL has approved and adopted the merger agreement and the transactions contemplated by it, declared its advisability, and recommends that EPL stockholders vote at the special meeting to approve the issuance of EPL common stock as a result of the transactions contemplated by the merger agreement and also to approve proposals 2 and 3 described above.

Stone

The purpose of the Stone special meeting is to consider and vote upon the adoption of the merger agreement. **The Stone board of directors approved the merger agreement, declared its advisability, and determined that the merger agreement and the transactions contemplated by it are fair to and in the best interests of Stone and its stockholders and recommends that Stone stockholders vote at the special meeting in favor of the adoption of the merger agreement.** As described on pages 97 to 99, some of Stone s directors and executive officers will receive financial benefits as well as other valuable consideration as a result of the merger.

Record Date and Outstanding Shares

EPL

Only holders of record of EPL common stock at the close of business on , 2006 are entitled to notice of, and to vote at, the EPL special meeting. On the record date, there were shares of EPL common stock issued and outstanding held by approximately holders of record. Each share of EPL common stock entitles the holder of that share to one vote on each matter submitted for stockholder approval.

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Stone

Only holders of record of Stone common stock at the close of business on , 2006 are entitled to notice of, and to vote at, the Stone special meeting. On the record date, there were shares of Stone common stock issued and outstanding held by approximately holders of record. Each share of Stone common stock entitles the holder of that share to one vote on each matter submitted for stockholder approval.

Quorum and Vote Necessary to Approve Proposals

EPL

The presence, in person or by proxy, of the holders of a majority of the shares of EPL common stock outstanding is necessary to constitute a quorum at the EPL special meeting. Approval of the issuance of the EPL common stock to Stone stockholders and the Amended and Restated 2006 Long Term Stock Incentive Plan requires the affirmative vote of a majority of the shares of EPL common stock present and voting in person or by proxy, except that broker non-votes will not count in determining whether a quorum exists. The approval of the amendment to EPL s certificate of incorporation to increase the number of authorized common shares from 100,000,000 to 150,000,000 requires the affirmative vote of a majority of the outstanding shares of EPL common stock. Approval of the merger is not conditioned upon approval of the proposal to increase the number of authorized common shares or the adoption of the Amended and Restated 2006 Long Term Stock Incentive Plan.

Stone

The presence, in person or by proxy, of the holders of a majority of the shares of Stone common stock outstanding is necessary to constitute a quorum at the Stone special meeting. Adoption of the merger agreement requires the affirmative vote of a majority of the outstanding shares of Stone common stock. Each share of Stone common stock is entitled to one vote.

Proxies

The applicable proxy card will be sent to each EPL and Stone stockholder on or promptly after their respective record dates. If you receive a proxy card, you may grant a proxy vote on the proposals by marking and signing your proxy card and returning it to EPL or Stone, as applicable. If you hold your stock in the name of a bank, broker or other nominee, you should follow the instructions of the bank, broker or nominee when voting your shares. All shares of stock represented by properly executed proxies received prior to or at the EPL special meeting and the Stone special meeting will be voted in accordance with the instructions indicated on such proxies. Proxies that have been revoked properly and on time will not be counted. If no instructions are indicated on a properly executed returned proxy, that proxy will be voted to approve the adoption of the merger agreement with respect to Stone and to approve the issuance of EPL common stock as a result of the merger, to approve the amendment to the certificate of incorporation and to approve the incentive plan amendments with respect to EPL.

EPL

In accordance with the New York Stock Exchange rules, brokers and nominees who hold shares in street name for customers may not exercise their voting discretion with respect to the approval of the issuance of EPL common stock as a result of the merger, amendment of EPL s certificate of incorporation or the approval of the Amended and Restated 2006 Long Term Stock Incentive Plan. Thus, absent specific instructions from the beneficial owner of such shares, brokers and nominees may not vote such shares with respect to the approval of those proposals. Shares represented by these broker non-votes will be considered present at the EPL special meeting for purposes of the proposal to amend EPL s certificate of incorporation but will not vote, effectively counting as a no vote because the adoption of the amendment to the certificate of incorporation requires an affirmative vote of a majority of the outstanding share of EPL common stock. Broker non-votes will not count in determining whether a quorum exists for purposes of the proposals to approve the issuance of EPL common stock and the Amended and Restated 2006 Long Term Stock Incentive Plan.

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Except as noted above, a properly executed proxy marked ABSTAIN, although counted for purposes of determining whether there is a quorum, will not be voted on any matters brought before the stockholder meeting.

Stone

In accordance with the New York Stock Exchange rules, brokers and nominees who hold shares in street name for customers may not exercise their voting discretion with respect to the approval of the merger agreement. Thus, absent specific instructions from the beneficial owner of such shares, brokers and nominees may not vote such shares with respect to the approval of that proposal.

Except as noted above, a properly executed proxy marked ABSTAIN, although counted for purposes of determining whether there is a quorum, will not be voted on any matters brought before the stockholder meeting and will be the equivalent of a no vote because the adoption of the merger agreement requires the affirmative vote of a majority of the outstanding shares of Stone common stock.

Other Business

The EPL and Stone boards are not currently aware of any business to be acted upon at the stockholders meetings other than the matters described herein. If, however, other matters are properly brought before a stockholders meeting, or any adjournments or postponements thereof, the persons appointed as proxies will have discretion to vote or act on those matters according to their judgment. Adjournments or postponements of a stockholders meeting may be made for the purpose of, among other things, soliciting additional proxies. Any adjournment may be made from time to time by approval of the holders of common stock representing a majority of the votes present in person or by proxy at a stockholders meeting, whether or not a quorum exists, without further notice other than by an announcement made at the stockholders meetings.

Proxies from Stone stockholders voted against the adoption of the merger agreement will not be voted in favor of an adjournment or postponement of the special meeting for the purpose of soliciting additional proxies. Proxies from EPL stockholders voted against approving the issuance of EPL common stock in the merger will not be voted in favor of an adjournment or postponement of the special meeting for the purpose of soliciting additional proxies.

Form of Election

You will receive the election form in a separate mailing. You should make an election as indicated on the form, sign the form, and return the form in the separate envelope provided so that it is received prior to the election deadline, which is 5:00 p.m., Eastern time, on the date that is five business days after the effective date of the merger. If the merger occurs, Stone will promptly make a public announcement of this fact.

You will be able to make one of the following elections on the election form:

- receive shares of EPL common stock for your shares of Stone common stock;
- receive cash for your shares of Stone common stock; or
- indicate that you make no election, and thus have no preference, with respect to your shares of Stone common stock.

If the exchange agent does not receive an election form prior to the election deadline, you will be deemed to have indicated that you are making no election, and thus have no preference, with respect to your shares of Stone common stock. All elections must be made on the election form furnished to you, or on a facsimile of the election form. See Terms of the Merger Agreement Manner and Basis of Converting Shares Stockholder Elections; Allocation; Proration Procedures beginning on page 103 for the procedure to be followed to make an election.

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Revocation of Proxies

You may revoke your proxy before it is voted by:

- submitting a new proxy with a later date;
- notifying the corporate secretary of EPL or Stone, as appropriate, in writing before the special meeting that you have revoked your proxy; or
- voting in person, or notifying the corporate secretary of EPL or Stone, as appropriate, orally at the special meeting of your wish to revoke your proxy.

Solicitation of Proxies

In addition to solicitation by mail, we may make arrangements with brokerage houses and other custodians, nominees and fiduciaries to send proxy materials to beneficial owners. The directors, officers and employees of EPL and Stone may solicit proxies by telephone, telecopy, fax, telegram or in person. These directors, officers and employees will receive no additional compensation for doing so. In addition, EPL and Stone have retained MacKenzie Partners Inc., a proxy solicitation firm, to assist with the solicitation of proxies. EPL and Stone each estimate that they will pay to MacKenzie Partners Inc. a fee of less than $.

To ensure sufficient representation at the special meetings, we may request the return of proxy cards by telephone, telegram, or in person. The extent to which this will be necessary depends entirely upon how promptly proxy cards are returned. You are urged to send in your proxies without delay.

If the merger is consummated, EPL will pay the cost of soliciting proxies, including the cost of preparing and mailing this document and the expenses incurred by brokerage houses, nominees and fiduciaries in forwarding proxy materials to beneficial owners. If the merger agreement is terminated, we have agreed to split most of the costs associated with preparing and distributing this document, other than legal and investment banking fees.

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STONE S BUSINESS

The Company

Stone is an independent oil and natural gas company engaged in the acquisition and subsequent exploration, development, operation and production of oil and natural gas properties located in the conventional shelf of the Gulf of Mexico, the deep shelf of the Gulf of Mexico, the deepwater of the Gulf of Mexico, the Rocky Mountain region and the Williston Basin. Stone is also engaged in an exploratory joint venture in Bohai Bay, China. Stone is a Delaware corporation formed in 1993. Stone s corporate headquarters are located at 625 E. Kaliste Saloom Road, Lafayette, Louisiana 70508.

Strategy and Operational Overview

Since Stone s public offering in 1993, Stone has been engaged in the acquisition and subsequent exploration, development, operation and production of mature oil and natural gas properties in the Gulf Coast region, which includes onshore Louisiana and offshore Gulf of Mexico. During 2004, Stone broadened its conventional shelf acquisition and exploitation strategy in order to diversify, extend reserve life and take advantage of a strong oil and natural gas market. This broadened growth strategy includes targeting reserves and production in the deep shelf and deepwater of the Gulf of Mexico, furthering Stone s position in the Rocky Mountain region (including the Williston Basin) to complement its existing portfolio of properties in the Gulf Coast region (onshore, shelf and deep shelf) and investigating viable opportunities in other areas including international areas. Stone s strategy is driven by increased availability of lease blocks in the deepwater of the Gulf of Mexico, 3D seismic technology improvements in the deep shelf of the Gulf of Mexico, fracturing technology improvements and horizontal drilling applications in the Rocky Mountain region and other areas. As of June 30, 2006, Stone s property portfolio consisted of 58 active properties (fields) and 59 primary term leases in the Gulf Coast region and 21 active properties (fields) in the Rocky Mountain region.

As of December 31, 2005, Stone had estimated proved reserves of approximately 593 Bcf of natural gas equivalent (99 Mmboe), 73% of which were classified as proved developed and 58% of which were natural gas. For the year ended December 31, 2005, Stone produced an average of 228 million cubic feet of natural gas equivalent (38 Mboe) per day, which was curtailed due to extended production downtime associated with Hurricanes Ivan, Katrina and Rita. During 2005, Stone generated net cash flow from operating activities of $461.2 million.

Amberjack

On July 14, 2006, Stone completed a $190.5 million (subject to post-closing adjustments) acquisition of additional working interests in Mississippi Canyon Blocks 109 and 108 (Amberjack). With the acquisition, Stone increased its working interest in Mississippi Canyon Block 109 from 33% to 100%, and in Mississippi Canyon Block 108 from 16.5% to 24.8%. Production from these blocks remains shut-in due to pipeline damage suffered during Hurricane Katrina. Resumption of production is expected in the fourth quarter 2006. The acquisition was financed with a portion of the proceeds from the private placement of $225 million aggregate principal amount of Senior Floating Rate Notes. The notes mature in July 2010, but are mandatorily redeemable in the event of a change of control, including the merger of Stone with and into EPL Acquisition Corp. LLC.

Gulf of Mexico Conventional Shelf (Including Onshore Louisiana)

Stone s conventional shelf strategy is the same acquisition and exploitation combination that it adopted prior to its initial public offering in 1993. Stone applies the latest geophysical interpretation tools to identify underdeveloped properties and the latest production techniques to increase production attributable to these properties. Stone seeks to acquire properties that have the following characteristics:

- mature properties with an established production history and infrastructure;

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- multiple productive sands and reservoirs;
- low production levels at acquisition with significant identified proven and potential reserves; and
- opportunity for Stone to obtain a controlling interest and serve as operator.

Prior to acquiring a property, Stone performs a thorough geological, geophysical and engineering analysis of the property to formulate a comprehensive development plan. Stone also employs its extensive technical database, which includes both 3-Dimensional and 4-Component seismic data. After Stone acquires a property, it seeks to increase cash flow from existing reserves and establish additional proved reserves through the drilling of new wells, workovers and recompletions of existing wells and the application of other techniques designed to increase production.

Gulf of Mexico Deep Water

Stone believes that the deepwater of the Gulf of Mexico is an important exploration area, even though it involves high risk, high costs and substantial lead time to develop infrastructure. Stone has assembled a technical team with prior geological, geophysical and engineering experience in the deepwater arena to evaluate potential opportunities.

During 2005, Stone drilled three deepwater wells, none of which were successful. As of yet, Stone has no production or reserves in the deepwater of the Gulf of Mexico.

Gulf of Mexico Deep Shelf

Stone s current property base also contains multiple deep shelf exploration opportunities in the Gulf of Mexico, which Stone defines as prospects below 15,000 feet. The deep shelf presents higher risk with high potential opportunities that have existing infrastructure, which shortens the lead time to production. Stone believes its existing property base creates the opportunity for a portfolio approach to the deep shelf.

Rocky Mountains

Stone s assets in the Rocky Mountains represented 9% of its total production in 2005 and 16% of its total estimated proved reserves (on a volumetric basis) at December 31, 2005. Stone s Rocky Mountain region includes positions in the Wind River and Greater Green River Basins in Wyoming and Uinta Basin in Utah.

Williston Basin

On March 1, 2005, Stone completed the acquisition of approximately 35,000 net acres in the Williston Basin of North Dakota and Montana. The acquisition cost, net of purchase price adjustments, totaled approximately $85.7 million, of which $76.0 million was financed with borrowings under Stone s bank credit facility. During the remainder of 2005 Stone drilled 20 wells, all of which were productive. Through March 31, 2006, Stone had acquired an additional 314,000 net acres for additional exploration and development in the Williston Basin. Stone s Williston Basin assets represented 2% of its total production in 2005 and 8% of its total estimated proved reserves (on a volumetric basis) at December 31, 2005.

International

In the first quarter 2006, Stone entered into an agreement to participate in the drilling of two exploratory wells on two offshore concessions in Bohai Bay, China. After drilling these two wells, Stone will have the option to earn interest in the two concessions, which collectively cover one million acres. The first well was drilled to 9,065 feet and encountered potential oil pay in two separate intervals. The possible discovery is awaiting further appraisal to determine if it is commercial. The second exploratory well is expected to spud by the end of 2006.

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Oil and Natural Gas Marketing

Stone s oil and natural gas production is sold at current market prices under short-term contracts. Conoco, Inc., Sequent Energy Management LP and Total Gas & Power North America, Inc. each accounted for between 10%-12% of oil and natural gas revenue generated during the year ended December 31, 2005. No other purchaser accounted for 10% or more of Stone s total oil and natural gas revenue during 2005. Stone believes that the loss of any of its major purchasers would not result in a material adverse effect on its ability to market future oil and natural gas production. From time to time, Stone may enter into transactions that hedge the price of oil and natural gas. See Management s Discussion and Analysis of Financial Condition and Results of Operation of Stone Quantitative and Qualitative Disclosures About Market Risk.

Competition and Markets

Competition in the Gulf Coast region and the Rocky Mountain region is intense, particularly with respect to the acquisition of producing properties and undeveloped acreage. Stone competes with major oil and natural gas companies and other independent producers of varying sizes, all of which are engaged in the acquisition of properties and the exploration and development of such properties. Many of Stone s competitors have financial resources and exploration and development budgets that are substantially greater than Stone s, which may adversely affect its ability to compete.

The availability of a ready market for and the price of any hydrocarbons produced will depend on many factors beyond Stone s control, including but not limited to the amount of domestic production and imports of foreign oil and liquefied natural gas, the marketing of competitive fuels, the proximity and capacity of oil and natural gas pipelines, the availability of transportation and other market facilities, the demand for hydrocarbons, the effect of federal and state regulation of allowable rates of production, taxation and the conduct of drilling operations, and federal regulation of oil and natural gas. In addition, the restructuring of the natural gas pipeline industry eliminated the natural gas purchasing activity of traditional interstate natural gas transmission pipeline buyers. Producers of natural gas have therefore been required to develop new markets among natural gas marketing companies, end users of natural gas and local distribution companies. All of these factors, together with economic factors in the marketing arena, generally may affect the supply of and/or demand for oil and natural gas and thus the prices available for sales of oil and natural gas.

Regulation

Stone s oil and natural gas operations are subject to various U.S. federal, state and local laws and regulations.

Various aspects of Stone s oil and natural gas operations are regulated by administrative agencies of the states where such operations are conducted and by certain agencies of the federal government for operations on federal leases. All of the jurisdictions in which Stone owns or operates producing oil and natural gas properties have statutory provisions regulating the exploration for and production of oil and natural gas, including provisions requiring permits for the drilling of wells and maintaining bonding requirements in order to drill or operate wells, and provisions relating to the location of wells, the method of drilling and casing wells, the surface use and restoration of properties upon which wells are drilled, and the abandonment of wells. Stone s operations are also subject to various conservation laws and regulations. These include the regulation of the size of drilling and spacing units or proration units and the number of wells that may be drilled in an area and the unitization or pooling of oil and natural gas properties. In this regard, some states can order the pooling or integration of tracts to facilitate exploration while other states rely on voluntary pooling of lands and leases. In addition, state conservation laws establish maximum rates of production from oil and natural gas wells, generally prohibit the venting or flaring of natural gas, and impose certain requirements regarding the ratability or fair apportionment of production from fields and individual wells.

Certain operations that Stone conducts are on federal oil and natural gas leases, which are administered by the Bureau of Land Management (the BLM) and the Minerals Management Service (the MMS). These leases

contain relatively standardized terms and require compliance with detailed BLM and MMS regulations and orders pursuant to the Outer Continental Shelf Lands Act (the OCSLA) (which are subject to change by the MMS). Many onshore leases contain stipulations limiting activities that may be conducted on the lease. Some stipulations are unique to particular geographic areas and may limit the times during which activities on the lease may be conducted, the manner in which certain activities may be conducted or, in some cases, may ban any surface activity. For offshore operations, lessees must obtain MMS approval for exploration, development and production plans prior to the commencement of such operations. In addition to permits required from other agencies (such as the U.S. Environmental Protection Agency), lessees must obtain a permit from the BLM or the MMS, as applicable, prior to the commencement of drilling, and comply with regulations governing, among other things, engineering and construction specifications for production facilities, safety procedures, plugging and abandonment of wells on the Outer Continental Shelf (the OCS) of the Gulf of Mexico, calculation of royalty payments and the valuation of production for this purpose, and removal of facilities. To cover the various obligations of lessees on the OCS, the MMS generally requires that lessees post substantial bonds or other acceptable assurances that such obligations will be met, unless the MMS exempts the lessee from such obligations. The cost of such bonds or other surety can be substantial, and Stone can provide no assurance that it can continue to obtain bonds or other surety in all cases. Under certain circumstances, the BLM or MMS, as applicable, may require Stone s operations on federal leases to be suspended or terminated. Any such suspension or termination could materially and adversely affect Stone s financial condition and operations.

In August, 2005, Congress enacted the Energy Policy Act of 2005 (EPAct 2005). Among other matters, EPAct 2005 amends the Natural Gas Act (NGA) to make it unlawful for any entity , including otherwise non-jurisdictional producers such as Stone, to use any deceptive or manipulative device or contrivance in connection with the purchase or sale of natural gas or the purchase or sale of transportation services subject to regulation by the Federal Energy Regulatory Commission (FERC), in contravention of rules prescribed by the FERC. On January 20, 2006, the FERC issued rules implementing this provision. The rules make it unlawful in connection with the purchase or sale of natural gas subject to the jurisdiction of the FERC, or the purchase or sale of transportation services subject to the jurisdiction of the FERC, for any entity, directly or indirectly, to use or employ any device, scheme or artifice to defraud; to make any untrue statement of material fact or omit to make any such statement necessary to make the statements made not misleading; or to engage in any act or practice that operates as a fraud or deceit upon any person. EPAct 2005 also gives the FERC authority to impose civil penalties for violations of the NGA up to $1,000,000 per day per violation. The new anti-manipulation rule does not apply to activities that relate only to intrastate or other non-jurisdictional sales or gathering, but does apply to activities of otherwise non-jurisdictional entities to the extent the activities are conducted in connection with gas sales, purchases or transportation subject to FERC jurisdiction. It therefore reflects a significant expansion of the FERC s enforcement authority. Stone does not anticipate it will be affected any differently than other producers of natural gas.

Additional proposals and proceedings that might affect the oil and natural gas industry are regularly considered by Congress, states, the FERC and the courts. Stone cannot predict when or whether any such proposals may become effective. In the past, the oil and natural gas industry has been heavily regulated. Stone can give no assurance that the regulatory approach currently pursued by the FERC or any other agency will continue indefinitely. Stone does not anticipate, however, that compliance with existing federal, state and local laws, rules and regulations will have a material or significantly adverse effect on its financial condition, results of operations or competitive position. No portion of Stone s business is subject to renegotiation of profits or termination of contracts or subcontracts at the election of the federal government.

Environmental Regulation

As a lessee and operator of onshore and offshore oil and natural gas properties in the United States, Stone is subject to stringent federal, state and local laws and regulations relating to environmental protection as well as controlling the manner in which various substances, including wastes generated in connection with oil and natural gas industry operations, are released into the environment. Compliance with these laws and regulations

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can affect the location or size of wells and facilities, limit or prohibit the extent to which exploration and development may be allowed, and require proper closure of wells and restoration of properties that are being abandoned. Failure to comply with these laws and regulations may result in the assessment of administrative, civil or criminal penalties, imposition of remedial obligations, incurrence of capital costs to comply with governmental standards, and even injunctions that limit or prohibit exploration and production operations or the disposal of substances generated in connection with oil and natural gas industry operation.

Stone currently operates or leases, and has in the past operated or leased, a number of properties that for many years have been used for the exploration and production of oil and natural gas. Although Stone has utilized operating and disposal practices that were standard in the industry at the time, hydrocarbons or other wastes may have been disposed of or released on or under the properties operated or leased by Stone or on or under other locations where such wastes have been taken for disposal. In addition, many of these properties have been operated by third parties whose treatment and disposal or release of hydrocarbons or other wastes was not under Stone s control. These properties and the wastes disposed thereon may be subject to laws and regulations imposing joint and several, strict liability, without regard to fault or the legality of the original conduct, that could require Stone to remove or remediate previously disposed wastes or environmental contamination, or to perform remedial plugging or pit closure to prevent future contamination. Stone believes that it is reasonably likely that the trend in environmental legislation and regulation will continue toward stricter standards.

The Oil Pollution Act of 1990 (or OPA) and regulations adopted pursuant to OPA impose a variety of requirements related to the prevention of and response to oil spills into waters of the United States, including the OCS. The OPA subjects owners of oil handling facilities to strict, joint and several liability for all containment and cleanup costs and certain other damages arising from a spill, including, but not limited to, the costs of responding to a release of oil to surface waters and natural resource damages. OPA also requires owners and operators of offshore oil production facilities such as us to establish and maintain evidence of financial responsibility of at least $35 million to cover costs that could be incurred in responding to an oil spill. Stone believes that it is in substantial compliance with the requirements of OPA, and that these requirements are not any more burdensome to them than they are to other similarly situated oil and natural gas companies.

Stone has made, and will continue to make, expenditures in efforts to comply with environmental laws and regulations. While Stone believes that it is in substantial compliance with applicable environmental laws and regulations in effect and that continued compliance with existing requirements will not have a material adverse impact on it, it cannot give any assurance that it will not be adversely affected in the future.

Stone has established internal guidelines to be followed in order to comply with environmental laws and regulations in the United States. Stone employs a safety department whose responsibilities include providing assurance that its operations are carried out in accordance with applicable environmental guidelines and safety precautions. Although Stone maintains pollution insurance to cover a portion of the costs of cleanup operations, public liability and physical damage, there is no assurance that such insurance will be adequate to cover all such costs or that such insurance will continue to be available in the future. To date Stone believes that compliance with existing requirements of such governmental bodies has not had a material effect on our operations.

Employees

On March 1, 2006, Stone had 271 full time employees. Stone believes that its relationships with its employees are satisfactory. None of Stone s employees are covered by a collective bargaining agreement. Under Stone s supervision, Stone utilizes the services of independent contractors to perform various daily operational duties.

Properties

As of March 1, 2006, Stone s property portfolio consisted of 58 active properties (fields) and 60 primary term leases in the Gulf Coast region and 21 active properties (fields) in the Rocky Mountain region. Stone serves

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as operator on 59% of its active properties, including a 64% operating percentage on its Gulf Coast region properties and 48% operating percentage on its Rocky Mountain region properties. The properties that Stone operates accounted for 72% of its year-end 2005 estimated proved reserves. This high operating percentage allows Stone to better control the timing, selection and costs of its drilling and production activities.

Oil and Natural Gas Reserves

The information in this document relating to Stone s estimated oil and natural gas reserves is based upon reserve reports prepared as of December 31, 2005. The majority of Stone s Gulf Coast region reserves have been prepared by Stone and audited by Netherland, Sewell & Associates, Inc. (an audit is an examination of reserve information that is conducted for the purpose of expressing an opinion as to whether such reserve information, in the aggregate, is reasonable and has been estimated and presented in conformity with generally accepted petroleum engineering and evaluation principles). The audited properties cover 72.6% of Stone s total reserve base on a volumetric basis. The remainder of Stone s Gulf Coast region reserves were prepared by Cawley, Gillespie & Associates, Inc. and represent 3.0% of its reserves on a volumetric basis. Stone s Rocky Mountain region reserves were prepared by Ryder Scott Company, L.P. and represent 24.4% of its reserves on a volumetric basis. All product pricing and cost estimates used in the reserve reports are in accordance with the rules and regulations of the SEC. The standardized measure of discounted future net cash flows has been calculated using a discount factor of 10%.

You should not assume that the estimated future net cash flows or the present value of estimated future net cash flows, referred to in the table below, represent the fair value of Stone s estimated oil and natural gas reserves. As required by the SEC, Stone determines estimated future net cash flows using period-end market prices for oil and natural gas without considering hedge contracts in place at the end of the period. Using the information contained in the reserve reports, the average 2005 year-end product prices for all of Stone s properties were $57.17 per barrel of oil and $9.86 per Mcf of natural gas.

The following table sets forth Stone s estimated net proved oil and natural gas reserves and the present value of estimated future net cash flows related to such reserves as of December 31, 2005.

	Proved Developed	Proved Undeveloped	Total Proved
Total Company:			
Oil (Mbbls)	31,557	9,952	41,509
Natural gas (Mmcf)	241,347	102,741	344,088
Total oil and natural gas (Mmcfe)	430,689	162,453	593,142
Estimated future net cash flows, after tax (in thousands)	$ 2,078,835	$ 727,828	$ 2,806,663
Standardized measure of discounted future net cash flows (in thousands)	$ 1,525,392	$ 407,587	$ 1,932,979
Gulf Coast region:			
Oil (Mbbls)	24,806	6,307	31,113
Natural gas (Mmcf)	196,854	65,043	261,897
Total oil and natural gas (Mmcfe)	345,690	102,885	448,575
Estimated future net cash flows, after tax (in thousands)	$ 1,682,884	$ 495,007	$ 2,177,891
Standardized measure of discounted future net cash flows (in thousands)	$ 1,316,705	$ 312,486	$ 1,629,191
Rocky Mountain region:			
Oil (Mbbls)	6,751	3,645	10,396
Natural gas (Mmcf)	44,493	37,698	82,191
Total oil and natural gas (Mmcfe)	84,999	59,568	144,567
Estimated future net cash flows, after tax (in thousands)	$ 395,951	$ 232,821	$ 628,772
Standardized measure of discounted future net cash flows (in thousands)	$ 208,687	$ 95,101	$ 303,788

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The following represents additional information on individually significant properties to Stone:

Field Name	Location	2005 Production	December 31, 2005 Estimated Proved Reserves	Nature of Interest
Ewing Bank Block 305	Gulf of Mexico Shelf	6.0 Bcfe (1.0 Mmboe)	61.9 Bcfe (10.3 Mmboe)	Working
Pinedale II	Greater Green River Basin Wyoming	4.1 Bcfe (0.7 Mmboe)	55.2 Bcfe (9.2 Mmboe)	Working
Sidney	Williston Basin Montana	1.2 Bcfe (0.2 Mmboe)	42.6 Bcfe (7.1 Mmboe)	Working
Main Pass Block 288	Gulf of Mexico Shelf	4.6 Bcfe (0.8 Mmboe)	37.0 Bcfe (6.2 Mmboe)	Working
South Pelto Block 23	Gulf of Mexico Shelf	5.2 Bcfe (0.9 Mmboe)	34.1 Bcfe (5.7 Mmboe)	Working
South Timbalier Block 143/166/172	Gulf of Mexico Shelf	12.5 Bcfe (2.1 Mmboe)	24.5 Bcfe (4.1 Mmboe)	Working

There are numerous uncertainties inherent in estimating quantities of proved reserves and in projecting future rates of production and the timing of development expenditures, including many factors beyond the control of the producer. The reserve data set forth herein only represents estimates. Reserve engineering is a subjective process of estimating underground accumulations of oil and natural gas that cannot be measured in an exact way and the accuracy of any reserve estimate is a function of the quality of available data and of engineering and geological interpretation and judgment and the existence of development plans. Results of drilling, testing and production subsequent to the date of an estimate may justify a revision of such estimate. Accordingly, reserve estimates are generally different from the quantities of oil and natural gas that are ultimately produced. Further, the estimated future net revenues from proved reserves and the present value thereof are based upon certain assumptions, including geological success, prices, future production levels, operating costs, development costs and income taxes that may not prove to be correct. Predictions about prices and future production levels are subject to great uncertainty, and the meaningfulness of these estimates depends on the accuracy of the assumptions upon which they are based.

As an operator of domestic oil and natural gas properties, Stone has filed Department of Energy Form EIA-23, Annual Survey of Oil and Gas Reserves, as required by Public Law 93-275. There are differences between the reserves as reported on Form EIA-23 and as reported herein. The differences are attributable to the fact that Form EIA-23 requires that an operator report the total reserves attributable to wells that it operates, without regard to percentage ownership (i.e., reserves are reported on a gross operated basis, rather than on a net interest basis) or non-operated wells in which it owns an interest.

Acquisition, Production and Drilling Activity

Acquisition and Development Costs. The following table sets forth certain information regarding the costs incurred in Stone s acquisition, development and exploratory activities during the periods indicated.

	Year Ended December 31,		
	2005	2004	2003
	(In thousands)		
Acquisition costs, net of sales of unevaluated properties	$ 138,080	$ 201,550	$ 54,456

Development costs	149,890	125,161	109,507
Exploratory costs	156,472	151,571	175,864
Subtotal	444,442	478,282	339,827
Capitalized salaries, general and administrative costs and interest, net of fees and reimbursements	35,339	22,926	22,027
Asset retirement costs	53,687	19,950	49,728
Total additions to oil and natural gas properties	$ 533,468	$ 521,158	$ 411,582

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Productive Well and Acreage Data. The following table sets forth certain statistics regarding the number of productive wells and developed and undeveloped acreage as of December 31, 2005.

	Gross	Net
Productive Wells:		
Oil[1]:		
Gulf Coast region	90	64
Rocky Mountain region	239	134
	329	198
Natural gas[2]:		
Gulf Cost region	113	69
Rocky Mountain region	59	24
	172	93
Total	501	291
Developed Acres:		
Gulf Coast region	51,570	30,788
Rocky Mountain region	58,177	30,034
Total	109,747	60,822
Undeveloped Acres[3]:		
Gulf Coast region	635,940	406,700
Rocky Mountain region	473,292	370,245
Total	1,109,232	776,945

(1) 6 gross wells each have dual completions.
(2) 8 gross wells each have dual completions.
(3) Leases covering approximately 4% of Stone s undeveloped gross acreage will expire in 2006, 3% in 2007, 7% in both 2008 and 2009, 15% in 2010, 3% in 2011, 2% in 2012, 1% in both 2013 and 2014 and 4% in 2015. Leases covering the remainder of Stone s undeveloped gross acreage (53%) are held by production.

Drilling Activity. The following table sets forth Stone s drilling activity for the periods indicated.

	Year Ended December 31,					
	2005		2004		2003	
	Gross	Net	Gross	Net	Gross	Net
Exploratory Wells:						
Productive	7.00	6.17	17.00	11.00	24.00	20.81
Nonproductive	8.00	5.17	11.00	7.78	7.00	4.50
Development Wells:						
Productive	37.00	22.42	20.00	9.61	20.00	13.64
Nonproductive	6.00	2.86	3.00	2.07	1.00	0.85

Title to Properties

Stone believes that it has satisfactory title to substantially all of its active properties in accordance with standards generally accepted in the oil and gas industry. Stone s properties are subject to customary royalty interests, liens for current taxes and other burdens which Stone believes do not materially interfere with the use of or affect the value of such properties. Prior to acquiring undeveloped properties, Stone performs a title investigation that is thorough but less vigorous than that conducted prior to drilling, which is consistent with standard practice in the oil and natural gas industry. Before Stone commences drilling operations, it conducts a thorough title examination and perform curative work with respect to significant defects before proceeding with operations. Stone has performed a thorough title examination with respect to substantially all of its active properties.

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Legal Proceedings

Stone is among the defendants included in a lawsuit filed in 2004 by the State of Louisiana and the Iberia Parish School Board in Case Number 101934, Iberia Parish, Louisiana, alleging contamination and damage and seeking an undisclosed monetary sum as compensation for said damages to portions of Section 16, Township 12 South, Range 11 East in the Bayou Pigeon Field as a result of past oil and natural gas exploration and production activities. Stone believes it has been named as a defendant in error and intends to vigorously defend this matter.

On December 30, 2004, Stone was served with two petitions (civil action numbers 2004-6227 and 2004-6228) filed by the Louisiana Department of Revenue (LDR) in the 15th Judicial District Court (Parish of Lafayette, Louisiana) claiming additional franchise taxes due. In one case, the LDR is seeking additional franchise taxes from Stone in the amount of $640,000, plus accrued interest of $352,000 (calculated through December 15, 2004), for the franchise year 2001. In the other case, the LDR is seeking additional franchise taxes from Stone (as successor to Basin Exploration, Inc.) in the amount of $274,000, plus accrued interest of $159,000 (calculated through December 15, 2004), for the franchise years 1999, 2000 and 2001. Further, on December 29, 2005, the LDR filed another petition in the 15th Judicial District Court claiming additional franchise taxes due for the taxable years ended December 31, 2002 and 2003 in the amount of $2.6 million plus accrued interest calculated through December 15, 2005 in the amount of $1.2 million. These assessments all relate to the LDR s assertion that sales of crude oil and natural gas from properties located on the Outer Continental Shelf, which are transported through the state of Louisiana, should be sourced to the state of Louisiana for purposes of computing the Louisiana franchise tax apportionment ratio. Stone disagrees with these contentions and intends to vigorously defend itself against these claims. Stone has not yet been given any indication that the LDR plans to review franchise taxes for the franchise tax years 2004 and 2005.

Stone has received notice that the staff of the SEC (the Staff) is conducting an informal inquiry into the revision of Stone s proved reserves and the financial statement restatement. The Staff has also informed Stone that it is likely to obtain a formal order of investigation in connection with its inquiry. In addition, Stone has received an inquiry from the Philadelphia Stock Exchange investigating matters including trading prior to Stone s October 6, 2005 announcement. Stone intends to continue to cooperate fully with both inquiries.

On or around November 30, 2005, George Porch filed a putative class action in the United States District Court for the Western District of Louisiana against Stone, David H. Welch, Kenneth H. Beer, D. Peter Canty and James H. Prince purporting to allege violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934. Three similar complaints were filed soon thereafter. All complaints asserted a putative class period commencing on June 17, 2005 and ending on October 6, 2005. All complaints contended that, during the putative class period, defendants, among other things, misstated or failed to disclose (i) that Stone had materially overstated Stone s financial results by overvaluing its oil reserves through improper and aggressive reserve methodologies; (ii) that the Company lacked adequate internal controls and was therefore unable to ascertain its true financial condition; and (iii) that as a result of the foregoing, the values of the Company s proved reserves, assets and future net cash flows were materially overstated at all relevant times. On March 17, 2006, these purported class actions were consolidated under the caption In re: Stone Energy Corporation Securities Litigation, with El Paso Firemen & Policemen s Pension Fund designated as lead plaintiff. Lead plaintiff filed a consolidated class action complaint on or about June 14, 2006. The consolidated complaint alleges claims similar to those described above and expands the putative class period to commence on May 2, 2001 and to end on March 10, 2006.

In addition, on or about December 16, 2005, Robert Farer and Priscilla Fisk filed respective complaints in the United States District Court for the Western District of Louisiana (the Federal Court) alleging claims derivatively on behalf of Stone. Similar complaints were filed thereafter in the Federal Court by Joint Pension Fund, Local No. 164, I.B.E.W., and in the 15th Judicial District Court, Parish of Lafayette, Louisiana (the State Court) by Gregory Sakhno. Stone was named as a nominal defendant and David Welch, Kenneth Beer, Peter Canty, James Prince, James Stone, John Laborde, Peter Barker, George Christmas, Richard Pattarozzi, David Voelker, Raymond Gary, B.J. Duplantis and Robert Bernhard were named as defendants in these actions. The State Court action alleges breaches of fiduciary duties, abuse of control, gross mismanagement, and waste of corporate assets against all defendants, and claims of unjust enrichment and insider selling against certain

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individual defendants. The Federal Court actions contained allegations against all defendants for breach of fiduciary duty, abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment, and claims against certain individual defendants for breach of fiduciary duties and violations of the Sarbanes-Oxley Act of 2002.

On March 30, 2006, the Federal Court entered an order naming Robert Farer, Priscilla Fisk and Joint Pension Fund, Local No. 164, I.B.E.W. as co-lead plaintiffs in the Federal Court derivative actions and directed the lead plaintiffs to file a consolidated amended complaint within forty-five days. On April 22, 2006, the complaint in the State Court action was amended to also be a class action brought on behalf of shareholders of Stone. In addition to the above mentioned claims, the amended State Court action alleges breaches of fiduciary duty by the director defendants in connection with the proposed merger transaction with Plains. On May 15, 2006, the complaint in the Federal Court action was similarly amended. Both amended derivative complaints seek an order enjoining the director defendants from entering into a transaction contemplated by a merger agreement with Plains and may be amended to seek an order enjoining the merger described herein. The consummation of the merger could affect the standing of the plaintiffs in the derivative actions to attempt derivatively to assert claims on behalf of the Company. Stone intends to vigorously defend the foregoing actions.

Stone s Certificate of Incorporation and/or its Restated Bylaws provide, to the extent permissible under the law of Delaware (Stone s state of incorporation), for indemnification of and advancement of defense costs to Stone s current and former directors and officers for potential liabilities related to their service to Stone. Stone has purchased directors and officers insurance policies that, under certain circumstances, may provide coverage to Stone and/or its officers and directors for certain losses resulting from securities-related civil liabilities and/or the satisfaction of indemnification and advancement obligations owed to directors and officers. These insurance policies may not cover all costs and liabilities incurred by Stone and its current and former officers and directors in these regulatory and civil proceedings.

Stone is named as a defendant in certain lawsuits and is a party to certain regulatory proceedings arising in the ordinary course of business. Stone does not expect these matters, individually or in the aggregate, to have a material adverse effect on its financial condition.

Controls and Procedures

Deficiencies Relating to Reserve Reporting

On October 2005, Stone completed an internal review of its estimates of proved oil and natural gas reserves. As a result of this review and subsequent reviews, Stone reduced its estimate of total proved oil and natural gas reserves at December 31, 2004 by approximately 237 Bcfe. Management concluded that the impact of the reserve adjustment on previously issued financial statements was material and required a restatement. The audit committee of Stone s board of directors engaged the law firm of Davis Polk & Wardwell to assist in its investigation of reserve revisions. Davis Polk presented its final report to the audit committee and board of directors on November 28, 2005. The final report found that a number of factors at Stone contributed to the write-down of reserves, including the following:

- Stone lacked adequate internal guidance or training on the SEC definition of proved reserves;
- There is evidence that some members of Stone management failed to fully grasp the conservatism of the SEC s reasonable certainty standard of booking reserves; and
- There is also evidence that there was an optimistic and aggressive tone from the top with respect to estimating proved reserves.

As part of its final report, Davis Polk proposed a number of recommendations, including the following:

- adopt and distribute written guidelines to its staff on the SEC reserve reporting requirements;

provide annual training for employees on the SEC requirements;

continue to emphasize the difference between SEC s standard of measuring proved reserves and the criteria that Stone might use in making business decisions; and

institute and cultivate a culture of compliance to ensure that the foregoing contributing factors do not recur.

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The audit committee and board of directors have accepted the Davis Polk final report, and the board of directors implemented and resolved to continue to implement all of the recommendations. Consequently, Stone has revised its historical proved reserves for the period from December 31, 2001 to June 30, 2005. This revision of reserves also resulted in a restatement of financial information for the years from 2001 through 2004 and for the first six months of 2005. This restatement, as well as specific information regarding its impact, is discussed in Note 1 to Stone s Consolidated Financial Statements. Restatement of previously issued financial statements to reflect the correction of a misstatement is an indicator of the existence of a material weakness in internal control over financial reporting as defined in the Public Company Accounting Oversight Board s Auditing Standard No. 2, An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of Financial Statements. Stone has identified deficiencies in its internal controls that did not prevent the overstatement of its proved oil and natural gas reserves. These deficiencies, which Stone believes constituted a material weakness in its internal control over financial reporting, included an overly aggressive and optimistic tone by some members of management which created a weak control environment surrounding the booking of proved oil and natural gas reserves, and inadequate training and understanding of the SEC rules for booking oil and natural gas reserves. In light of the determination that previously issued financial statements should be restated, Stone s management concluded that a material weakness in internal control over financial reporting existed as of December 31, 2005 and disclosed this matter to the audit committee, and its independent registered public accounting firm.

Remedial Actions

Stone s management, at the direction of its board of directors, is actively working to improve the control environment and to implement controls and procedures that will ensure the integrity of its proved reserve booking process.

Stone has implemented the following actions to mitigate weaknesses identified:

Those members of management that the Davis Polk report specifically suggested contributed to the aggressive and optimistic tone of management in booking estimated proved reserves are no longer employed by or affiliated with Stone as employees, officers or directors.

A new Vice President, Reserves, has been appointed to oversee the booking of estimated proved reserves and the training of all personnel involved in the reserve estimation process.

Formal training programs have been implemented and all personnel involved in the reserve estimation process have, since the announcement of the reserve revision, received formal training in SEC requirements for reporting estimated proved reserves.

A nationally recognized engineering firm with greater capabilities for geological reviews was contracted to audit our Gulf Coast region reserves. The Gulf Coast region is the area where the downward revisions occurred. Such audit was conducted as of December 31, 2005 and was completed early in 2006.

Stone has adopted and distributed a written policy and guidelines for booking estimated proved reserves to all personnel involved in the reserve estimation process.

Stone intends to move forward with the following remedial actions in 2006:

continue its formal training programs;

have 100% of its proved reserves fully engineered by outside engineering firms no later than December 31, 2006; and

during 2006 and thereafter, consult with its outside engineering firms on an interim basis on the original booking of significant acquisitions, extensions, discoveries and other additions.

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Management s Report on Internal Control over Financial Reporting

Stone s management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-(f) of the Exchange Act. Under the supervision and with the participation of management, including Stone s Chief Executive Officer, and Stone s Chief Financial Officer, Stone conducted an evaluation of the effectiveness of its internal control over financial reporting as of December 31, 2005 based on the framework in *Internal Control Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on Stone s evaluation under the framework in *Internal Control Integrated Framework*, Stone s management concluded it did not maintain effective controls over the booking of its oil and natural gas reserves as of December 31, 2005, and these ineffective controls constituted a material weakness. As a result of this material weakness, estimated proved reserve quantities for 2004 and prior periods were revised downward and Stone s financial statements for the years ended December 31, 2004, 2003, 2002 and 2001 were restated. These restatements affected Stone s proved oil and gas properties, DD&A and write-down of oil and natural gas properties accounts.

Because of this material weakness, Stone s management has concluded that, as of December 31, 2005 and 2004, Stone did not maintain effective internal control over financial reporting, based on the criteria established in *Internal Control Integrated Framework* issued by the COSO.

Management s assessment of the effectiveness of Stone s internal control over financial reporting as of December 31, 2005 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included herein.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS OF STONE

The following discussion is intended to assist in understanding Stone s financial position and results of operations for each of the years in the three-year period ended December 31, 2005 and the three-month period ended March 31, 2006. The financial information in this section has been restated, as further discussed in Note 1 Restatement of Historical Financial Statements. All period to period comparisons are based upon restated amounts. Stone s financial statements and the notes thereto, which are found elsewhere in this document, contain detailed information that should be referred to in conjunction with the following discussion. See Note 1 Restatement of Historical Financial Statements.

Executive Overview

Stone is an independent oil and natural gas company engaged in the acquisition and subsequent exploration, development, operation and production of oil and natural gas properties located in the conventional shelf of the Gulf of Mexico, deep shelf of the Gulf of Mexico, deepwater of the Gulf of Mexico, the Rocky Mountain region, and the Williston Basin. Stone is also engaged in an exploratory joint venture in Bohai Bay, China. Stone s business strategy is to increase reserves, production and cash flow through the acquisition, exploitation and development of mature properties in the Gulf Coast region and exploring opportunities in the deepwater environment of the Gulf of Mexico, Rocky Mountain region and other potential areas. See Stone s Business Strategy and Operational Overview.

2006 and 2005 Significant Events

On July 14, 2006, Stone closed on a $190.5 million (subject to post-closing adjustments) acquisition of additional working interests in Mississippi Canyon Blocks 109 and 108 (Amberjack). With the acquisition, Stone increased its working interest in Mississippi Canyon Block 109 from 33% to 100%, and in Mississippi Canyon 108 from 16.5% to 24.8%. Production from these blocks remains shut-in due to pipeline damage suffered during Hurricane Katrina. Resumption of production is expected in the fourth quarter 2006. The acquisition was financed through the private placement of $225 million aggregate principal amount of Senior Floating Rate Notes. The notes mature in July 2010, but are mandatorily redeemable in the event of a change of control, including the merger of Stone with and into EPL Acquisition Corp. LLC.

On June 28, 2006, Stone closed a private placement of approximately $225 million aggregate principal amount of Senior Floating Rate Notes due 2010. The primary use of proceeds was to finance the $190.5 million acquisition of additional working interests in Mississippi Canyon Blocks 109 and 108 in the Gulf of Mexico. The private placement was made pursuant to Rule 144A and Regulation S under the Securities Act of 1933, as amended (the Securities Act). The notes have not been and will not be registered under the Securities Act or any state securities laws and, unless so registered, may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws.

Reserve Revision. In the fall of 2005, Stone announced a significant downward reserve revision which resulted in the following:

- the hiring of an outside law firm (Davis, Polk & Wardwell) to investigate the causes of the reserve revision;
- the announcement of an informal inquiry by the Staff of the Securities and Exchange Commission;
- a delay in the filing of Stone s Form 10-Q for the 3rd quarter of 2005, which was filed on March 13, 2006;
- a reduction in the borrowing base of Stone s credit facility from $425 million to $300 million;
- the resignation of Stone s former CEO from the board of directors;

the implementation of new and improved procedures and controls over the reserve reporting process;

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- the obtaining of waivers from the participants in Stone s bank credit facility to extend the time to file its 3rd quarter 2005 financial statements and the execution of an amendment to the facility on March 28, 2006 whereby Stone granted a valid, perfected, first-priority lien in favor of the participating banks on the majority of Stone s interest in its oil and natural gas properties;

- the receipt of notices of non-compliance from over 25% of the holders of the outstanding principal amount of Stone s 6.75% Senior Subordinated Notes due 2014, starting a 60 day period beginning February 15, 2006 in which to cure the default relating to the non-issuance of financial statements. As a consequence of these notices, Stone became unable to borrow additional funds under its bank credit facility until the default was cured on March 13, 2006; and

- the filing of securities and derivative lawsuits against Stone. See Stone s Business Legal Proceedings .

Hurricane Disruption. In August and September 2005, Hurricanes Katrina and Rita caused significant disruption in Stone s operations resulting in production deferrals approximating 16.4 Bcfe (2.7 Mmboe) through December 31, 2005 and significant damage to its offshore facilities.

Williston Acquisition. Early in 2005 Stone closed on its acquisition of approximately 35,000 net exploratory acres in the Williston Basin North Dakota and Montana. During 2005 Stone drilled 20 wells to develop this significant asset acquisition and expanded its acreage position with the acquisition of 314,000 additional net acres through March 1, 2006.

2006 Outlook

Stone s 2006 capital expenditures budget is approximately $360 million, excluding acquisitions, asset retirement costs and capitalized interest and general and administrative expenses. The $360 million is expected to be spent as follows:

Conventional Shelf	28%
Rocky Mountain region	42%
Deep Shelf/Deepwater	26%
Other	4%

Stone also expects to continue to investigate new opportunities in the Rocky Mountain region and other areas.

Known Trends and Uncertainties

Gulf Coast Region Reserve Replacement. Stone has faced challenges in replacing production in the Gulf Coast region at a reasonable unit cost. This condition has been caused by a number of factors including the following:

- rising costs of drilling and production services;

- lack of an adequate inventory of reserve targets of an attractive size; and

- inadequate risking of projects to assist in appropriate portfolio management.

During 2005 and early 2006 Stone has instituted organizational changes which it believes will lead to a replenishment of its prospect inventory in 2006 and 2007. Additionally, Stone has employed a new risk management system for project evaluation that it believes will result in more efficient portfolio management.

Louisiana Franchise Taxes. Stone has been involved in litigation with the state of Louisiana over the proper computation of franchise taxes allocable to the state. This litigation relates to the state s position that sales of crude oil and natural gas from properties located on the Outer

Continental Shelf, which are transported

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through the state of Louisiana, should be sourced to Louisiana for purposes of computing franchise taxes. Stone disagrees with the state s position. However, if the state s position were to be upheld, Stone would incur higher franchise tax expense in future years barring the implementation of other tax savings measures. See Stone s Business Legal Proceedings.

Stock Based Compensation. In 2006, Stone began the implementation of Statement of Financial Accounting Standard (SFAS) No. 123(R) which requires expensing of the fair value of stock option issuances on the income statement. Stone had previously elected to disclose such amounts.

In 2005, Stone adjusted its emphasis in its long-term incentive compensation from the issuance of stock options to the issuance of restricted stock. Stone expects total equity based compensation in 2006 to total between $9.8 million and $10.3 million and estimates approximately $4.5 million of this amount will be capitalized.

Hurricanes. Since the majority of Stone s production originates in the Gulf of Mexico, it is particularly vulnerable to the effects of hurricanes on production. In 2004 Stone experienced an approximate 7.0 Bcfe deferral of production due to Hurricane Ivan and in 2005 an approximate 16.4 Bcfe deferral due to Hurricanes Katrina and Rita. Although the financial impact of the hurricanes is difficult to project, Stone estimates the lost revenue in 2005 from the production deferred was approximately $150 million, although most volumes were deferred to a later period, not lost. The hurricane repair related expenses were approximately $25 million for 2005, although a majority is expected to be reimbursed by Stone s insurance carriers. Stone had eight structures that were totally destroyed, two structures that have been condemned and over $50 million in estimated partial damage to other structures (these platform losses and repairs are substantially covered by insurance). In addition, Stone has identified approximately $100 million in expenditures over three years for removal of wreck and debris and abandonment projects which are also substantially covered by insurance. Stone s overall production dropped from over 280 Mmcfe per day in August 2005 to an exit rate in December 2005 of less than 200 Mmcfe per day, as a number of pipelines and processing plants were still off line or constrained, and may remain as such throughout the balance of 2006. However, most of the affected production is expected to ultimately come back on line, with less than 10 Bcfe of estimated proved reserves actually lost due to the hurricanes. The most significant impact to Stone has been at Mississippi Canyon Blocks 109 and 108, which is expected to remain off line until the fourth quarter of 2006 due to pipeline problems. Prior to going offline this property was producing approximately 20 Mmcfe per day of production net to Stone. Although Stone does include hurricane contingencies in its production forecasting models, hurricane activity can be more frequent and disruptive than what is projected, as was the case in 2004 and 2005.

Regulatory Inquiries and Stockholder Lawsuits. Stone is subject to ongoing inquiries by the SEC. Stone has also been named as a defendant in certain stockholder lawsuits resulting from its reserve restatement. The ultimate resolution of these matters and their impact on Stone is uncertain.

Liquidity and Capital Resources

Cash Flow and Working Capital. Net cash flow provided by operating activities totaled $461.2 million during 2005 compared to $369.7 million and $390.8 million in 2004 and 2003, respectively. Net cash flow provided by operating activities for the three months ended March 31, 2006 was $81.3 million compared to $111.0 million reported in the comparable period in 2005. Based on Stone s outlook of commodity prices and its estimated production, Stone expects to fund its 2006 capital expenditures with cash flow provided by operating activities.

Net cash flow used in investing activities totaled $499.9 million, $475.2 million and $341.2 million during 2005, 2004 and 2003, respectively, and $140.6 million and $180.5 million during the first quarter of 2006 and 2005, respectively, which primarily represents Stone s investment in oil and natural gas properties.

Net cash flow provided by (used in) financing activities totaled $94.2 million, $112.6 million and ($60.1) million for the years ended December 31, 2005, 2004 and 2003, respectively. Net cash flow provided by

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financing activities generated during 2005 primarily relates to net proceeds from borrowings under Stone s bank credit facility. Net cash flow provided by financing activities generated during 2004 primarily relates to the proceeds from Stone s 6¾% Senior Subordinated Notes offering offset in part by the use of offering proceeds to repay borrowings under its bank credit facility. Net cash flow used in financing activities during 2003 was primarily the result of the $61.0 million of repayments under the amended credit facility. Cash and cash equivalents increased from $24.3 million as of December 31, 2004 to $79.7 million as of December 31, 2005. Net cash flow provided by financing activities totaled $1.6 million for the quarter ended March 31, 2006, which represents proceeds from the exercise of stock options. For the quarter ended March 31, 2005, net cash flow provided by financing activities totaled $80.9 million, which primarily represents borrowings under Stone s bank credit facility and proceeds from the exercise of stock options. In total, cash and cash equivalents decreased from $79.7 million as of December 31, 2005 to $22.1 million as of March 31, 2006.

Stone had working capital at December 31, 2005 of $16.5 million and a working capital deficit of $15.3 million at March 31, 2006. Stone believes that its working capital balance should be viewed in conjunction with availability of borrowings under its bank credit facility when measuring liquidity. Liquidity is defined as the ability to obtain cash quickly either through the conversion of assets or incurrence of liabilities. See Bank Credit Facility below.

To the extent that 2006 cash flow from operating activities exceeds Stone s estimated 2006 capital expenditures, it may pay down a portion of its existing debt. If cash flow from operating activities during 2006 is not sufficient to fund estimated 2006 capital expenditures, Stone believes that its bank credit facility will provide it with adequate liquidity. See Bank Credit Facility below.

Stone does not budget acquisitions; however, it is continually evaluating opportunities that fit its specific acquisition profile. See Stone s Business Strategy and Operational Overview. Any one or a combination of certain of these possible transactions could fully utilize Stone s existing sources of capital. Stone would consider accessing the public markets for purposes of capital, if an acquisition opportunity arose.

Bank Credit Facility. At July 17, 2006, Stone had $192.0 million of borrowings outstanding under its credit facility and letters of credit totaling $58.9 million had been issued pursuant to the facility. Stone has a borrowing base under the credit facility of $325 million, with $76.1 million in availability as of July 17, 2006. Stone s borrowing base was reduced from $425 million to $300 million after it announced its reserve revisions in October 2005. In July 2006, the borrowing base was increased to $325 million in connection with the acquisition of the additional working interests in Mississippi Canyon Blocks 109 and 108.

Under the financial covenants of Stone s credit facility, it must (i) maintain a ratio of consolidated debt to consolidated EBITDA, as defined in the amended credit agreement, for the preceding four quarterly periods of not greater than 3.25 to 1 and (ii) maintain a Consolidated Tangible Net Worth (as defined). As of December 31, 2005 Stone s debt to EBITDA Ratio was 1.16 and its Consolidated Tangible Net Worth was approximately $185 million in excess of the amount required to be maintained. In addition, the credit facility places certain customary restrictions or requirements with respect to disposition of properties, incurrence of additional debt, change of ownership and reporting responsibilities. These covenants may limit or prohibit Stone from paying cash dividends. During 2005, the participating banks in Stone s credit facility granted waivers from certain covenants regarding the filing of its financial statements until March 31, 2006. The financial statements were filed on March 13, 2006.

On March 28, 2006, the bank credit facility was amended whereby Stone granted a valid, perfected, first-priority lien in favor of the participating lenders.

Hedging. See Quantitative and Qualitative Disclosure About Market Risk Commodity Price Risk below.

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Contractual Obligations and Other Commitments

The following table summarizes Stone s significant contractual obligations and commitments, other than hedging contracts, by maturity as of December 31, 2005.

	Total	Less than 1 Year	1-3 Years	4-5 Years	More than 5 Years
			(In thousands)		
Contractual Obligations and Commitments:					
8 1/4% Senior Subordinated Notes due 2011	$ 200,000	$	$	$	$ 200,000
6 3/4% Senior Subordinated Notes due 2014	200,000				200,000
Bank credit facility(1)	163,000		163,000		
Interest(2)	242,032	39,780	73,067	60,000	69,185
Asset retirement obligations, including accretion	356,308	60,900	455	10,769	284,184
Leasehold commitment(3)	5,000	5,000			
Exploration commitment(4)	21,270	21,270			
Seismic data commitments(5)	60,602	32,307	28,295		
Operating lease obligations	2,184	580	1,062	542	
Total Contractual Obligations and Commitments	$ 1,250,396	$ 159,837	$ 265,879	$ 71,311	$ 753,369

(1) The bank credit facility matures on April 30, 2008. See Bank Credit Facility above.
(2) Assumes 6% interest rate on floating debt.
(3) Represents sunk cost reimbursement due under the joint venture agreement with Kerr-McGee for deepwater and deep shelf exploration.
(4) Represents final commitment well under joint venture agreement with Kerr-McGee for deepwater and deep shelf exploration.
(5) Represents pre-commitments for seismic data purchases.

First Quarter 2006 compared to First Quarter 2005. The following table sets forth certain operating information with respect to Stone s oil and natural gas operations.

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005	Variance	% Change
Production:				
Oil (Mbbls)	1,037	1,357	(320)	(24)%
Natural gas (Mmcf)	11,269	15,249	(3,980)	(26)%
Oil and natural gas (Mmcfe)	17,492	23,391	(5,899)	(25)%
Revenue data (in thousands) (a):				
Oil revenue	$ 61,512	$ 64,631	$ (3,119)	(5)%
Natural gas revenue	96,922	91,522	5,400	6%
Total oil and natural gas revenue	$ 158,434	$ 156,153	$ 2,281	2%
Average prices (a):				
Oil (per Bbl)	$ 59.32	$ 47.63	$ 11.69	25%
Natural gas (per Mcf)	8.60	6.00	2.60	43%
Oil and natural gas (per Mcfe)	9.06	6.68	2.38	36%
Expenses (per Mcfe):				
Lease operating expenses	$ 1.99	$ 1.19	$ 0.80	67%
Salaries, general and administrative expenses (b)	0.48	0.21	0.27	129%
DD&A expense on oil and natural gas properties	3.69	2.62	1.07	41%

(a) Includes the cash settlement of effective hedging contracts.
(b) Exclusive of incentive compensation expense.

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During the first quarter of 2006, net income totaled $24.0 million, or $0.88 per share, compared to $33.4 million, or $1.24 per share for the first quarter of 2005. All per share amounts are on a diluted basis. The variance in quarterly results was due to the following components:

Prices. Prices realized during the first quarter of 2006 averaged $59.32 per Bbl of oil and $8.60 per Mcf of natural gas, or 36% higher, on an Mcfe basis, than first quarter 2005 average realized prices of $47.63 per Bbl of oil and $6.00 per Mcf of natural gas. All unit pricing amounts include the cash settlement of effective hedging contracts. Stone s effective hedging transactions increased the average price Stone received for natural gas by $0.38 per Mcf for the first quarter of 2006. Hedging transactions did not impact realized oil prices during the first quarter of 2006. During the first quarter of 2005, effective hedging transactions decreased the average realized price of natural gas by $0.19 per Mcf and oil by $0.33 per barrel.

Production. During the first quarter of 2006, total production volumes decreased 25% to 17.5 Bcfe (2.9 Mmboe) compared to 23.4 Bcfe (3.9 Mmboe) produced during the first quarter of 2005. Oil production during the first quarter of 2006 totaled approximately 1,037,000 barrels compared to 1,357,000 barrels produced during the first quarter of 2005, while natural gas production totaled 11.3 Bcf during the first quarter of 2006 compared to 15.2 Bcf produced during the first quarter of 2005. Stone s first quarter 2006 production rates were negatively impacted by natural declines from producing wells and extended Gulf Coast production shut-ins due to Hurricane Katrina and Hurricane Rita, amounting to volumes of approximately 6.6 Bcfe (1.1 Mmboe), or 73 Mmcfe per day (12.2 Mboe per day). This compares to an approximate 1.7 Bcfe (0.3 Mmboe) deferral, or 19 Mmcfe per day (3.2 Mboe per day), from Hurricane Ivan in the comparable quarter of 2005. Approximately 83% of Stone s first quarter 2006 production volumes were generated from Stone s Gulf Coast region properties while the remaining 17% came from Stone s Rocky Mountain region properties.

Oil and Natural Gas Revenue. First quarter 2006 oil and gas revenue totaled $158.4 million, compared to first quarter 2005 oil and natural gas revenue of $156.2 million. The increase in oil and natural gas revenue is attributable to a 36% increase in realized oil and gas prices significantly offset by a 25% decrease in production volumes on a gas equivalent basis for the first quarter of 2006 compared to the comparable period in 2005.

Expenses. Lease operating expenses during the first quarter of 2006 totaled $34.9 million compared to $27.9 million for the first quarter of 2005. On a unit of production basis, first quarter 2006 lease operating expenses were $1.99 per Mcfe as compared to $1.19 per Mcfe for the first quarter of 2005. During the first quarter of 2006, lease operating expenses included $7.7 million of repairs in excess of estimated insurance recoveries related to Hurricanes Katrina and Rita. First quarter 2006 lease operating expenses also increased as a result of increases in overall industry service costs over the first quarter of 2005.

Depreciation, depletion and amortization (DD&A) on oil and natural gas properties for the first quarter of 2006 totaled $64.6 million, or $3.69 per Mcfe compared to $61.3 million, or $2.62 per Mcfe for the first quarter of 2005. The increase in 2006 DD&A per Mcfe is attributable to the unit cost of current period net reserve additions (including related future development costs) exceeding the per unit amortizable base as of the beginning of the year.

Salaries, general and administrative (SG&A) expenses (exclusive of incentive compensation) for the first quarter of 2006 were $8.5 million compared to $4.8 million in the first quarter of 2005. The increase in SG&A is due to additional compensation expense associated with restricted stock issuances, increased employment and base salary levels and higher legal and consulting fees.

During the three months ended March 31, 2006 and 2005, Stone incurred $3.0 million and $1.8 million, respectively, of accretion expense related to asset retirement obligations. The increase in first quarter 2006 accretion expense is due to higher estimated asset retirement costs combined with a shortened time frame to plug and abandon our facilities.

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Production taxes during the first quarter of 2006 totaled $4.2 million compared to $2.4 million in the first quarter of 2005. The increase is due to a prior year ad valorem tax adjustment on certain of Stone s Rocky Mountain properties expensed in the first quarter of 2006.

2005 Compared to 2004. The following table sets forth certain operating information with respect to Stone s oil and natural gas operations and summary information with respect to its estimated proved oil and natural gas reserves. See Stone s Business Properties Oil and Natural Gas Reserves.

	Year Ended December 31,			
	2005	2004	Variance	% Change
Production:				
Oil (Mbbls)	4,838	5,438	(600)	(11)%
Natural gas (Mmcf)	54,129	55,544	(1,415)	(3)%
Oil and natural gas (Mmcfe)	83,158	88,172	(5,014)	(6)%
Average prices:[(1)]				
Oil (per Bbl)	$ 50.53	$ 39.38	$ 11.15	28%
Natural gas (per Mcf)	7.24	5.94	1.30	22%
Oil and natural gas (per Mcfe)	7.65	6.17	1.48	24%
Expenses (per Mcfe):				
Lease operating expenses	$ 1.38	$ 1.13	$ 0.25	22%
Salaries, general and administrative expenses[(2)]	0.27	0.16	0.11	69%
DD&A expense on oil and natural gas properties	2.87	2.36	0.51	21%
Estimated Proved Reserves at December 31:				
Oil (Mbbls)	41,509	42,385	(876)	(2)%
Natural gas (Mmcf)	344,088	413,902	(69,814)	(17)%
Oil and natural gas (Mmcfe)	593,142	668,210	(75,068)	(11)%

(1) Includes the settlement of effective hedging contracts.
(2) Exclusive of incentive compensation expense.

For the year ended 2005, Stone reported net income totaling $136.8 million, or $5.02 per share, compared to net income for the year ended December 31, 2004 of $119.7 million, or $4.45 per share. The variance in annual results was due to the following components:

Production. During 2005, total production volumes decreased 6% to 83.2 Bcfe (13.9 Mmboe) compared to 88.2 Bcfe (14.7 Mmboe) produced during 2004. Oil production during 2005 totaled approximately 4.8 million barrels compared to 2004 oil production of 5.4 million barrels, while natural gas production during 2005 totaled approximately 54.1 billion cubic feet compared to 55.5 billion cubic feet produced during 2004. The decrease in overall 2005 production was primarily the result of extended production downtime from Hurricanes Katrina and Rita (16.4 Bcfe) in excess of downtime experienced for Hurricane Ivan in 2004 (7.0 Bcfe).

Prices. Prices realized during 2005 averaged $50.53 per barrel of oil and $7.24 per Mcf of natural gas compared to 2004 average realized prices of $39.38 per barrel of oil and $5.94 per Mcf of natural gas. On a natural gas equivalent basis, average 2005 prices were 24% higher than prices realized during 2004. All unit pricing amounts include the settlement of hedging contracts.

Stone enters into various hedging contracts in order to reduce its exposure to the possibility of declining oil and natural gas prices. During 2005, hedging transactions decreased the average price Stone received for natural gas by $0.58 per Mcf and for oil by $2.26 per Bbl compared to a net decrease of $0.18 per Mcf of natural gas realized during 2004.

Oil and Natural Gas Revenue. As a result of 24% higher realized prices on a gas equivalent basis, oil and natural gas revenue increased 17% to $636.2 million in 2005 from $544.2 million during 2004 despite a 6% decline in total production volumes during 2005.

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Expenses. During 2005, Stone incurred lease operating expenses of $114.7 million, compared to $100.0 million incurred during 2004. On a unit of production basis, 2005 lease operating expenses were $1.38 per Mcfe as compared to $1.13 per Mcfe for 2004. The increase in lease operating expenses in 2005 is due to a combination of increases in overall industry service costs and additional costs associated with storm-related shut-ins and evacuations. Included in lease operating expenses are maintenance costs, which represent repairs and maintenance costs that vary from year to year. Maintenance costs totaled $28.9 million in 2005 compared to $29.1 million in 2004.

DD&A expense on oil and natural gas properties for 2005 totaled $238.3 million, or $2.87 per Mcfe compared to DD&A expense of $208.0 million, or $2.36 per Mcfe in 2004. The increase in DD&A per Mcfe is attributable to the unit cost of current year net reserve additions (including related future development costs) exceeding the per unit amortizable base as of the beginning of the year. See Known Trends and Uncertainties above.

During 2005 and 2004, Stone incurred $7.2 million and $5.9 million, respectively, of accretion expense related to the January 1, 2003 adoption of SFAS No. 143, Accounting for Asset Retirement Obligations. Stone expects accretion expense to total approximately $12.2 million during 2006 as a result of higher estimated costs combined with a shortened time frame to plug and abandon its facilities.

The approximate $50 million revision in estimates of asset retirement obligations in 2005 is due to the following factors: (1) approximately $20.5 million of the increase is due to significant increases in the cost of services necessary to abandon oil and natural gas properties; (2) approximately $9.7 million of the increase is due to an accelerated time frame in which certain of our oil and natural gas properties will need to be abandoned as a result of Hurricanes Katrina and Rita; and (3) approximately $19.8 million is due to additional costs of wreckage and debris removal associated with the hurricanes.

Interest expense for 2005 totaled $23.2 million, net of $14.9 million of capitalized interest, compared to interest of $16.8 million, net of $7.0 million of capitalized interest, during 2004. The increase in interest expense in 2005 is primarily the result of the issuance of Stone s $200 million 6 3/4% Senior Subordinated Notes on December 15, 2004.

Reserves. At December 31, 2005, Stone s estimated proved oil and gas reserves totaled 593.1 Bcfe (99 Mmboe), compared to December 31, 2004 reserves of 668.2 Bcfe (111.4 Mmboe). The decrease in estimated proved reserves during 2005 was the result of production and downward revisions of previous estimates exceeding additions from drilling results and acquisitions made during the year. Estimated proved natural gas reserves totaled 344.1 Bcf and estimated proved oil reserves totaled 41.5 MMbbls at the end of 2005. The reserve estimates at December 31, 2005 were engineered and/or audited by engineering firms in accordance with guidelines established by the SEC.

Stone s standardized measure of discounted future net cash flows was $1.9 billion and $1.6 billion at December 31, 2005 and 2004, respectively. You should not assume that these estimates of future net cash flows represent the fair value of Stone s estimated oil and natural gas reserves. As required by the SEC, Stone determines these estimates of future net cash flows using market prices for oil and natural gas on the last day of the fiscal period. The average year-end oil and natural gas prices on all of Stone s properties used in determining these amounts, excluding the effects of hedges in place at year-end, were $57.17 per barrel and $9.86 per Mcf for 2005 and $41.06 per barrel and $6.57 per Mcf for 2004.

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2004 Compared to 2003. The following table sets forth certain operating information with respect to Stone s oil and gas operations and summary information with respect to its estimated proved oil and natural gas reserves.

	Year Ended December 31,			
	2004	2003	Variance	% Change
Production:				
Oil (Mbbls)	5,438	5,727	(289)	(5)%
Natural gas (Mmcf)	55,544	62,536	(6,992)	(11)%
Oil and natural gas (Mmcfe)	88,172	96,898	(8,726)	(9)%
Average prices:(1)				
Oil (per Bbl)	$ 39.38	$ 30.41	$ 8.97	29%
Natural gas (per Mcf)	5.94	5.34	0.60	11%
Oil and natural gas (per Mcfe)	6.17	5.25	0.92	18%
Expenses (per Mcfe):				
Lease operating expenses	$ 1.13	$ 0.75	$ 0.38	51%
Salaries, general and administrative expenses(2)	0.16	0.15	0.01	7%
DD&A expense on oil and natural gas properties	2.36	1.92	0.44	23%
Estimated Proved Reserves at December 31:				
Oil (Mbbls)	42,385	44,508	(2,123)	(5)%
Natural gas (Mmcf)	413,902	380,280	33,622	9%
Oil and natural gas (Mmcfe)	668,210	647,326	20,884	3%

(1) Includes the settlement of effective hedging contracts.
(2) Exclusive of incentive compensation expense.

For the year ended 2004, net income totaled $119.7 million, or $4.45 per share, compared to net income for the year ended December 31, 2003 of $123.2 million, or $4.64 per share. The variance in annual results was due to the following components:

Production. During 2004, total production volumes decreased 9% to 88.2 Bcfe (14.7 Mmboe) compared to 96.9 Bcfe (16.2 Mmboe) produced during 2003. Oil production during 2004 totaled approximately 5.4 million barrels compared to 2003 oil production of 5.7 million barrels, while natural gas production during 2004 totaled approximately 55.5 billion cubic feet compared to 62.5 billion cubic feet produced during 2003. The decrease in overall 2004 production, compared to 2003, was primarily the result of extended production downtime from Hurricane Ivan totaling 7.0 Bcfe.

Prices. Prices realized during 2004 averaged $39.38 per barrel of oil and $5.94 per Mcf of natural gas compared to 2003 average realized prices of $30.41 per barrel of oil and $5.34 per Mcf of natural gas. On a natural gas equivalent basis, average 2004 prices were 18% higher than prices realized during 2003. All unit pricing amounts include the settlement of hedging contracts.

During 2004, hedging transactions decreased the average price Stone received for natural gas by $0.18 per Mcf compared to a net decrease of $0.03 per Mcf of natural gas realized during 2003. Stone had no hedges in place for 2003 oil production.

Oil and Natural Gas Revenue. As a result of 18% higher realized prices on a natural gas equivalent basis, oil and natural gas revenue increased 7% to $544.2 million in 2004 from $508.3 million during 2003 despite a 9% decline in total production volumes during 2004.

Expenses. During 2004, Stone incurred lease operating expenses of $100.0 million, compared to $72.8 million incurred during 2003. On a unit of production basis, 2004 lease operating expenses were $1.13 per Mcfe as compared to $0.75 per Mcfe for 2003. The increase in lease operating expenses in 2004 is due to a combination of increases in overall industry service costs, additional costs associated with storm-related shut-ins

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and evacuations and increases in maintenance costs included in lease operating expenses during 2004. Included in lease operating expenses are maintenance costs, which represent repairs and maintenance costs that vary from year to year. Maintenance costs totaled $29.1 million in 2004 compared to $11.4 million in 2003. The increase in maintenance costs during 2004 is due primarily to $4.2 million for hurricane-related repairs in excess of estimated insurance recoveries and $6.8 million related to three replacement wells drilled during 2004.

DD&A expense on oil and natural gas properties for 2004 totaled $208.0 million, or $2.36 per Mcfe compared to DD&A expense of $186.0 million, or $1.92 per Mcfe in 2003. The increase in DD&A per Mcfe is attributable to the unit cost of current year reserve additions and related future development costs, exceeding the per unit amortizable base as of the beginning of the year.

During 2004 and 2003, Stone incurred $5.9 million and $6.3 million, respectively, of accretion expense related to the January 1, 2003 adoption of SFAS No. 143, Accounting for Asset Retirement Obligations.

Derivative expenses in 2004 and 2003 represented primarily the cost of put contracts charged to earnings as the contracts settled during the respective periods. During 2004, Stone incurred derivative expenses of $4.1 million compared to $8.7 million in 2003. The decline in derivative expenses in 2004 is the result of lower costs of put contracts for 2004 hedged production volumes.

Interest expense for 2004 totaled $16.8 million, net of $7.0 million of capitalized interest, compared to interest of $19.9 million, net of $7.8 million of capitalized interest, during 2003. The decrease in interest expense in 2004 is the result of the September 2003 redemption of Stone s 8 3/4% Senior Subordinated Notes, which lowered the average interest rate on its outstanding debt, combined with lower average borrowings outstanding during 2004.

Reserves. At December 31, 2004, Stone s estimated proved oil and natural gas reserves totaled 668.2 Bcfe (111.4 Mmboe), compared to December 31, 2003 reserves of 647.3 Bcfe (107.9 Mmboe). The increase in estimated proved reserves during 2004 was the combined result of drilling results and acquisitions made during the year. Estimated proved natural gas reserves totaled 413.9 Bcf and estimated proved oil reserves totaled 42.4 MMbbls at the end of 2004.

Stone s standardized measure of discounted future net cash flows was $1.6 billion and $1.5 billion at December 31, 2004 and 2003, respectively. You should not assume that these estimates of future net cash flows represent the fair value of Stone s estimated oil and natural gas reserves. As required by the SEC, Stone determines these estimates of future net cash flows using market prices for oil and natural gas on the last day of the fiscal period. The average year-end oil and natural gas prices on all of Stone s properties used in determining these amounts, excluding the effects of hedges in place at year-end, were $41.06 per barrel and $6.57 per Mcf for 2004 and $31.72 per barrel and $6.29 per Mcf for 2003.

Off-Balance Sheet Arrangements

Stone has no off-balance sheet arrangements.

Accounting Matters and Critical Accounting Policies

Changes in Accounting Principles. Effective January 1, 2003, management elected to change to the units of production (UOP) method of amortizing proved oil and gas property costs from the previously used future gross revenue method. Under the UOP method, the quarterly provision for DD&A is computed by dividing production volumes, instead of revenue, for the period by the total proved reserves, instead of future gross revenue, as of the beginning of the period, and similarly applying the respective rate to the net cost of proved oil and gas properties, including future development costs. Management believes that this change in method is preferable because it removes fluctuations in DD&A expense caused by product pricing volatility within a

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reporting period and is a method more widely used in the oil and natural gas industry. As a result of the change in accounting principle, Stone recognized a charge against its 2003 net income for the cumulative transition adjustment of $4.6 million, net of tax.

In addition, management elected to begin recognizing production revenue under the Entitlement method of accounting effective January 1, 2003. Under this method, revenue is deferred for deliveries in excess of Stone s net revenue interest, while revenue is accrued for the undelivered volumes. Production imbalances are generally recorded at the estimated sales price in effect at the time of production. The cumulative effect of adoption of the Entitlement method was immaterial.

Asset Retirement Obligations. In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, Accounting for Asset Retirement Obligations, effective for fiscal years beginning after June 15, 2002. This statement requires Stone to record its estimate of the fair value of liabilities related to future asset retirement obligations in the period the obligation is incurred. Asset retirement obligations relate to the removal of facilities and tangible equipment at the end of an oil and gas property s useful life. The adoption of SFAS No. 143 requires the use of management s estimates with respect to future abandonment costs, inflation, market risk premiums, useful life and cost of capital. Stone adopted SFAS No. 143 on January 1, 2003. Upon adoption, Stone recognized a gain for a cumulative transition adjustment of $6.7 million, net of tax, for existing asset retirement obligation liabilities, asset retirement costs and accumulated depreciation. In addition, Stone recorded an $86.7 million increase in the capitalized costs of its oil and natural gas properties, net of accumulated depreciation, and recognized $76.3 million in additional liabilities related to asset retirement obligations. As required by SFAS No. 143, Stone s estimate of its asset retirement obligations does not give consideration to the value the related assets could have to other parties.

Full Cost Method. Stone uses the full cost method of accounting for its oil and natural gas properties. Under this method, all acquisition, exploration, development and estimated abandonment costs, including certain related employee costs and general and administrative costs (less any reimbursements for such costs), incurred for the purpose of acquiring and finding oil and natural gas are capitalized. Unevaluated property costs are excluded from the amortization base until Stone has made a determination as to the existence of proved reserves on the respective property or impairment. Stone reviews its unevaluated properties at the end of each quarter to determine whether the costs should be reclassified to the full cost pool and thereby subject to amortization. Sales of oil and natural gas properties are accounted for as adjustments to the net full cost pool with no gain or loss recognized, unless the adjustment would significantly alter the relationship between capitalized costs and proved reserves.

Stone amortizes its investment in oil and gas properties through DD&A using the UOP method. See Changes in Accounting Principles above.

Stone capitalizes a portion of the interest costs incurred on its debt that is calculated based upon the balance of its unevaluated property costs and its weighted-average borrowing rate. During 2005, 2004 and 2003, Stone capitalized interest costs of $14.9 million, $7.0 million and $7.8 million, respectively. Stone also capitalizes the portion of salaries, general and administrative expenses that are attributable to its acquisition, exploration and development activities. During 2005, 2004 and 2003, Stone capitalized salaries, general and administrative costs, net of overhead reimbursements, of $20.5 million, $16.0 million, and $14.2 million, respectively.

Generally accepted accounting principles allow the option of two acceptable methods for accounting for oil and natural gas properties. The successful efforts method is the allowable alternative to the full cost method. The primary differences between the two methods are in the treatment of exploration costs and in the computation of DD&A. Under the full cost method, all exploratory costs are capitalized while under the successful efforts method exploratory costs associated with unsuccessful exploratory wells and all geological and geophysical costs are expensed. Under full cost accounting, DD&A is computed on cost centers represented by entire countries while under successful efforts cost centers are represented by properties, or some reasonable aggregation of properties with common geological structural features or stratigraphic condition, such as fields or reservoirs.

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Under the full cost method of accounting, Stone compares, at the end of each financial reporting period, the present value of estimated future net cash flows from proved reserves (based on period-end hedge adjusted commodity prices and excluding cash flows related to estimated abandonment costs) to the net capitalized costs of proved oil and natural gas properties, net of related deferred taxes. Stone refers to this comparison as a ceiling test. If the net capitalized costs of proved oil and natural gas properties exceed the estimated discounted future net cash flows from proved reserves, Stone is required to write-down the value of its oil and natural gas properties to the value of the discounted cash flows.

Stock-Based Compensation. On December 16, 2004, the FASB issued SFAS No. 123(R), Share-Based Payment , which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No. 123(R) supersedes Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees , and amends SFAS No. 95, Statement of Cash Flows. Generally, the approach in SFAS No. 123(R) is similar to the approach described in SFAS No. 123; however, SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, be recognized in the income statement based on their fair values. Pro forma disclosure will no longer be an alternative.

SFAS No. 123(R) permits public companies to adopt its requirements using one of two methods:

- A modified prospective method in which compensation cost is recognized beginning with the effective date (a) based on the requirements of SFAS No. 123(R) for all share-based payments granted after the effective date and (b) based on the requirements of SFAS No. 123 for all awards granted to employees prior to the effective date of SFAS No. 123(R) that remain unvested on the effective date.

- A modified retrospective method which includes the requirements of the modified prospective method described above, but also permits entities to restate based on the amounts previously recognized under SFAS No. 123 for purposes of pro forma disclosures either (a) all prior periods presented or (b) prior interim periods of the year of adoption.

Stone has elected the modified prospective transition method. Stone has historically used the Black-Scholes option-pricing model for estimating stock compensation expense for disclosure purposes and is continuing to use such method after adoption of SFAS No. 123(R). The effect of the adoption of SFAS No. 123(R) for Stone for the three months ended March 31, 2006 was immaterial.

In March 2005, the SEC issued Staff Accounting Bulletin (SAB) No. 107 which expressed the views of the SEC regarding the interaction between SFAS No. 123(R) and certain SEC rules and regulations. SAB No. 107 provides guidance related to the valuation of share-based payment arrangements for public companies, including assumptions such as expected volatility and expected term. In April 2005, the SEC approved a rule that delayed the effective date of SFAS No. 123(R) for public companies. As a result, SFAS No. 123(R) became effective for Stone on January 1, 2006.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires Stone to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Stone s most significant estimates are:

- remaining proved oil and natural gas reserves volumes and the timing of their production;

- estimated costs to develop and produce proved oil and natural gas reserves;

- accruals of exploration costs, development costs, operating costs and production revenue;

timing and future costs to abandon its oil and natural gas properties;

the effectiveness and estimated fair value of derivative positions;

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- classification of unevaluated property costs;

- capitalized general and administrative costs and interest; and

- contingencies.

Derivative Instruments and Hedging Activities. Under SFAS No. 133, as amended, the nature of a derivative instrument must be evaluated to determine if it qualifies for hedge accounting treatment. Stone does not use derivative instruments for trading purposes. Instruments qualifying for hedge accounting treatment are recorded as an asset or liability measured at fair value and subsequent changes in fair value are recognized in equity through other comprehensive income, net of related taxes, to the extent the hedge is effective. Instruments not qualifying for hedge accounting treatment are recorded in the balance sheet and changes in fair value are recognized in earnings. During 2005, certain of Stone s hedges became ineffective when actual production was less than the hedged volumes. This resulted in a charge to income in the amount of $3.4 million.

For a more complete discussion of Stone s accounting policies and procedures, see its Notes to Consolidated Financial Statements beginning on page F-18.

Quantitative and Qualitative Disclosures About Market Risk

Operating Cost Risk

Stone is currently experiencing rising operating costs which also impacts its cash flow from operating activities and profitability. Assuming the costs to operate Stone s properties, including lease operating expenses and maintenance cost, increased 10%, it estimates its diluted earnings per share for 2005 would have declined approximately 5%.

Commodity Price Risk

Stone s revenues, profitability and future rate of growth depend substantially upon the market prices of oil and natural gas, which fluctuate widely. Oil and natural gas price declines and volatility could adversely affect Stone s revenues, cash flow provided by operating activities and profitability. Assuming a 10% decline in realized oil and natural gas prices, including the effects of hedging contracts, Stone estimates its diluted net income per share for 2005 would have declined approximately 32%. In order to manage its exposure to oil and natural gas price declines, Stone occasionally enters into oil and natural gas price hedging arrangements to secure a price for a portion of its expected future production.

Stone s hedging policy provides that not more than 50% of its estimated production quantities can be hedged without the consent of the board of directors. Because over 90% of Stone s production has historically been derived from the Gulf Coast region, it believes that fluctuations in prices will closely match changes in the market prices it receives for its production. Oil contracts typically settle using the average of the daily closing prices for a calendar month. Natural gas contracts typically settle using the average closing prices for near month NYMEX futures contracts for the three days prior to the settlement date.

Stone has entered into zero-premium collars with various counterparties for a portion of its expected 2006 and 2007 oil and natural gas production from the Gulf Coast region. The natural gas collar settlements are based on an average of NYMEX prices for the last three days of a respective month. The oil collar settlements are based upon an average of the NYMEX closing price for West Texas Intermediate (WTI) during the entire calendar month. The contracts require payments to the counterparties if the average price is above the ceiling price or payment from the counterparties if the average price is below the floor price.

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The following tables show Stone s hedging positions as of March 31, 2006:

	Zero-Premium Collars					
	Natural Gas			Oil		
	Daily Volume (MmBtus/d)	Floor Price	Ceiling Price	Daily Volume (Bbls/d)	Floor Price	Ceiling Price
2006	10,000	$ 8.00	$ 14.28	3,000	$ 55.00	$ 76.40
2006	20,000	9.00	16.55	2,000	60.00	78.20
2006	20,000	10.00	16.40			
2007				3,000	60.00	78.35

Stone believes these positions have hedged approximately 35% to 45% of its estimated 2006 production.

Interest Rate Risk

Stone had long-term debt outstanding of $563 million at December 31, 2005, of which $400 million, or approximately 71%, bears interest at fixed rates. The $400 million of fixed-rate debt is comprised of $200 million of 8 1/4% Senior Subordinated Notes due 2011 and $200 million of 6 3/4% Senior Subordinated Notes due 2014. The remaining $163 million of debt outstanding at December 31, 2005 bears interest at a floating rate under Stone s bank credit facility. At December 31, 2005, the weighted average interest rate under Stone s floating-rate debt was approximately 6.0%. At December 31, 2005, Stone had no interest rate hedge positions in place to reduce its exposure to changes in interest rates. Assuming a 200 basis point increase in market interest rates during 2005, Stone s interest expense, net of capitalization, would have increased approximately $1.0 million, net of taxes, resulting in a $0.04 per diluted share reduction in net income. On June 28, 2006, Stone completed a private placement of $225.0 million aggregate principal amount of Senior Floating Rate Notes due 2010. Stone s Senior Floating Rate Notes bear interest at a floating rate equal to three-month LIBOR (as defined in the indenture governing the notes) plus an applicable margin per annum, and therefore increase its exposure to changes in interest rates.

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EPL THE COMBINED COMPANY

Overview

The combination of EPL and Stone will create an independent oil and natural gas company with an aggregate of approximately 168 Mmboe of pro forma proved reserves at December 31, 2005. EPL expects the combined company to have the following advantages listed below after the merger.

Strengthens Gulf of Mexico Position The combination of EPL and Stone will create a premier offshore exploration and production company with a highly attractive portfolio of assets in the Gulf of Mexico. Of the approximately 108 Mmboe of proved reserves owned by Stone as of year end 2005 (inclusive of the additional interest recently acquired in Mississippi Canyon Blocks 109 and 108) that will be added to EPL s asset portfolio, approximately 72% are located in the Gulf of Mexico. The combined company will have a balanced natural gas/oil production ratio (65% natural gas / 35% oil) with a broad portfolio of low, medium and high potential projects across EPL s eastern, central and western Gulf of Mexico operational areas. The merger will also combine Stone s 3-D seismic portfolio and acreage position in the Gulf of Mexico with that of EPL, providing the combined company with a significant informational advantage in the selection of future drilling and development opportunities, including those in the significantly larger acreage position of the combined company. The combined company s increased scope, scale and 3-D seismic portfolio will significantly improve EPL s competitive position in the Gulf of Mexico and accelerate growth and diversification.

Establishes Rocky Mountain and Williston Basin Positions The merger will provide balance and geographic diversity through the addition of Stone s attractive, long-lived reserves located in the Rocky Mountain region, including the Williston Basin. At December 31, 2005, approximately 16% of Stone s estimated proved reserves (16 Mmboe) were located in several Rocky Mountain basins, a resource play characterized by stable, long-lived natural gas production. An additional 8% of Stone s estimated proved reserves (8 Mmboe) were located in the Williston Basin. The addition of the positions in the Rocky Mountain region creates a significant base that will greatly enhance the combined company s reserve and geographic diversification. They also provide significant future exploration and development opportunities in a number of the premier North American onshore resource plays (including the Pinedale Anticline and Jonah fields and the Bakken Shale) and position EPL to acquire additional acreage and drilling opportunities in this region.

Builds on EPL s Leading Technical and Production Expertise EPL and Stone s teams of geoscientists, engineers, landmen and other technical professionals average more than 23 and 24 years of respective experience in the exploration and production business. The addition of Stone s professionals who focus on the Gulf of Mexico provides a unique opportunity to enhance EPL s already strong team of technical professionals. Stone s team in the Rocky Mountain region will provide local expertise necessary to facilitate EPL s geographic diversification. Given the shortage of experienced oil and natural gas personnel in the current labor market, the merger provides a cost effective way of increasing the depth of EPL s technical and finance and administrative teams, positioning EPL to generate and maintain a larger inventory of high-quality drilling prospects and to further develop and exploit a larger and better diversified asset base.

Provides Opportunities to Improve the Combined Company s Financial Returns EPL expects that the merger will:

Produce $55 million in annual synergies and associated cost savings. EPL expects to realize approximately $55 million in ongoing annual savings through the elimination of redundant transportation, shorebases and procurement, the consolidation of administrative and professional services and the reduction of annual insurance premiums. EPL has developed a comprehensive plan to be implemented promptly following the completion of the merger for achieving these benefits.

Permit EPL to high-grade the combined company s exploration, development and exploitation opportunities with increased cash flow used to augment EPL s balanced drilling program and

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reduce debt. The size and strength of the combined company are expected to allow EPL to high-grade the exploration, development and exploitation opportunities in the combined company s asset base. High-grading of the combined portfolio is anticipated to increase cash flow available for debt reduction through focused capital spending and the results of drilling a balanced portfolio of low, moderate and higher risk opportunities. In addition, the increased resources of the combined entity will enable EPL to pursue larger scale projects that have the potential for increased returns.

Allow EPL to rationalize the combined company s asset base through property dispositions. As part of the process of integrating Stone s Gulf of Mexico properties into its existing asset portfolio, EPL will rationalize its asset profile in the Gulf Coast region, including the Gulf of Mexico, by disposing of primarily lower tier properties. Proceeds generated from any such asset sales will be used to reduce debt.

Through its combination with Stone, EPL expects that the combined company s geographically diversified and high-graded assets, together with its exploration and production experience and its technical expertise, will provide a foundation for further increasing reserves, production and cash flow and a strong basis for creating stockholder value.

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THE MERGER

Background of the Merger

General

Pursuant to the merger agreement, Stone will merge with and into EPL Acquisition Corp. LLC, a wholly-owned subsidiary of EPL.

In the merger, each outstanding share of Stone common stock will be converted into the right to receive at the election of the holder (subject to the limitations described below): (i) $51.00 in cash, or (ii) EPL shares equivalent to the ratio determined by dividing $51.00 by the market price of EPL shares (based on a 20-day trading average prior to the third trading day preceding the closing), *provided* that the exchange ratio will not be greater than 2.525 or less than 2.066 EPL shares per Stone share. The election of cash or stock will be subject to a limit on total cash consideration of approximately $723 million (which includes approximately $15.5 million attributable to stock options) and a limit on the total number of EPL shares issued of approximately 35 million. As a result, Stone stockholders will hold no more than approximately 46% and EPL stockholders will hold no less than approximately 54% of the combined company, assuming the maximum number of shares are issued to Stone s stockholders.

The merger is expected to qualify as a reorganization under Section 368(a) of the Internal Revenue Code. Accordingly, it is expected that (i) the merger will be tax free to EPL stockholders for U.S. federal income tax purposes and (ii) the U.S. federal income tax consequences to an exchanging Stone stockholder will depend on the relative mix of cash and EPL common stock received by such Stone stockholder.

Background of the Merger

In 2005, Stone recognized that a substantial increase in the scale and the diversification of its operations and assets could enhance Stone s value, in light of recent merger and acquisition transactions involving other exploration and production companies and Stone s increased focus on capital intensive projects in the deepwater Gulf of Mexico. Accordingly, Stone began to explore potential opportunities to enhance stockholder value, including by exploring the possibility of business combinations with other companies in the energy field, the possible sale of Stone, as well as the potential acquisition of additional assets by Stone.

During 2005, both Mr. David H. Welch, President and Chief Executive Officer of Stone, and Mr. Kenneth H. Beer, Stone s Senior Vice President and Chief Financial Officer, had discussions with representatives of several entities that expressed interest in potential transactions with Stone. These initial discussions were solely conceptual in nature. Stone did not receive any specific proposals or undertake detailed analyses of potential transactions during this period.

During the third and fourth quarters of 2005, Stone was impacted by several events:

- On August 29 and September 26, respectively, hurricanes Katrina and Rita caused substantial damage to certain of Stone s facilities and gave rise to significant production shut-ins. Production, cash flow and hydrocarbon reserves were negatively impacted.

- On October 6, 2005, Stone announced a downward revision of its proved hydrocarbon reserve estimates based upon an internal review of all of Stone s fields as well as an analysis of the likely impact of the hurricanes. This downward revision would ultimately give rise to a restatement of Stone s prior financial statements as well as a delay in the filing of Stone s Quarterly Report on Form 10-Q for the third quarter of 2005.

- On November 10, 2005, Stone announced that it had been notified by the Staff of the SEC that the Staff was commencing an informal inquiry relating to Stone s announcement of its downward revision of its proved hydrocarbon reserve estimates.

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On November 14, 2005, Stone announced it would be delayed in the filing of Stone s Quarterly Report on Form 10-Q for the third quarter of 2005.

On November 2, 2005, Mr. Welch was contacted by the Chief Executive Officer of Company A, and Mr. Beer was contacted by the head of business development for Company A, to discuss the possibility of a business combination. Mr. Beer initially scheduled a meeting with the head of business development of Company A, but this meeting was postponed by Stone due to the delay in filing its Form 10-Q for the third quarter of 2005. On November 14, Mr. Welch was again contacted by the Chief Executive Officer of Company A after the delayed filing was announced.

During November 2005, after informal discussions with several members of the Stone board of directors, Stone management concluded that, in light of operational issues and the consequences of the hydrocarbon reserve estimate revision, it was appropriate to refrain from pursuing any substantive discussions with potential transactional counterparties until after Stone filed its Annual Report on Form 10-K for the year ended December 31, 2005.

On December 5, 2005, Stone announced that the audit committee of its board of directors, with the assistance of the law firm of Davis Polk & Wardwell, had completed an internal inquiry of certain matters related to the downward revision of its hydrocarbon reserve estimates.

On January 11, 2006, Messrs. Welch and Beer met with the Managing Partner of Private Equity Firm I (PEF I), which presented several conceptual proposals for potential transactions. Mr. Welch had follow-up discussions with PEF I on January 27, 2006 and February 6, 2006. Mr. Welch noted, however, that Stone intended to complete the filing of its Annual Report on Form 10-K for the year ended December 31, 2005 before engaging in substantive discussions.

On January 23, 2006, Mr. Welch had a brief conceptual conversation with the Chief Executive Officer of Company A about a possible business combination.

On January 25, 2006, Messrs. Welch and Beer met with representatives of the Randall & Dewey division of Jefferies, an internationally recognized investment banking and advisory firm with substantial expertise in the energy field. At the meeting, they discussed various strategic options and ideas, as well as a recent transaction involving another exploration and production company for which Jefferies had provided financial advisory services.

In January and early February 2006, Messrs. Welch and Beer discussed several recent transactions involving other exploration and production companies, including transactions involving Forest Oil Corporation and Mariner Energy, Inc. (announced on September 10, 2005); Spinnaker Exploration Company and Norsk Hydro ASA (announced on September 19, 2005); and Remington Oil and Gas Corporation and Cal Dive International, Inc. (announced on January 23, 2006). Messrs. Welch and Beer also spoke with several members of the Stone board of directors and agreed that the Stone board of directors should discuss Stone s strategic options at its next meeting.

On February 1, 2006, Messrs. Welch and Beer met with the Managing Partners of Private Equity Firm II (PEF II) who presented several general business proposals but did not present a specific offer. Messrs. Welch and Beer had several follow-up discussions with PEF II, while noting that the filing of the Stone Annual Report on Form 10-K for the year ended December 31, 2005 had to be completed before Stone would commence substantive discussions relating to a potential transaction. The parties therefore agreed to defer further discussions.

On February 8, 2006, Mr. James Flores, Chairman, President and Chief Executive Officer of Plains, called Mr. James Stone, Chairman of Stone Energy, to express interest in a strategic business combination with Stone. Mr. Stone referred Mr. Flores to Mr. Welch. Messrs. Welch and Flores thereafter had a brief telephone discussion and agreed to meet the following week.

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On February 9, 2006, Mr. Welch was contacted by and had a discussion with a representative of Private Equity Firm III (PEF III) in which the representative discussed, at a general level, opportunities that he believed might be available to Stone.

On February 9, 2006, Messrs. Welch and Beer held a conference call with representatives of Jefferies to discuss several potential strategic alternatives and concluded that a meeting would be constructive. During the call, Mr. Welch discussed with the representatives of Jefferies the scheduled meeting with Mr. Flores.

On February 10, 2006, representatives of Jefferies met with Messrs. Welch and Beer to review Stone s assets and business strategy. Representatives of Jefferies thereafter agreed to perform an analysis of Stone s strategic options including: (1) continuing forward with Stone s existing business plan, (2) acquiring additional assets or companies, or (3) entering into a merger or acquisition transaction with another company of similar or larger size, and to present their initial analyses during a meeting of the Stone board of directors the following week.

On February 13, 2006, Messrs. Flores and Welch met to discuss a possible business combination of Stone and Plains. Mr. Flores highlighted Plains properties and its success in the deepwater Gulf of Mexico. Mr. Welch provided an overview of Stone s assets and business activities.

On February 15, 2006, Messrs. Welch and Beer held a conference call with representatives of Jefferies regarding Jefferies initial analysis of Stone s strategic alternatives. During that call, Mr. Welch provided an account of, and the parties discussed, the recent meeting with Mr. Flores.

On February 16, 2006, the Stone board of directors met with Stone s management and representatives of Jefferies. At the meeting, Jefferies presented its analysis of Stone s strategic alternatives to the Stone board of directors, including a merger, an acquisition, the sale of Stone or not pursuing any of these alternatives and maintaining the status quo. Following Jefferies presentation, the Stone board of directors directed Stone s management and Jefferies to further explore Stone s strategic alternatives, including by assessing the potential values of the various strategic alternatives. The Stone board of directors also directed Stone s management to engage Jefferies to further explore the level of interest of Plains, Company B and PEF II in potential transactions, due to the level of interest expressed by all three parties, while it evaluated its different strategic alternatives.

During the next two weeks, Stone s management provided information, data, and projections to Jefferies to assist it in preparing its analysis. On March 1, 2006, representatives of Jefferies met with Stone s management to review Stone s five-year plan and to draft an executive presentation for potential transactional partners.

On March 1, 2006, Mr. Welch held another discussion with representatives of PEF I regarding potential transactional alternatives, including the possibility of a direct investment in Stone by PEF I through a private placement. Again, no specific proposal was offered.

On March 7, 2006, the Stone board of directors met to discuss the upcoming filing of Stone s Quarterly Report on Form 10-Q for the third quarter of 2005 and its Annual Report on Form 10-K for the year ended December 31, 2005. On March 7, 2006, Ernst & Young LLP, Stone s independent registered public accounting firm, issued a report expressing an unqualified opinion on management s assessment and an adverse opinion on the effectiveness of internal control over financial reporting due to the downward reserve revision. The Stone board of directors was also given an update on the review being undertaken by Stone s management and Jefferies regarding Stone s strategic options and opportunities.

Over the next two weeks, Jefferies continued to perform its analysis. Stone s management focused on the completion of Stone s periodic SEC filings during this period. Messrs. Welch and Beer, however, also continued to provide information to and otherwise assist Jefferies in performing its analysis.

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On March 13, 2006, Stone filed its Quarterly Report on Form 10-Q for the third quarter of 2005 and its Annual Report on Form 10-K for the year ended December 31, 2005.

On March 15, 2006, Mr. Beer held a conference call with representatives of PEF II respecting the possibility of PEF II entering into more detailed discussions with Stone concerning a potential transaction.

Following the completion of Stone s SEC filings, Stone s management concluded that in light of the expressions of interest that had been received from various parties it would be appropriate for Stone, with Jefferies assistance, to solicit indications of interest from certain additional parties that might be appropriate transactional partners.

On March 16, 2006, Stone s management met with representatives of Jefferies to review the final draft of an executive presentation for potential buyers. Jefferies and management agreed on a targeted list of seven potential counterparties to contact and reviewed an analysis of these entities.

On March 16, 2006, Messrs. Welch and Beer and representatives of Jefferies met with the Chief Executive Officer and Chief Financial Officer of Company B to discuss possible transactional structures that might be beneficial to both parties. Mr. Welch provided a general presentation regarding Stone and answered general questions from the representatives of Company B. Following this meeting, both companies executed a confidentiality agreement to allow the parties to share confidential information and pursue further discussions.

On March 21, 2006, Messrs. Welch and Beer held a conference call with representatives of Jefferies to discuss the structure of a potential transaction with Company B. Stone was encouraged by the interest shown by Company B, which had engaged a financial advisor and commenced discussions with its own board of directors in anticipation of further exploring a potential transaction.

On March 22, 2006, Mr. Welch was contacted by PEF I, and on March 30, 2006, Messrs. Welch and Beer were contacted by PEF II, to arrange meetings with Stone.

On March 31, 2006, Stone s management, representatives of Jefferies and representatives of Vinson & Elkins L.L.P., Stone s outside counsel, met with the Stone board of directors. The board received an update on the levels of interest expressed by the companies that Jefferies had contacted and an updated analysis of the other strategic options for Stone (including continuing forward with the existing business plan and entering into one or more asset or business acquisition transactions). Following a discussion of the Jefferies presentation, the board instructed Jefferies to seek, on a confidential basis, proposals from seven parties that Jefferies had identified as expressing initial interest in the possibility of entering into a transaction with Stone. The list included four operating companies (Company A, Company B, Company C and Plains) and three private equity firms (PEF I, PEF II and PEF III).

Representatives of Jefferies thereafter contacted each of the seven parties to gauge their interest in entering into a transaction with Stone. Five of the seven entities (two operating companies and three private equity firms) that were contacted expressed an interest in receiving more information regarding Stone. Two of the companies Company A and Company C declined to proceed with the process. Confidentiality agreements were executed with the five interested parties, and these parties were thereafter provided with certain non-public information. The non-public information included Stone s five year projections, Stone s reserve report and a summary of unrisked hydrocarbon potential in each of its areas of operations in addition to estimated proved reserves.

On April 6-7, 2006, Stone s management gave a several hour presentation to each of four of the interested parties (the fifth party, Company B, had attended an earlier presentation). The participants were given a deadline of April 12, 2006 to submit non-binding informal indications of interest.

On April 10, 2006, the Plains board of directors met and discussed a possible business combination with Stone.

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On April 11, 2006, Messrs. Beer and Flores held a meeting in which they had additional discussions respecting a possible business combination of Stone and Plains.

On April 12, 2006, three of the five entities submitted non-binding indications of interest. One of these entities was Plains, whose indication had a stated value of $47.00-$49.00 per share of Stone common stock, in the form of 50-75% Plains common stock with the remainder in cash. PEF III submitted an all cash indication with financing contingencies. PEF I s indication proposed a cash infusion followed by a reorganization that would divide Stone into three public entities. PEF II declined to submit a proposal. Company B also declined to submit a proposal.

On April 13, 2006, the Stone board of directors met with Stone s management and representatives of Jefferies and Vinson & Elkins to review the indications of interest that Stone had recently received. After a thorough review and analysis of the indications of interest by Jefferies, the board requested that Jefferies gather additional information on each of the proposals. The board further concluded that based on available information Plains and PEF III appeared likely to offer better value to Stone s stockholders than the other proposals or status quo. Accordingly, the board directed Jefferies to focus on exploring potential transactions with these companies.

Following the board meeting, representatives of Jefferies contacted Plains management and financial advisor. Jefferies indicated that, while the Stone board of directors found the possibility of a merger transaction with Plains to be attractive, the value described in Plains indication of interest was not acceptable. Representatives of Jefferies also contacted PEF III and indicated Stone was concerned about the timing and certainty of execution of the PEF III proposal, given the financing contingencies set forth in the proposal.

On April 17, 2006, the management teams of Stone and Plains met in Plains Houston office to review certain non-public information regarding Plains operations, including its deepwater discoveries and drilling inventory. In discussions with Plains management and Lehman, which is Plains financial advisor, Jefferies learned that Plains was considering a restructuring of its crude oil collars and that Plains would consider an all-stock transaction.

Later that afternoon, Messrs. Welch and Beer and representatives of Jefferies met with PEF III to discuss further the financing plans and analysis prepared by PEF III in regard to its indication of interest.

Representatives of Jefferies also contacted PEF I to request additional information regarding its financing plan and approach.

On April 18, 2006, the Stone board of directors met, together with Messrs. Welch and Beer and Mr. Andrew L. Gates, III, General Counsel of Stone, as well as representatives of Jefferies and Vinson & Elkins. Representatives of Vinson & Elkins reviewed certain fiduciary duty and process issues relating to the board s consideration of the proposals. Representatives of Jefferies provided the Board with additional information on the proposals. The Jefferies analysis demonstrated that the potential transaction with Plains could serve many of Stone s important strategic goals, including increasing and diversifying the asset base to include reserves with longer production lives and increasing the scale and technical expertise of Stone, thereby enhancing its ability to compete on larger scale projects in the deepwater Gulf of Mexico and elsewhere. The Board therefore directed management and Jefferies to commence further negotiations, as well as the due diligence process, with Plains. The Board also asked that Jefferies further define the financing and execution risks presented by the proposals from PEF I and PEF III. Management proceeded over the next several days to conduct due diligence of Plains. In addition, Jefferies continued negotiations with Plains and its financial advisors.

On April 19, 2006, Mr. Flores contacted Mr. Welch to express his strong interest in entering into a Plains-Stone combination. On April 21, 2006, PEF III contacted Mr. Welch and sought to provide assurance that financing could be obtained to support PEF III s indication of interest.

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On April 21, 2006, Mr. Richard A. Bachmann, Chairman and Chief Executive Officer of EPL, contacted Mr. Welch to express EPL s interest in a proposed combination. Mr. Welch indicated he would have a representative from Jefferies contact Mr. Bachmann. The Jefferies representative informed Mr. Bachmann that Stone s process was in its advanced stages. Mr. Bachmann indicated that EPL had not yet hired a financial advisor, but that he was confident that EPL could move quickly and submit a competitive offer. Mr. Bachmann was not specific about the terms of a proposal; however, he said he anticipated that EPL s proposal would involve a combination of cash and stock.

On April 21, 2006, the Stone board of directors met, together with Messrs Welch, Beer and Gates and representatives of Jefferies and Vinson & Elkins. The results of additional due diligence on Plains, PEF I, and PEF III were reviewed. The range of possible value to Stone stockholders expected from the Plains offer was discussed in detail. Further details of the other proposals were also reviewed. Representatives of Jefferies provided details on PEF III s debt requirement assumptions, as well as the timing and execution issues its proposal presented. The board discussed the PEF I proposal to divide Stone into three public entities and the uncertainties associated with that proposal. Jefferies also described EPL s inquiry and discussed with the Stone board of directors the current value of EPL s common stock and its portfolio of assets. After discussing the potential risks and benefits presented by all of the proposals and weighing the merits of each, the board directed Jefferies to request that Plains consider improving the terms of its offer. Following the meeting, representatives of Jefferies contacted Lehman to discuss the terms of the Plains offer. Lehman indicated that Plains was prepared to proceed with all stock transaction at an exchange ratio of 1.2 shares of common stock of Plains for each share of common stock of Stone and a termination fee of $75 million. Lehman also indicated that Plains intended to eliminate all of its 2007 and 2008 crude oil price collars. Jefferies stated that these terms were unlikely to be acceptable to Stone. Jefferies stated that based on discussions with the Stone board of directors, a ratio of over 1.2 shares of common stock of Plains for each share of common stock of Stone would be needed. Jefferies also indicated that a termination fee of $75 million was above accepted precedent. Lehman stated that it was uncertain whether Plains could improve its proposed terms.

On April 22, 2006, Jefferies and Lehman spoke further and Plains made a final, all stock, offer of 1.25 shares of common stock of Plains for each share of common stock of Stone. Plains proposed that the parties enter into a merger agreement that would include a transaction termination fee of $43.5 million. Jefferies contacted Plains Chief Executive Officer to explore whether the offer was Plains final offer. Mr. Flores stated that there was no flexibility in Plains proposal. Based upon the previous market day s closing price, the offer had an approximate value of $52.46 per share. Plains also informed Jefferies that, on April 24, 2006, it intended to announce the elimination of all of its 2007 and 2008 crude oil price collars. Plains indicated that its offer would terminate on April 23, 2006.

On April 23, 2006, the Plains board of directors met again and approved the final merger terms.

On April 23, 2006, the Stone board of directors met, together with Messrs Welch, Beer and Gates and representatives of Jefferies and Vinson & Elkins to consider Plains final offer, and to review Plains proposal in light of the other proposals that Stone had received, as well as Stone s other strategic options. The board discussed the strategic benefits, as well as the potential risks, of the contemplated business combination as well as the pro forma outlook for the combined company. The board also reviewed the proposed merger agreement, and was advised by counsel on its fiduciary obligations to Stone and its stockholders. Jefferies delivered an oral opinion that was later confirmed in writing to the Stone board of directors to the effect that, as of that date and subject to the assumptions, limitations, qualifications and other matters described in its opinion, the exchange ratio contemplated by the merger was fair, from a financial point of view, to the holders of Stone common stock (other than Plains and its affiliates). After further discussion, the Stone board of directors thereafter voted to approve the merger and declared the merger agreement advisable and in the best interests of Stone and its stockholders. Stone and Plains executed the merger agreement later that day.

The merger agreement with Plains contemplated that Stone stockholders would receive 1.25 shares of common stock of Plains for each share of common stock of Stone in a tax-free transaction. Based on the closing

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price of Stone common stock on April 21, 2006, Plains offer represented a value of $52.46 per Stone share. The merger agreement provided that Stone could not solicit other offers for the acquisition of Stone, except that Stone could furnish information and enter negotiations with a party that made a bona fide unsolicited offer to acquire Stone if, among other things: (i) Stone s board of directors determined, after consulting with its legal advisors, those actions were necessary to comply with its fiduciary duties imposed by applicable law, (ii) Stone s board of directors determined, after consultation with their financial advisors and outside legal counsel, that the third party offer was reasonably capable of being completed and could reasonably be expected to result in a transaction that was more favorable from a financial point of view to Stone s stockholders than the Plains transaction, and (iii) the third party offer was not subject to any financing contingency. The Plains merger agreement also included the right for the Stone board of directors to terminate the merger agreement upon five business days notice to Plains in order to accept a Target Superior Proposal (as defined in the Plains merger agreement), upon payment to Plains of a transaction termination fee of $43.5 million.

On April 24, 2006, the Plains transaction was announced before the market opened.

On May 3, 2006, Jefferies received a request from PEF I for a waiver of certain standstill provisions included in its agreement of confidentiality with Stone. The Stone board of directors thereafter convened to consider PEF I s request and chose to agree to grant the waiver. In addition, the board instructed Jefferies and Mr. Welch to inform Plains of the receipt of the request, which was done later that day. On May 4, 2006, Jefferies transmitted to PEF I a written waiver that expired on May 8, 2006 at 5 p.m., Central time.

On May 8, 2006, Mr. Welch received a non-binding indication of interest from PEF I. A meeting of the Stone board of directors was convened on May 9, 2006 to consider the PEF I indication of interest. Representatives of Jefferies reviewed the PEF I indication with the Stone board. Representatives of Vinson & Elkins reviewed the PEF I indication of interest and the terms of the merger agreement with Plains. The Stone board concluded that the indication which contemplated an all cash transaction of Stone common stock following an extended due diligence and negotiation period contained terms that were not superior to the merger transaction with Plains. The Stone board also concluded that the indication presented less certainty of consummation than, and was not reasonably expected to result in a transaction superior to, the merger transaction with Plains. Accordingly, the Stone board directed Stone s management not to pursue further discussions with PEF I. Stone thereafter sent a letter to PEF I indicating its decision not to pursue further discussions.

On May 4, 2006, Mr. Bachmann informed the EPL board of directors at a regularly scheduled meeting that the determination of the Stone board of directors to merge with Plains provided an opportunity that management desired to pursue. Mr. Bachmann noted that following the announcement of the Plains merger agreement, the value of Plains offer had declined to $46.18 per Stone share as of May 3, 2006. The EPL board authorized EPL to pursue the opportunity presented and authorized the retention of Evercore Partners L.L.C. as a financial advisor.

Following this authorization, members of management of EPL, along with EPL s financial and legal advisors, analyzed and thereafter formulated the terms of a potential proposal to acquire Stone and, in connection with this proposal, had discussions with potential financing sources regarding the financing for a transaction. EPL selected Bank of America, N.A. and its affiliates to provide the financing for the transaction and to act as a financial advisor.

On May 24, 2006, at a meeting of the EPL board of directors, members of EPL management, along with representatives of EPL s financial advisors and Cahill Gordon & Reindel LLP, EPL s outside counsel, provided the EPL board of directors with further information regarding a proposed transaction to acquire Stone. The topics discussed with the EPL board of directors included (i) the board s fiduciary duties, (ii) the terms of the proposal that EPL was considering making to Stone, (iii) the terms of the financing that EPL would require if it were to acquire Stone and the impact on EPL of that financing, including the impact on its credit rating, (iv) the terms on which Stone would be acquired, including the expectation that, if EPL was successful in its efforts to acquire Stone, it would be required to enter into a merger agreement that was substantially similar to the Plains merger

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agreement, (v) the limitations contained in the Plains merger agreement on Stone s ability to enter into discussions regarding a takeover transaction with any person other than Plains, and the terms on which Stone could terminate the Plains merger agreement, including the provisions that any offer by EPL must be subject to no financing contingency and that Plains receive a termination fee of $43.5 million if the Plains merger agreement was terminated in circumstances involving a competing transaction to acquire Stone, and (vi) the preliminary views of EPL s financial advisors as to the financial impact on EPL of the proposed transaction and the proposed price to be paid for Stone. At that meeting, representatives of Bank of America expressed the willingness of their institution to commit to provide the necessary financing for the proposed transaction. The EPL board of directors, with Mr. Hiltz, a Senior Managing Director of Evercore Partners, abstaining, authorized EPL s management to make an offer to acquire Stone on the terms described at the meeting, Bank of America delivered a commitment letter to provide the necessary financing for the proposed transaction.

On May 25, 2006, EPL delivered an offer to Stone proposing to acquire Stone for $52.00 per Stone share, comprised of a combination of $26.00 in cash and a variable number of shares of EPL common stock having a value of $26.00 per Stone share based on the average closing price of EPL stock over the 20 trading days preceding the closing of the merger, subject to a specified maximum amount of cash and number of shares to be issued. Each Stone stockholder would be permitted to elect to receive the consideration in cash or EPL common stock, subject to the foregoing limitations, and holders electing EPL common stock would receive their shares in a tax-free transaction. EPL s offer represented a premium of approximately 26% over the value proposed to be paid for Stone shares under the Plains merger agreement, based on the closing price of Plains common stock on May 24, 2006. EPL issued a public statement announcing its offer on the same day. Stone made a public statement that same day acknowledging receipt of the offer and stating that the Stone board of directors would consider the offer. In accordance with the terms of the Plains merger agreement, Stone promptly forwarded copies of the materials it had received from EPL to Plains.

On May 25, 2006, at a meeting of the Stone board of directors, the Stone board made the requisite determination under the Plains merger agreement to provide information to EPL and enter into discussions with it regarding its offer. Stone notified Plains of this determination. On May 26, 2006, Stone issued a public statement to this effect, noting that the Stone board of directors was not making any recommendation at that time with respect to EPL s offer.

On May 26, 2006, Stone and EPL executed mutual confidentiality agreements. Messrs. Bachmann and Welch met that day and Mr. Welch provided a general due diligence overview. Mr. Welch informed Mr. Bachmann of Stone s exercise of a preferential right to acquire properties in the Gulf of Mexico known as Amberjack for approximately $200 million and its recent exploration results in China. Mr. Welch also raised the issue of representation of Stone directors on EPL s board, and of Stone s desire to adopt a retention program for its employees. Messrs. Bachmann and Welch agreed to schedule due diligence meetings at Stone s and then EPL s headquarters commencing May 30, 2006.

Between May 30, 2006 and June 14, 2006, EPL and Stone each conducted a due diligence investigation of the other. During this time, EPL s legal advisors sent a draft of a proposed merger agreement to Stone s legal advisors, which contained terms substantially similar to the terms of the Plains merger agreement except for the pricing and other terms addressed in EPL s offer. The respective legal advisors negotiated the terms of the proposed merger agreement during this period. In accordance with the terms of the Plains merger agreement, Stone provided information about the status and details of the EPL offer to Plains during this period, including a copy of EPL s proposed form of merger agreement, as well as copies of information that were provided by Stone to EPL and its representatives during this period that had not previously been provided to Plains or its representatives. The respective legal advisors negotiated the terms of the proposed merger agreement during this period.

On May 31, 2006, Mr. Welch met with Mr. Bachmann to discuss a number of issues relating to EPL s offer, including requests: (i) that EPL pay to Plains the required termination fee of $43.5 million with respect to the

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Plains merger agreement if in fact the parties entered into a merger agreement, (ii) for proportional representation on EPL s board of directors, (iii) for an agreement by EPL to not seek other offers, and to pay Stone a termination fee if a merger agreement were terminated in specified circumstances, in each case in a manner similar to the obligations of Stone contained in the Plains merger agreement, and (iv) regarding various employee retention and severance issues. Mr. Bachmann agreed to discuss these requests with his advisors.

On June 1, 2006, Messrs. Welch and Beer, and Stone s financial and legal advisors met with Mr. Bachmann, Mr. John H. Peper, EPL s Executive Vice President and General Counsel, and EPL s financial advisors to discuss these issues further. EPL s legal advisors participated by telephone. EPL agreed to advance the Plains merger agreement termination fee on behalf of Stone, subject to reimbursement of the fee in specified circumstances to be agreed upon. The parties agreed that EPL would not be entitled to reimbursement if Stone materially breached its obligations under a merger agreement with EPL as a result of the occurrence of a material adverse change.

On June 5, 2006, Stone s board of directors met to review the due diligence effort and to receive an updated presentation from Jefferies.

On June 7, 2006, Messrs. Welch and Beer and Stone s financial and legal advisors met with Messrs. Bachmann and Peper, a representative of Evercore Partners and EPL s legal advisors to discuss the open issues further. The parties discussed further the circumstances in which EPL would be entitled to reimbursement of all or part of the Plains termination fee it would advance on behalf of Stone. The parties agreed, subject to resolution of other issues, that (i) EPL would recommend to its board that three Stone directors, Messrs. James Stone and Richard Pattarozzi, and Ms. Kay Priestly, be elected to the board upon consummation of the merger, and that EPL would provide suitable office space for Mr. Stone in EPL s headquarters building in lieu of Mr. Stone s current arrangements, (ii) Stone would be subject to restrictions on its ability to solicit alternative transaction proposals substantially similar to those contained in the Plains merger agreement, and the breakup fee payable to EPL would be 3.5% of Stone s market capitalization at the time of execution of a merger agreement with EPL, (iii) EPL would pay Stone a merger termination fee in limited circumstances based on its proportionate equity market capitalization at the time of execution of a merger agreement with Stone, but would not have any restriction on its ability to explore other possible acquisitions or combinations, and (iv) the parties would mutually agree to a retention plan more favorable than that contemplated by the Plains transaction. In response to an EPL request, Mr. Welch subsequently confirmed that the Stone board confirmed the importance of the tax-free nature of the stock component of EPL s offer.

On June 9, 2006, Stone s management, EPL management, and their respective advisors held a conference call to review the due diligence results. Later that day, Stone s board of directors met to discuss the findings and to further review the EPL proposal. The board instructed Jefferies to contact Plains to try to ascertain its interest in modifying its original proposal. On June 12, 2006, Stone s board of directors met again with its financial and legal advisors and had further discussions on the EPL proposal. Jefferies reported that Plains indicated it had no desire to modify its proposal at this time.

On June 13, 2006, Mr. Bachmann informed Mr. Welch that EPL had scheduled a board meeting for June 14, 2006 and that the board would consider approving a merger agreement based on EPL s original offer of $52.00 per share. Following that conversation, EPL determined that the Stone share data used in calculating the per share cash and stock amounts to be offered did not include 361,000 restricted shares that would vest upon consummation of the merger. Following a number of conversations between EPL s and Stone s financial advisors, as well as the legal advisors for EPL, Stone and Jefferies, EPL s financial advisors informed Stone s financial advisors that, as a result of the share count difference as well as the increased debt to be incurred by Stone as a result of the Amberjack acquisition, EPL could not provide assurance that its offer would remain at $52.00 per share.

On June 14, 2006, at a meeting of the EPL board of directors, members of EPL management and its financial and legal advisors reviewed with the EPL board of directors the results of EPL s due diligence review

of Stone, including the impact on Stone of its previously announced reserve writedown and related SEC inquiry and litigation, and Stone s proposed Amberjack acquisition and the financing for it. In addition, members of management of EPL reviewed with the EPL board of directors the financial overview of the proposed transaction and the effect it would have on EPL from financial and business viewpoints. Following discussion of these matters, management of EPL presented the EPL board of directors with the proposed terms of a definitive offer to acquire Stone for consideration equal to, at the election of the Stone stockholder: (i) $51.00 in cash, or (ii) EPL shares equivalent to the ratio determined by dividing $51.00 by the market price of EPL shares (based on a 20-day trading average prior to the third trading day preceding the closing), provided that the exchange ratio would not be greater than 2.525 or less than 2.066 EPL shares per Stone share. The election of cash or stock would be subject to a limit on total cash consideration of approximately $723 million (which includes approximately $15.5 million attributable to stock options) and a limit on the total number of EPL shares issued of approximately 35 million. Assuming that Stone stockholders receive a combination of half-cash and half-stock, the value of the total consideration was $47.81 per share, based upon EPL s closing stock price on June 13, 2006. Each of Evercore Partners and Banc of America Securities reviewed with the EPL board its financial analysis of the consideration proposed to be paid by EPL in the merger, and each delivered its oral opinion, subsequently confirmed in writing, to the effect that, as of June 14, 2006, and based upon and subject to the assumptions, limitations and qualifications set forth in its written opinion, the consideration to be paid by EPL in the merger was fair from a financial point of view to EPL. EPL s legal advisors reviewed the principal terms of the proposed merger agreement, including (i) the conditions to closing the proposed transaction, including the absence of a financing condition, (ii) the fact that EPL would be obligated to advance to Stone the $43.5 million termination fee that would be payable to Plains if Stone did enter into the proposed merger agreement with EPL and that the fee would be reimbursed in whole or in part in limited circumstances, (iii) the fact that EPL would be required to pay a termination fee of $26.5 million to Stone in certain circumstances, and (iv) that, upon consummation of the merger, the EPL board of directors would be increased by three, and Messrs. James Stone and Richard Pattarozzi and Ms. Kay Priestly would join the board. EPL s legal advisors also described that, in order to terminate the Stone merger agreement, the Stone board of directors would be required to make a determination that EPL s definitive offer was a Target Superior Proposal, as defined in the Plains merger agreement, and provide five business days written notice to Plains, during which time Plains would have the ability to amend its offer. The EPL board of directors was also advised that the directors of Stone, holding approximately 7.3% of Stone s common stock, were expected, in the event that Stone and EPL entered into the EPL merger agreement to agree to vote their Stone shares in favor of the proposed transaction. Following extended discussion, the EPL board of directors, with Mr. Hiltz abstaining, authorized the delivery of the definitive offer to Stone.

In connection with its definitive offer to acquire Stone, EPL received a revised commitment letter from Bank of America that included refinancing the indebtedness to be incurred by Stone in the proposed Amberjack acquisition and in which it committed to provide, in the aggregate, financing of up to $2.03 billion.

Shortly thereafter, Evercore contacted Stone s financial advisor and described the terms of EPL s definitive offer. Evercore indicated that the offer was conditioned upon the Stone board s determining the offer to be a Target Superior Proposal (as defined in the Plains merger agreement) prior to 8 p.m., New York City time, on June 15, 2006 and the subsequent delivery of the fully-executed merger agreement to EPL no later than 5 p.m., New York City time, on June 23, 2006.

On June 15, 2006, Stone s financial advisor contacted EPL s financial advisors and indicated that EPL would need to increase its price in order to assure acceptance by Stone s board of directors. After consultation with EPL s management, EPL s financial advisors indicated that EPL was not prepared to increase its offer. Stone s financial advisor also requested through EPL s financial advisors additional time for the Stone board to determine whether the EPL offer was a Target Superior Proposal.

On June 15, 2006, Stone s board of directors convened to discuss the draft merger agreement Stone had received from EPL. There were presentations from both financial and legal advisors. During the discussion, Jefferies indicated that, if requested, it would be prepared to render its opinion that the EPL offer was fair, from a financial point of view, to the holders of Stone common stock other than EPL and its affiliates. In addition, Jefferies orally expressed its view that the EPL offer was more favorable than the Plains transaction, from a

financial point of view, to the holders of Stone common stock other than EPL and its affiliates. Jefferies based this view regarding relative favorability on the same factors described below in connection with the June 17, 2006 meeting of the Stone board of directors, as well as the relative closing prices of Stone, EPL and Plains common stock on June 14, 2006. The board decided it needed more time to review and consider the EPL proposal and another meeting was scheduled for June 17, 2006.

On June 15, 2006, EPL signed the merger agreement containing the terms described above and delivered the signed agreement to Stone. Stone s financial advisor made a request through EPL s financial advisors that EPL extend the deadline by which the Stone board was required to determine whether the EPL offer was a Target Superior Proposal. On June 15, 2006, EPL extended the expiration date of its offer until 9 p.m., New York City time, on June 18, 2006.

On June 16, 2006, EPL issued a public statement announcing the delivery of the executed merger agreement. Stone issued a public statement on June 16, 2006 confirming receipt of the merger agreement from EPL. Stone s public statement also disclosed the June 18, 2006 deadline by which the Stone board was required to determine whether the EPL offer was a Target Superior Proposal.

On June 17, 2006, Stone s board of directors reconvened. Stone s management and Stone s financial and legal advisors again made presentations to Stone s board of directors. Representatives of Stone s outside legal counsel reviewed certain fiduciary duty and process issues relating to the board s consideration of the EPL merger proposal and the possible termination of the Plains merger agreement. Representatives of Vinson & Elkins also reviewed the terms of the EPL merger agreement. Jefferies orally delivered its opinion, subsequently confirmed in writing, that the EPL offer was fair, from a financial point of view, to the holders of Stone common stock other than EPL and its affiliates. In addition, Jefferies orally expressed the view that the EPL offer was more favorable than the Plains transaction, from a financial point of view, to the holders of Stone common stock other than EPL and its affiliates. Jefferies based this view regarding relative favorability on the factors that it considered in rendering its fairness opinion, as well as the amount and form of consideration contemplated by each of the Plains transaction and the EPL offer and the relative closing prices of Stone, EPL and Plains common stock on June 16, 2006. Based on the closing price of EPL common stock on June 16, 2006, the EPL consideration was a blended average of $49.17 per share of Stone common stock. After discussion and deliberation, Stone s board of directors determined that the EPL merger proposal was a Target Superior Proposal and directed management and its financial and legal advisors to give the appropriate notice to Plains. The Stone board also agreed to meet again after the five business days provided for Plains to submit an offer that was at least as favorable from a financial point of view to the Stone stockholders as the EPL proposal or sooner if Plains indicated it would not attempt to negotiate such an offer.

On June 18, 2006, pursuant to the terms of the Plains merger agreement, Stone gave notice to Plains of the definitive terms of the proposed EPL merger agreement, that the Stone board of directors determined the offer from EPL to be a Target Superior Proposal, and that the Stone board of directors was prepared to terminate the Plains merger agreement and enter into the proposed EPL merger. The notice provided that Stone intended to terminate the Plains merger agreement and enter into the EPL merger agreement absent agreement within five business days on a revised Plains merger agreement that, in the opinion of the Stone board, would result in a transaction at least as favorable to Stone s stockholders as the EPL merger agreement. In the event of such a termination by Stone, Plains would be entitled to a $43.5 million termination fee from Stone, which EPL had agreed to furnish to Plains, subject to possible reimbursement by Stone, in whole or in part, under certain circumstances.

Between June 16, 2006 and June 22, 2006, EPL and Stone finalized the terms of the employee retention program and updated information contained in the merger agreement and Stone s disclosure letter.

On June 21, 2006, a representative of Plains informed Stone that Plains would not increase its offer.

On June 22, 2006, Stone s board of directors met to confirm that the EPL merger proposal was a Target Superior Proposal and to approve the termination of the Plains merger agreement and the execution and delivery of the EPL merger agreement. At the meeting, Jefferies orally confirmed its prior opinion that the EPL offer was fair, from a financial point of view, to the holders of Stone common stock other than EPL and its affiliates. Jefferies also confirmed its previously expressed view that the EPL offer was more favorable than the Plains

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transaction, from a financial point of view, to the holders of Stone common stock other than EPL and its affiliates. Jefferies based its oral confirmation of its fairness opinion and its view regarding relative favorability on factors comparable to those described above for the June 17th meeting of the Stone board of directors. After discussion and deliberation, Stone s board of directors confirmed its determination that the EPL merger proposal was a Target Superior Proposal, confirmed its determination to terminate the Plains merger agreement in order to accept the EPL merger proposal, approved the EPL merger agreement and the transactions contemplated thereby, declared the EPL merger agreement to be advisable, determined that the EPL merger agreement and the transactions contemplated by it fair to and in the best interests of Stone and its stockholders, and authorized and directed Stone s officers to terminate the Plains merger agreement and to execute and deliver the EPL merger agreement.

On June 22, 2006, EPL paid the $43.5 million termination fee to Plains on behalf of Stone, Stone terminated the Plains merger agreement, and Stone and EPL executed the merger agreement described herein.

On June 23, 2006, EPL and Stone issued a joint press release announcing the execution of the definitive merger agreement.

Reasons for the Merger Stone

The Stone board of directors has determined that the merger is fair to and in the best interests of Stone and its stockholders, and that the merger agreement is advisable. The board of directors unanimously approved the merger and the merger agreement and recommends the approval and the adoption of the merger and the merger agreement by the Stone stockholders.

In reaching its decision to approve the merger, the Stone board of directors considered a number of factors, including the following:

- in its opinion letter, dated June 17, 2006, to the Stone board of directors, Jefferies & Company, Inc. opined that, as of that date and subject to the assumptions, limitations, qualifications and other matters described in the opinion, the consideration contemplated by the merger was fair, from a financial point of view, to the holders of Stone common stock (other than EPL and its affiliates);

- the merger consideration represented a premium of approximately 18% to the closing trading price of Stone s common stock on May 24, 2006, the day prior to EPL s unsolicited offer to acquire Stone and a premium of approximately 4% to the closing trading price of Stone s common stock on June 22, 2006, the day of the execution of the merger agreement;

- the merger will permit the combined company to more effectively compete with other exploration and production companies, many of which have recently grown through mergers or acquisitions;

- the combined company will have increased technical expertise, seismic data, and undeveloped acreage;

- the combined company will have the size and scope to materially participate in the deepwater Gulf of Mexico and other potential areas for growth where Stone believes that significant additional reserves are yet to be discovered;

- the merger is structured as a tax free transaction for stockholders to the extent they receive the merger consideration in EPL stock;

- the terms of the merger agreement permit Stone to terminate the merger agreement at any time before the meeting to accept a superior proposal, subject to its obligation to comply with procedural requirements of the merger agreement and to pay a termination fee; and

EPL has advanced to Plains on behalf of Stone the $43.5 million termination fee that Stone was required to pay to Plains upon termination of Stone s merger agreement with Plains.

The Stone board of directors also identified and considered risks and potential disadvantages associated with the merger and/or the merger agreement, including the following:

the risk that EPL will be highly leveraged and its high level of debt may limit its financial and operating flexibility;

the risk that there may be difficulties in combining the business of EPL and Stone;

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- the risk that the potential benefits sought in the merger might not be fully realized;

- the risk that current high commodity prices could fall, thereby reducing the profitability of the combined company;

- the risk that the merger might not be completed;

- the fact that, under the merger agreement, Stone could be required to pay EPL a termination fee and/or reimburse EPL for certain expenses in certain circumstances; and

- certain of the other matters described under Risk Factors beginning on page 17.

In the judgment of the Stone board of directors, the potential benefits of the merger outweigh the risks and the potential disadvantages. In view of the variety of factors considered in connection with its evaluation of the proposed merger and the terms of the merger agreement, the Stone board of directors did not quantify or assign relative weights to the factors considered in reaching its conclusion. Rather, the Stone board of directors views its recommendation as being based on the totality of the information presented to and considered by it. In addition, individual Stone directors may have given different weights to different factors.

Reasons for the Merger EPL

At its June 14, 2006 meeting the members of the EPL board approved and adopted the merger agreement and the transactions contemplated by it, and recommended that the EPL stockholders approve the issuance of EPL common stock to Stone stockholders as a result of the merger. The EPL board believes that the merger agreement and the terms of the merger are fair to, and in the best interests of, EPL and the EPL stockholders. Therefore, the EPL board recommends that EPL s stockholders vote to approve the share issuance.

In reaching its recommendation, the EPL board of directors consulted with EPL s management, as well as its financial and legal advisors, and considered the following material factors:

- The combination of EPL and Stone will create a premier offshore exploration and production company with a highly attractive portfolio of assets in the Gulf of Mexico. Of the approximately 108 MMBoe of proved reserves owned by Stone as of year end 2005 (inclusive of the additional interest recently acquired in Mississippi Canyon Blocks 109 and 108) that will be added to EPL s asset portfolio, approximately 72% are located in the Gulf of Mexico. The combined company will have a balanced natural gas/oil production ratio (65% natural gas / 35% oil) with a broad portfolio of low, medium and high potential projects across EPL s eastern, central and western Gulf of Mexico operational areas. The merger will also combine Stone s 3-D seismic portfolio and acreage position in the Gulf of Mexico with that of EPL, providing the combined company with a significant informational advantage in the selection of future drilling and development opportunities, including those in the significantly larger acreage position of the combined company. The combined company s increased scope, scale and 3-D seismic portfolio will significantly improve EPL s competitive position in the Gulf of Mexico and accelerate growth and diversification.

- The addition of Stone s assets and operations will enhance EPL s ability to compete and will provide EPL with a low-cost entry into the Rocky Mountain region. The merger will expand EPL s presence in the Gulf of Mexico and diversify its reserve and geographic mix into the Rocky Mountain region, including the Williston Basin. After the merger, EPL will be better positioned to compete on the Gulf of Mexico Shelf and in the Gulf of Mexico deepwater, the onshore Gulf Coast, the Rocky Mountains and the Williston Basin. EPL expects that the merger will allow the combined company to take advantage of synergies resulting in significant cost savings. EPL expects to reduce costs in the combined operations by approximately $55 million per year by eliminating duplicative administrative, transportation and other operational expenses.

Stone s experienced operating, technical, financial and administrative staff will augment EPL s already strong employee base. Given the difficulty in finding new employees with experience in the oil and natural gas industry in the current labor market, the merger and the integration of Stone s highly competent team provides a unique opportunity for EPL to expand into new basins without the startup labor costs that would typically accompany geographic expansion and to exploit a substantially larger asset base.

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EPL believes the combined company can continue to grow its reserves and production through the exploration, development and exploitation of its existing inventory of projects in its combined asset base. The combined company will focus on the exploration, development and exploitation of its onshore, Shelf and deepwater Gulf of Mexico and Rocky Mountain properties.

The merger is expected to increase EPL s cash flow. In addition to funding exploration, development and exploitation opportunities, EPL expects to be able to allocate the increased cash flow to debt reduction and larger-scale opportunities.

The expected acquisition of Stone s proved reserves for a price per Boe that compared favorably to prices paid in recent Gulf of Mexico acquisitions and was less than EPL s average finding and development costs for the three years ending December 31, 2005.

Each of Evercore Group L.L.C. and Banc of America Securities LLC delivered an oral opinion to the EPL board of directors, subsequently confirmed in writing, to the effect that, as of the date of the opinion and based upon and subject to the assumptions, limitations and qualifications set forth in its written opinion, the merger consideration was fair, from a financial point of view, to EPL.

In reaching its decision to recommend the stock issuance to its stockholders, the EPL board also considered a number of additional factors, including:

its discussions with EPL s management concerning the results of EPL s investigation of Stone, including with respect to the SEC s investigation into Stone s restatement of its reserves and financial statements, the impact of litigation arising out of those restatements and other litigation matters, hurricane related matters, and the mechanisms by which EPL s and Stone s debt would be addressed in and after the merger;

the strategic, operational and financial opportunities available to EPL in the normal course of its business compared to those that might be available following the merger; and

the commitment letter received from Bank of America, N.A., Banc of America Bridge LLC and Banc of America Securities LLC, pursuant to which such entities have committed to provide the financing necessary to complete the merger and the related transactions.

The EPL board also considered certain risks and potential disadvantages associated with the merger, including:

EPL is incurring a significant amount of debt to consummate the merger and related refinancing of existing Stone debt. EPL s annual interest expense will increase sharply as a result of the transactions, with the result being increased vulnerability to economic and industry conditions.

EPL s obligation to complete the merger is not contingent on its ability to receive financing under its proposed new credit facility, the bridge loan or the senior notes.

EPL expects to incur approximately $40.0 million in merger-related costs, which will reduce the amount of capital available to fund its operations.

The operations of the two companies may not be successfully integrated.

Expected cost savings may not be realized to the degree anticipated.

EPL has advanced to Plains, on behalf of Stone, the $43.5 million termination fee that Stone was required to pay to Plains upon termination of Stone s merger agreement with Plains. This termination fee is subject to reimbursement by Stone in limited circumstances if the merger does not close.

Having considered these factors and the risks discussed under Risk Factors beginning on page 17, the potential benefits of the merger outweigh these considerations in the judgment of the EPL board. The foregoing discussion of the information and factors that were given weight by the EPL board is not intended to be exhaustive, but it is believed to include all material factors considered by the EPL board.

In view of the wide variety of factors considered in connection with its evaluation of the merger and the complexity of these matters, the EPL board of directors did not find it useful and did not attempt to quantify or assign any relative or specific weights to the various factors that it considered in reaching its determination to

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approve the merger and the merger agreement and to recommend that EPL stockholders vote FOR the issuance of EPL common stock in connection with the merger and FOR the EPL charter amendment proposal. In addition, individual members of the EPL board of directors may have given differing weights to different factors. The EPL board of directors conducted an overall analysis of the factors described above, including thorough discussions with, and questioning of, EPL s management and outside legal and financial advisors.

Stone s Financial Advisor

Jefferies & Company, Inc., through its Randall & Dewey division, has acted as Stone s exclusive financial advisor in connection with the merger. Jefferies has rendered its written opinion, dated June 17, 2006, and orally confirmed such opinion on June 22, 2006, to the board of directors of Stone to the effect that, as of those dates and subject to the assumptions, limitations, qualifications and other matters described in its opinion, the merger consideration was fair, from a financial point of view, to the holders of Stone common stock (other than EPL and its affiliates).

The full text of Jefferies written opinion to Stone s board of directors, which sets forth the procedures followed, the assumptions made, qualifications and limitations on the review undertaken and other matters, is attached to this proxy statement/prospectus as Annex C. The summary of Jefferies opinion in this proxy statement/prospectus is qualified in its entirety by reference to the full text of the opinion, which is incorporated by reference into this proxy statement/prospectus. Holders of Stone common stock are encouraged to read the opinion in its entirety.

The opinion of Jefferies does not constitute a recommendation as to how any stockholder should vote on the merger or any matter relevant to the merger agreement.

General

Jefferies was selected by Stone s board of directors based on Jefferies qualifications, expertise and reputation. Jefferies is an internationally recognized investment banking and advisory firm. Jefferies, as part of its investment banking business, is regularly engaged in the evaluation of capital structures, valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, competitive biddings, secondary distributions of listed and unlisted securities, private placements, financial restructurings and other financial services.

In the ordinary course of business, Jefferies and its affiliates may publish research reports regarding the securities of Stone and EPL and their respective affiliates and may trade or hold such securities of Stone and EPL for their own account and for the accounts of their customers and, accordingly, may at any time hold long or short positions in those securities. In the past, Jefferies and its affiliates have provided investment banking services to Stone unrelated to the merger for which they have received compensation, and Jefferies or its affiliates may, in the future, provide investment banking and financial advisory services to EPL for which they would expect to receive compensation.

Pursuant to an engagement letter between Stone and Jefferies dated April 6, 2006, as amended, Jefferies was retained to act as financial advisor to Stone in connection with a possible strategic transaction. Jefferies assisted Stone in soliciting expressions of interest in Stone from parties potentially interested in a transaction with Stone. In consideration for these financial advisory services, Jefferies will receive a fee based on a percentage of the transaction value, which is contingent upon the completion of a transaction such as the merger. The engagement letter provides that Jefferies would render a written opinion to the board of directors of Stone regarding the fairness, from a financial point of view, of the consideration contemplated by a transaction such as the merger to the holders of Stone common stock (other than the acquiring company and its affiliates). On April 23, 2006, Jefferies rendered its written opinion to the board of directors of Stone that, as of that date and subject to the assumptions, limitations, qualifications and other matters described in its opinion, the exchange ratio

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contemplated by the proposed merger of Stone and Plains was fair, from a financial point of view, to the holders of Stone common stock (other than Plains and its affiliates). Jefferies received a separate fee for rendering its written opinion for the proposed transaction with Plains. This fee was not contingent upon the completion of the proposed merger with Plains or any other transaction.

In accordance with the terms of the engagement letter, Jefferies provided Stone with advisory services during discussions with EPL. On June 17, 2006, Jefferies rendered its written opinion to the board of directors of Stone that, as of that date and subject to the assumptions, limitations, qualifications and other matters described in its opinion, the merger consideration contemplated by the merger was fair, from a financial point of view, to the holders of Stone common stock (other than EPL and its affiliates). Jefferies orally confirmed its opinion to the board of directors of Stone on June 22, 2006. Jefferies received a separate fee for rendering this written opinion, which was not contingent upon the completion of the merger. Upon the completion of the merger, this fee, as well as the fee received in connection with the proposed Plains transaction, will be credited towards the transaction fee payable pursuant to the engagement letter. In addition, Stone has agreed to indemnify Jefferies for certain liabilities arising out of the engagements described above.

The opinion of Jefferies was one of many factors taken into consideration by Stone s board of directors in making its determination to approve the merger and should not be considered determinative of the views of Stone s board of directors or management with respect to the merger or the merger consideration.

Jefferies did not establish the form or amount of the merger consideration. The merger consideration was determined pursuant to negotiations between Stone and EPL and was approved by the board of directors of Stone.

Procedures Followed

In connection with rendering its opinion, Jefferies has, among other things:

- reviewed a counterpart of the merger agreement dated June 15, 2006 that had been executed by EPL and EPL Acquisition Corp. LLC and delivered to Stone, participated in a limited manner in certain negotiations concerning the merger among representatives of Stone and EPL and discussed with the officers of Stone the status of other negotiations with EPL;

- reviewed certain financial and other information about Stone and EPL that was publicly available and that Jefferies deemed relevant;

- reviewed certain internal financial and operating information, including financial projections relating to Stone that were provided to Jefferies by Stone, taking into account (a) the growth prospects of Stone, (b) Stone s historical and current fiscal year financial performance and track record of meeting its forecasts, and (c) Stone s forecasts going forward and its ability to meet them;

- reviewed the corporate budget of EPL;

- met with Stone s and EPL s managements regarding the business prospects, financial outlook and operating plans of Stone and EPL, respectively, and held discussions concerning the impact on Stone and EPL and their prospects of the economy and the conditions in the oil and natural gas industry;

- reviewed the respective market prices and valuation multiples for the common stock of Stone and EPL;

- considered the risks associated with debt financing for the cash consideration;

compared the valuation in the public market of companies Jefferies deemed similar to that of Stone and EPL, respectively, in market, industry sector, and size;

reviewed public information concerning the financial terms of certain recent transactions that Jefferies deemed comparable to the merger;

performed a discounted cash flow analysis to analyze the present value of the projected future cash flow streams of Stone and EPL;

reviewed certain proved oil and gas reserve data furnished to Jefferies by Stone and EPL, including the 2005 year-end reserve reports for Stone and EPL, respectively, prepared by independent reserve engineers as well as internal projected reserve information of Stone and EPL furnished to Jefferies by Stone and EPL, respectively; and

reviewed the commitment letter dated June 14, 2006 from Banc of America Securities LLC, Banc of America Bridge LLC and Bank of America, N.A. and participated in discussions with EPL s management and financial advisors regarding the terms of such financing commitment.

In addition, Jefferies conducted such other studies, analyses and investigations and considered such other financial, economic and market factors and criteria as it considered appropriate in arriving at its opinion. Jefferies analyses must be considered as a whole. Considering any portion of such analyses or factors, without considering all analyses and factors, could create a misleading or incomplete view of the process underlying the conclusions expressed in the opinion delivered by Jefferies.

Assumptions Made and Qualifications and Limitations on Review Undertaken

In rendering its opinion, Jefferies assumed and relied upon the accuracy and completeness of all of the financial information, forecasts and other information provided to or otherwise made available to Jefferies by Stone or EPL or that was publicly available to Jefferies (including EPL s confirmation that the operating and financial assumptions used by Jefferies to compile EPL s 2007 and 2008 projections were reasonable, as described below). Jefferies did not attempt (or assume any responsibility) to independently verify any of such information. The opinion of Jefferies is expressly conditioned upon such information, whether written or oral, being complete, accurate and fair in all respects. With respect to the oil and gas reserve reports, hydrocarbon production forecasts and financial projections provided to and examined by Jefferies or discussed with Jefferies by Stone and EPL, Jefferies noted that projecting future results of any company is inherently subject to uncertainty. Jefferies was advised by each of Stone and EPL (and has assumed) that the oil and gas reserve reports, hydrocarbon production forecasts and financial projections provided to and examined by Jefferies or discussed with Jefferies by Stone and EPL were reasonably prepared on bases reflecting the best currently available estimates and good faith judgments of the management of Stone or EPL as to the expected future financial performance of Stone or EPL, and their respective petroleum engineers, as to their respective oil and gas reserves, related future revenues and associated costs. EPL did not provide Jefferies with projected financial statements for 2007 and 2008. With respect to projections for EPL for 2007 and 2008, Jefferies relied on the accuracy of EPL s 2006 projections prepared by EPL s management and EPL s reserve reports to compile EPL projections for 2007 and 2008 based on comparable operating and financial assumptions derived from the 2006 projections. Jefferies discussed the assumptions with EPL s management, and EPL s management confirmed that the assumptions were reasonable. Jefferies expressed no opinion as to Stone s or EPL s oil and natural gas reserves, related future revenue, financial projections or the assumptions upon which they are based. In addition, in rendering its opinion, Jefferies assumed that Stone and EPL will perform in accordance with such financial projections for all periods specified therein. Jefferies noted that although these projections did not form the principal basis for its opinion, but rather constituted one of many items that it employed, changes to such projections could affect the opinion rendered.

Jefferies opinion also expressly assumed that there were no material changes in Stone s assets, financial condition, results of operations, business or prospects since the most recent financial statements made available to them. In addition, Jefferies opinion noted that it:

did not conduct a physical inspection of the properties and facilities of Stone or EPL, nor was it furnished any reports of physical inspections;

did not make or obtain, nor was it furnished, any independent evaluation or appraisal of the assets or liabilities (contingent or otherwise) of Stone or EPL (other than the reserve reports referred to in the opinion);

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- did not assume any responsibility to obtain any such evaluations, appraisals or inspections for Stone or EPL; and

- did not evaluate the solvency or fair value of Stone or EPL under any state or federal laws relating to bankruptcy, insolvency or similar matters.

Jefferies assumed that the merger will be consummated in a manner that complies in all respects with the applicable provisions of the Securities Act of 1933, and all other applicable federal and state statutes, rules and regulations and that the merger will qualify as a tax-free reorganization for U.S. federal income tax purposes. Jefferies further assumed, with permission of Stone, that:

- the final form of the merger agreement would be substantially similar to the last draft it reviewed, dated June 15, 2006;

- the merger will be consummated in accordance with the terms described in the merger agreement, without any amendments thereto, and without waiver by Stone of any of the conditions to EPL s obligations;

- there was not as of the date of the opinion, and there will not as a result of the consummation of the transactions contemplated by the merger agreement be, any default or event of default under any indenture, credit agreement or other material agreement or instrument to which Stone or EPL or any of their respective subsidiaries or affiliates is a party;

- in the course of obtaining the necessary regulatory or other consents or approvals (contractual or otherwise) for the merger, no restrictions, including divestiture requirements or amendments or modifications, will be imposed that will have a material adverse effect on the contemplated benefits of the merger; and

- all material assets and liabilities (contingent or otherwise, known or unknown) of Stone and EPL are as set forth in its consolidated financial statements provided to Jefferies by Stone and EPL.

Summary of Financial and Other Analyses

The following is a summary of the material financial and other analyses presented by Jefferies to Stone s board of directors in connection with Jefferies written fairness opinion dated June 17, 2006, which Jefferies confirmed orally to Stone s board of directors on June 22, 2006. The financial and other analyses summarized below include information presented in tabular format. In order to fully understand Jefferies analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the analyses. Considering the data in the tables below without considering the full narrative description of the financial and other analyses, including the methodologies underlying and the assumptions, qualifications and limitations affecting each analysis, could create a misleading or incomplete view of Jefferies analyses.

Overview of Stone Valuation Analysis

Jefferies analyzed the relative value of Stone in accordance with the following methodologies, each of which is described in more detail below:

- Discounted Cash Flow Analysis;

- Discounted Equity Value Analysis;

Comparable Company Analysis; and

Precedent Transaction Analysis.

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These methodologies were used to determine an implied price range per share of Stone common stock, which was then compared to the historical price range of Stone common stock. The following table summarizes the results of the analyses and should be read together with the more detailed descriptions set forth below:

Methodology	Implied Price Range (per share)
Discounted Cash Flow Analysis	$36.53 to $55.72
Discounted Equity Value Analysis	$49.47 to $57.66
Comparable Company Analysis	$40.00 to $55.85
Precedent Transactions Analysis	$39.38 to $56.22
52-Week Range of Stone Common Stock	$38.55 to $62.09
3-Year Range of Stone Common Stock	$35.00 to $62.09

Based upon the NYSE closing price of EPL common stock on June 16, 2006 of $18.75 per share, the implied value of the cash and stock consideration as of the date of the June 17, 2006 Stone board meeting was a blended average of $49.17 per share. The NYSE closing price of Stone common stock was $46.75 per share on June 16, 2006.

Discounted Cash Flow Analysis

Jefferies calculated the present value of Stone s projected cash flows using oil and natural gas reserves, including estimates of non-proved reserves provided by Stone s management. For the purposes of the discounted cash flow analysis, Jefferies used a price deck based on the New York Mercantile Exchange, or NYMEX, forward pricing curve on June 13, 2006 for proved developed producing reserves and a flat price of $64.00 per barrel of oil and $8.00 per thousand cubic feet of natural gas for proved undeveloped reserves and proved developed non-producing reserves. Jefferies assumed various discount rates and investment factors in connection with the discounted cash flow analysis. The discounted cash flow analysis resulted in an implied price range of $36.53 to $55.72 per share of Stone common stock.

Discounted Equity Value Analysis

Jefferies calculated the present value of Stone s hypothetical future stock price at December 31, 2008 using certain projections provided by Stone s management and an exit multiple range from 3.0x to 3.5x earnings before interest, taxes, depreciation and amortization (referred to as EBITDA). Jefferies performed the discounted equity analysis using management s projections at the flat pricing of $64.00 per barrel of oil and $8.00 per thousand cubic feet of natural gas. The discounted equity value analysis, based on these pricing assumptions, resulted in an implied price range of $49.47 to $57.66 per share of Stone common stock.

Comparable Company Analysis

Using publicly available financial and operating data for selected public companies in the oil and natural gas exploration and production industry, Jefferies calculated trading multiples of the selected public companies at their current stock price and applied those multiples to the following historical and projected Stone financial data:

- estimated 2007 EBITDA based on mean First Call estimate;
- proved oil and natural gas reserves (in billion cubic feet equivalents, or Bcfe); and
- daily oil and natural gas production (in million cubic feet equivalents per day, or Mmcfe per day, and provided by Stone s management).

For the purposes of calculating cubic feet equivalents in the various analyses that Jefferies performed in connection with its fairness opinion, six thousand cubic feet of natural gas are deemed equivalent to one barrel of

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oil (based on the relative energy content of natural gas and oil). Enterprise values in this analysis were calculated using the closing price of the common stock of Stone and the selected companies as of June 16, 2006.

The selected public companies used by Jefferies in the comparable company analysis were:

Bois d Arc Energy Inc.;

Callon Petroleum Company;

Newfield Exploration Company;

W&T Offshore, Inc.; and

Mariner Energy, Inc.

In determining the implied price range per share for this analysis, each of the EBITDA multiples was weighted 50%, the proved oil and natural gas reserves multiple was weighted 25% and the daily oil and natural gas production multiple was weighted 25%. Based on this analysis, Jefferies calculated Stone s implied valuation per share to be $40.00 to $55.85.

No company utilized for comparison in the comparable company analysis is identical to Stone. In evaluating the merger, Jefferies made numerous judgments and assumptions with regard to industry performance, general business, economic, market, and financial conditions and other matters, many of which are beyond Stone s control. Mathematical analysis, such as determining the weighted average or the median, is not in itself a meaningful method of using comparable company data.

Precedent Transaction Analysis

Using publicly available financial and operating data and other information for selected precedent transactions in the oil and gas exploration and production industry, with a focus on transactions involving companies with significant operations in the Gulf of Mexico, Jefferies calculated multiples of transaction value to:

daily oil and natural gas production (in Mmcfe per day); and

proved oil and natural gas reserves (in Mcfe).

For the purposes of the precedent transaction analysis, Jefferies used the following selected precedent transactions that were announced or closed from 2005 to 2006 and involving companies with significant continental shelf operations in the Gulf of Mexico:

Purchaser	Seller
Coldren Resources, LP	Noble Energy, Inc.
Plains Exploration & Production Company	Stone Energy
Mitsui & Co., Ltd. / Mitsui & Co. (U.S.A.), Inc. / Mitsui Oil Exploration Co., Ltd.	Pogo Producing Company

Apache Corporation	BP
Merit Energy Corporation	The Houston Exploration Company
Nippon Oil Corporation / Norsk Hydro ASA / Merit Energy Company	The Houston Exploration Company
Helix Energy Solutions Group, Inc.	Remington Oil and Gas Corporation
W&T Offshore, Inc.	Kerr-McGee Corporation
Mariner Energy, Inc.	Forest Oil Corporation
Woodside Energy, Ltd.	Gryphon Exploration Company
ERT / Cal Dive Int.	Murphy Exploration and Production Co.
Nippon Oil Corporation	Devon Energy Corporation
Sumitomo Corporation	NCX Company, Inc. / Summit

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For the purpose of the precedent transaction analysis, Jefferies also used the following selected precedent transactions occurring in 2005 and 2006 and involving companies with significant operations (at least 5 million barrels equivalent of proved reserves) in the Rocky Mountain region:

Purchaser	Seller
Citation Oil & Gas Corp.	Meritage Energy Partners, LLC
Western Gas Resources	Undisclosed US
Noble Energy, Inc.	United States Exploration, Inc.
Texas American Resources Company	Bonanza Creek Oil Company, LLC
Hilcorp Energy	Kerr-McGee Corp.
Encore Acquisition Company	Crusader Energy Corp.
El Paso Corporation	Medicine Bow Energy Corporation
Enerplus Resources Fund	Lyco Energy Corporation
Los Angeles Department of Water and Power	Anschutz Corporation

Jefferies applied the transaction value ranges derived from the precedent transactions analysis to corresponding historical and projected financial and operating data for Stone provided by Stone s management and calculated an implied range of $39.38 to $56.22 per share of Stone common stock.

No transaction utilized for comparison in the precedent transaction analysis is identical to the merger. In evaluating the merger, Jefferies made numerous judgments and assumptions with regard to industry performance, general business, economic, market, and financial conditions and other matters, many of which are beyond Stone s control. Mathematical analysis, such as determining the average or the median, is not itself a meaningful method of using comparable transaction data.

Historical Stock Price Performance

Jefferies reviewed the price trading history of Stone common stock for the 12-month period ended June 16, 2006 on a stand-alone basis. Jefferies also compared the growth rate of the historical price of Stone common stock to the growth rate of an index consisting of various exploration and production companies and an index of the above-listed public companies used by Jefferies in the comparable company analysis, each over the previous twelve months.

Overview of EPL Valuation Analysis

Jefferies also analyzed the relative value of EPL in accordance with the following methodologies, each of which is described in more detail below:

- Discounted Cash Flow Analysis;
- Discounted Equity Value Analysis;
- Comparable Company Analysis; and
- Precedent Transaction Analysis.

These methodologies were used to determine an implied price range per share of EPL common stock, which was then compared to the historical price range of EPL common stock. The following table summarizes the results of the analyses and should be read together with the more detailed descriptions set forth below:

Methodology	Implied Price Range (per share)
Discounted Cash Flow Analysis	$23.75 to $31.48
Discounted Equity Value Analysis	$30.90 to $35.87
Comparable Company Analysis	$26.23 to $35.00
Precedent Transaction Analysis	$22.95 to $31.68
52-Week Range of EPL Common Stock	$17.67 to $32.27
3-Year Range of EPL Common Stock	$10.19 to $32.27

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The NYSE closing price of EPL common stock was $18.75 per share on June 16, 2006.

Discounted Cash Flow Analysis

Jefferies calculated the present value of EPL s projected cash flows using risk-weighted oil and natural gas reserves, including estimates of non-proved reserves provided by EPL s management. For purposes of the discounted cash flow analysis, Jefferies used a price deck based on the New York Mercantile Exchange, or NYMEX, forward pricing curve on June 13, 2006 for proved developed producing reserves and a flat price of $64.00 per barrel of oil and $8.00 per thousand cubic feet of natural gas for proved developed non-producing reserves and proved undeveloped reserves. Jefferies assumed various discount rates and investment factors in connection with the discounted cash flow analysis. The discounted cash flow analysis resulted in an implied price range of $23.75 to $31.48 per share of EPL common stock.

Discounted Equity Value Analysis

Jefferies calculated the present value of EPL s hypothetical future stock price at December 31, 2008 using certain projections for 2006 provided by EPL s management, and Jefferies used EPL s management s 2006 projections to compile EPL projections for 2007 and 2008, based on comparable operating and financial assumptions derived from the 2006 projections and from EPL s reserve reports. Jefferies discussed these assumptions with EPL s management, and EPL s management confirmed that the assumptions used by Jefferies are reasonable. Finally, to complete the calculation of the present value of EPL s hypothetical future stock price at December 31, 2008, Jefferies used an exit multiple range from 3.0x to 3.5x earnings before interest, taxes, depreciation and amortization (referred to as EBITDA). Jefferies performed the discounted equity analysis using the foregoing projections at the flat pricing of $64.00 per barrel of oil and $8.00 per thousand cubic feet of natural gas. The discounted equity value analysis, based on these pricing assumptions, and using a 15% discount rate, resulted in an implied price range of $30.90 to $35.87 per share of EPL common stock.

Comparable Company Analysis

Using publicly available financial and operating data for selected public companies in the oil and natural gas exploration and production industry, Jefferies calculated trading multiples of the selected public companies at their current stock price and applied those multiples to the following historical and projected EPL financial data:

- estimated 2007 EBITDA based on mean First Call estimate;
- proved oil and natural gas reserves (in billion cubic feet equivalents, or Bcfe); and
- daily oil and natural gas production (in million cubic feet equivalents per day, or Mmcfe per day).

Enterprise values in this analysis were calculated using the closing price of the common stock of EPL and the selected companies as of June 16, 2006.

The selected public companies used by Jefferies in the comparable company analysis were:

- Bois d Arc Energy Inc.;
- Callon Petroleum Company;

Mariner Energy, Inc.; and

W&T Offshore, Inc.

In determining the implied price range per share for this analysis, each of the EBITDA multiples was weighted 50%, the proved oil and natural gas reserves multiple was weighted 25% and the daily oil and natural

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gas production multiple was weighted 25%. Based on this analysis, Jefferies calculated EPL s implied valuation per share to be $26.23 to $35.00.

No company utilized for comparison in the comparable company analysis is identical to EPL. In evaluating the merger, Jefferies made numerous judgments and assumptions with regard to industry performance, general business, economic, market, and financial conditions and other matters, many of which are beyond EPL s control. Mathematical analysis, such as determining the weighted average or the median, is not in itself a meaningful method of using comparable company data.

Precedent Transaction Analysis

Using publicly available financial and operating data and other information for selected precedent transactions in the oil and gas exploration and production industry, with a focus on transactions involving companies with significant operations in the Gulf of Mexico, Jefferies calculated multiples of transaction value to:

- daily oil and natural gas production (in Mmcfe per day); and
- proved oil and natural gas reserves (in Mcfe).

For the purposes of the precedent transaction analysis, Jefferies used the following selected precedent transactions that were announced or closed from 2005 to 2006 and involving companies with significant continental shelf operations in the Gulf of Mexico:

Purchaser	Seller
Coldren Resources, LP	Noble Energy, Inc.
Plains Exploration & Production Company	Stone Energy
Mitsui & Co., Ltd./Mitsui & Co. (U.S.A.), Inc./Mitsui Oil Exploration Co., Ltd.	Pogo Producing Company
Apache Corporation	BP
Merit Energy Corporation	The Houston Exploration Company
Nippon Oil Corporation/Norsk Hydro ASA/Merit Energy Company	The Houston Exploration Company
Helix Energy Solutions Group, Inc.	Remington Oil and Gas Corporation
W&T Offshore, Inc.	Kerr-McGee Corporation
Mariner Energy, Inc.	Forest Oil Corporation
Woodside Energy, Ltd.	Gryphon Exploration Company
ERT/Cal Dive Int.	Murphy Exploration and Production Co.
Nippon Oil Corporation	Devon Energy Corporation
Sumitomo Corporation	NCX Company, Inc./Summit

Jefferies applied the transaction value ranges derived from the precedent transactions analysis to corresponding historical and projected financial and operating data for EPL provided by EPL s management or compiled by Jefferies in the manner described above and calculated an implied range of $22.95 to $31.68 per share of EPL common stock.

No transaction utilized for comparison in the precedent transaction analysis is identical to the merger. In evaluating the merger, Jefferies made numerous judgments and assumptions with regard to industry performance, general business, economic, market, and financial conditions and other matters, many of which are beyond EPL s control. Mathematical analysis, such as determining the average or the median, is not itself a meaningful method of using comparable transaction data.

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Analysis of Historical Ratio of Stock Prices and of Combined Company

Historical Exchange Ratio Analysis

Jefferies reviewed the historical ratio of the daily closing stock prices of EPL to the daily closing stock prices of Stone from May 24, 2005 through May 24, 2006. Based on this information, Jefferies calculated average exchange ratios based on trading days for particular time periods ending May 24, 2006 and compared these historical exchange ratios to the implied merger exchange ratio of 2.62x based on EPL s closing stock price on June 16, 2006 of $18.75 per share and the corresponding blended average of $49.17 per share total consideration to be received by Stone stockholders:

Time Period	Average Exchange Ratio
30 Day	1.80x
60 Day	1.84x
180 Day	1.88x

Contribution Analysis

Jefferies performed a relative contribution analysis in which it reviewed certain historical and estimated future operating and financial information for EPL and Stone. The analysis was based on the relative contributions of each party to the pro forma combined company s (A) Enterprise Value, calculated as the market value of equity plus net debt, (B) Reserves and Production, calculated using proved reserves, natural gas reserves, and daily production (C) Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) for 2006 and 2007, (D) Cash Flow from Operations for 2006 and 2007, and (E) Net Income for 2006 and 2007. The financial information referred to in (C), (D) and (E) for Stone was based on projections estimated by Stone s management. The financial information referred to in (C), (D) and (E) for EPL was based on projections estimated by EPL s management for 2006 and compiled by Jefferies in the manner previously described for 2007. The following table shows the percentage contributions of EPL and Stone to the combined company s value for such periods:

	EPL	Stone
Enterprise Value	34%	66%
Market Value of Equity	36%	64%
Net Debt	29%	71%
Proved Reserves (Bcfe)	37%	63%
Daily Production (Mmcfe per day)	45%	55%
EBITDA 2006E	46%	54%
EBITDA 2007E	46%	54%
Cash Flow from Operations 2006E	45%	55%
Cash Flow from Operations 2007E	47%	53%
Net Income 2006E	40%	60%
Net Income 2007E	47%	53%

Based on the merger consideration and the capitalization figures of the companies provided to Jefferies by EPL and Stone, EPL stockholders would own 53% of the fully diluted equity interest of the combined company, and Stone stockholders would own 47% of the fully diluted equity interest of the combined company.

Combined Discounted Equity Value Analysis

Jefferies conducted a discounted equity value analysis on an estimation of the combined forecasts of EPL and Stone. The purpose of the combined discounted equity value analysis was to establish a range, for illustrative purposes, of the potential equity values of the combined company by determining a range of the net present value of EPL s and Stone s projected combined future equity value. In estimating the discounted equity value of the

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combined company, Jefferies used forecasts for Stone provided by Stone s management and for EPL provided by EPL s management or compiled by Jefferies in the manner previously described. Jefferies noted that the projections of the combined company were to be viewed as an estimation only and not relied on as the expected future results for the combined company.

Jefferies calculated the present value of EPL s pro forma hypothetical future stock price at December 31, 2008 using certain financial projections for Stone provided by Stone s management and for EPL provided by EPL s management or compiled by Jefferies in the manner previously described and an exit multiple range from 3.0x to 3.5x earnings before interest, taxes, depreciation and amortization (referred to as EBITDA). Jefferies performed the discounted equity analysis using pro forma projections at the flat pricing of $64.00 per barrel of oil and $8.00 per thousand cubic feet of natural gas and assumed that 30% of 2008 production is hedged at the NYMEX strip based on June 13, 2006 closing prices. The discounted equity value analysis, based on these pricing assumptions, and using a 15% discount rate, resulted in an implied price range of $27.62 to $33.52 per share of EPL pro forma common stock. Applying the formula for the merger consideration into which each share of Stone common stock would be converted in the merger, the implied price range per share of Stone common stock, on a blended basis, is $60.37 to $67.81 per share.

Conclusion

Jefferies determined and issued its written opinion to the board of directors of Stone to the effect that as of June 17, 2006 and as confirmed orally on June 22, 2006 and subject to the assumptions, limitations, qualifications and other matters described in its opinion, the merger consideration is fair, from a financial point of view, to the holders of Stone common stock (other than EPL and its affiliates).

EPL s Financial Advisors

Evercore Partners and Banc of America Securities LLC have each acted as financial advisor to EPL in connection with the proposed merger. On June 14, 2006, each of Evercore Partners and Banc of America Securities LLC delivered an oral opinion to the EPL board, subsequently confirmed in writing, to the effect that as of the date of such opinion and based upon and subject to the assumptions, limitations and qualifications set forth in its written opinion, the merger consideration was fair, from a financial point of view, to EPL.

Opinion of Evercore Partners

EPL s board of directors engaged Evercore Group L.L.C. (Evercore) to act as its financial advisor in connection with the proposed merger and to render an opinion as to the fairness, from a financial point of view, to EPL of the merger consideration to be paid to the holders of shares of Stone common stock, other than shares held by Stone and dissenting shares (Excluded Shares).

Evercore did not address EPL s underlying business decision to effect the merger and expressed no opinion or recommendation as to how the stockholders of EPL should vote at the stockholders meeting to be held in connection with the merger. Evercore was not asked to pass upon, and expressed no opinion with respect to, any matter other than the fairness, from a financial point of view, of the merger consideration to be paid by EPL pursuant to the merger.

Additionally, Evercore expressed no opinion with respect to any election, proration or allocation procedures set forth in the merger agreement. Evercore also expressed no opinion as to the price at which the common stock of either Stone or EPL would trade at any future time.

On June 14, 2006, Evercore delivered its opinion to the EPL board of directors that, as of that date, and subject to the factors, limitations, qualifications and assumptions set forth therein, the merger consideration to be paid by EPL pursuant to the merger agreement, was fair, from a financial point of view to EPL.

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Evercore is a nationally recognized investment banking firm that is regularly engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, leveraged buyouts, business and securities valuations, recapitalizations and financial restructurings. Evercore was selected as financial advisor to the EPL board of directors on the basis of its reputation and experience.

The full text of Evercore s written opinion is attached as Appendix B-1 to this proxy statement and sets forth the assumptions made, general procedures followed, matters considered and limits on the review undertaken. The summary of Evercore s written opinion below is qualified in its entirety by reference to the full text of the opinion. **You are urged to read the opinion carefully and in its entirety.**

In connection with rendering its opinion, Evercore, among other things:

- analyzed certain publicly available financial statements and other information relating to EPL and Stone;
- analyzed certain internal financial statements and other financial and operating data, including reserve estimates, concerning EPL and Stone prepared by the respective managements of EPL and Stone;
- analyzed certain financial projections prepared by the management of Stone (the Stone Projections) and an alternative version of the Stone Projections incorporating adjustments thereto made by the management of EPL (the Adjusted Stone Projections), and discussed with the management of EPL its assessments as to the relative likelihood of achieving the future financial results reflected in the Stone Projections and the Adjusted Stone Projections;
- analyzed certain financial projections concerning EPL prepared by the management of EPL (the EPL Projections);
- reviewed the amount and timing of the cost savings and operating synergies estimated by the management of EPL to result from the merger (synergies);
- discussed the past and current operations and financial condition and the prospects of EPL and Stone with the respective managements of EPL and Stone;
- reviewed the reported prices and trading activity of the shares of common stock of EPL and Stone, respectively;
- compared the financial performance of EPL and the prices and trading activity of the common stock of EPL with that of certain other publicly-traded oil and gas exploration and production (E&P) companies and their securities;
- compared the financial performance of Stone and the prices and trading activity of the common stock of Stone with that of certain other publicly-traded E&P companies and their securities;
- reviewed the financial terms, to the extent publicly available, of certain E&P transactions and compared the valuation multiples in those transactions to those contemplated by the merger;

- considered the pro forma financial impact to EPL of the merger;
- reviewed reserve reports relating to each of EPL and Stone prepared by independent petroleum engineers;
- reviewed a draft of the merger agreement, dated June 14, 2006; and
- performed such other analyses and examinations and considered such other factors as Evercore in its sole judgment deemed appropriate.

For the purposes of its analysis and opinion, Evercore did not assume any responsibility for independently verifying the accuracy and completeness of the information reviewed by or for Evercore. With respect to the Stone Projections, Evercore assumed that such financial projections were reasonably prepared by Stone on a

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basis reflecting the then best currently available estimates and good faith judgments of Stone of the future competitive, operating and regulatory environments and related financial performance of Stone. With respect to the Adjusted Stone Projections and the EPL Projections, Evercore assumed that such financial projections had been reasonably prepared by EPL, and Evercore assumed that synergies were reasonably obtainable, in each case on bases reflecting the then best currently available estimates and good faith judgments of EPL of the future competitive, operating and regulatory environments and related financial performance of each of EPL and Stone. Evercore further assumed that the Adjusted Stone Projections, the EPL Projections and the synergies would be realized in the amounts and at the times indicated thereby and, based on the assessments of the management of EPL as to the relative likelihood of achieving the future financial results reflected in the Stone Projections and the Adjusted Stone Projections, Evercore relied, at the direction of EPL, on the Adjusted Stone Projections for purposes of its opinion. Evercore expressed no view as to the Stone Projections, the Adjusted Stone Projections or the EPL Projections or the assumptions on which they were based.

Evercore did not make or assume any responsibility for making any independent valuation or appraisal of the assets or liabilities of either EPL or Stone, including real estate assets, nor was Evercore furnished with any such appraisals (other than the reserve reports referenced above). With respect to the reserve estimates of each of EPL and Stone, whether contained in the reserve reports prepared by independent petroleum engineers referenced above or otherwise prepared by and provided to Evercore by the respective managements of EPL and Stone, Evercore advised the EPL board of directors that Evercore is not an expert in the engineering evaluation of oil and gas properties and, with the consent of the EPL Board of directors, Evercore relied solely upon the respective engineered reserve reports prepared by third-party consultants and the internal reserve estimates of each of EPL and Stone. Evercore also assumed that all necessary governmental, regulatory or other consents and approvals that are required in connection with the merger would be obtained without any adverse effect on EPL or Stone or on the expected benefits of the merger in any way meaningful to Evercore s analysis.

In addition, Evercore assumed that the merger would be consummated in accordance with the terms set forth in the merger agreement without material modification, waiver or delay, including among other things, the merger would be treated as a tax-free reorganization under the provisions of Section 368(a) of the Code. Representatives of Stone advised Evercore that Stone was currently in the process of exercising a preference right to acquire oil and natural gas reserves in the Gulf of Mexico in one producing field covered by 2 leases in which it had an existing ownership interest from BP Amoco for approximately $200 million, and Evercore assumed, at the direction of the EPL Board of directors, that such acquisition would be completed prior to the closing of the merger. For purposes of Evercore s analysis and opinion, Evercore assumed that the merger agreement would not vary from the form of the draft merger agreement reviewed by Evercore on June 14, 2006 in any manner that would be material to Evercore s analysis and opinion.

Evercore s opinion was necessarily based on economic, market and other conditions as in effect on, and the information and the merger agreement made available to Evercore as of June 14, 2006. The EPL Board of directors understood that subsequent developments could affect Evercore s opinion and that Evercore did not and does not have any obligation to update, revise or reaffirm its opinion.

In receiving Evercore s opinion on June 14, 2006, and reviewing with Evercore the written materials prepared by Evercore in support of its opinion, the EPL Board of directors was aware of and consented to the assumptions and other matters discussed above.

Summary of Analyses

The following is a brief summary of the material analyses performed by Evercore and presented to the EPL Board of directors in connection with rendering the Evercore opinion. This summary is qualified in its entirety by reference to the full text of Evercore s written opinion, which is attached as Appendix B-1 to this proxy statement. You are urged to read the full text of the Evercore opinion carefully and in its entirety for the assumptions made, procedures followed, other matters considered and limits of the review by Evercore.

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Evercore considered a number of analyses in assessing the fairness, from a financial point of view, to EPL of the merger consideration to be paid to the holders of shares of Stone common stock, other than holders of Excluded Shares. With respect to each of Stone and EPL, these analyses included historical share price performance analysis, public market peer group trading analysis and net asset valuation analysis. With respect to Stone, the analyses also included analysis of selected precedent transactions and analysis of implied transaction premiums.

Some of the financial analyses summarized below include summary data and information presented in tabular format. In order to understand fully the financial analyses, the summary data and tables must be read together with the full text of the analyses. The summary data and tables alone are not a complete description of the financial analyses. Considering the summary data and tables alone could create a misleading or incomplete view of Evercore s financial analyses.

Historical Public Market Trading Levels Analysis

Evercore reviewed the respective average closing share prices of Stone and EPL common stock over the one-year period ending on May 24, 2006, the last trading day prior to the announcement of the proposed merger.

	Historical Share Price	
Stone:	**Low**	**High**
1-year range	$ 39.08	$ 62.09

	Historical Share Price	
EPL:	**Low**	**High**
1-year range	$ 21.00	$ 32.27

	Implied Exchange Ratio	
Number of EPL shares per Stone shares:	**Low**	**High**
1-year range	1.211x	2.957x

The low end of the implied exchange ratio was calculated by taking the low end of Stone s historical share price during the one-year period and dividing it by the high end of EPL s historical share price during the same period. The high end of the implied exchange ratio was calculated by taking the high end of Stone s historical share price during the one-year period and dividing it by the low end of EPL s historical share price during the same period. Evercore noted that the low end of the implied exchange ratio range was below the minimum exchange ratio merger consideration of 2.066x and that the high end of the implied exchange ratio range was above the maximum exchange ratio merger consideration of 2.525x.

Public Market Peer Analysis

Evercore compared financial and other operating data of each of Stone and EPL to corresponding data for the following E&P publicly-traded companies which Evercore deemed to have certain operations and characteristics that are similar to those of Stone or EPL for purposes of the analyses: W&T Offshore, Inc., Mariner Energy, Inc., ATP Oil & Gas Corp., Bois D Arc Energy, Inc., Callon Petroleum Company and Meridian Resource Corp. Evercore derived cash flow and estimated earnings before interest, taxes, depreciation, depletion, amortization and exploration expenses, commonly referred to as EBITDAX. EBITDAX estimates for these companies from public filings and Wall Street estimates. For Stone and EPL, cash flow and EBITDAX estimates each were based on EPL s management s financial projections. Evercore used proved reserves and unit of daily production estimates based on the New York Mercantile Exchange or NYMEX price deck as of June 9, 2006. Evercore reviewed the multiples listed below and applied its judgment to estimate the valuation multiple ranges for each of Stone and EPL summarized below.

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Multiples reviewed:

equity value per estimated 2006 cash flow, or Equity Value/2006E Cash Flow;

total enterprise value per estimated 2006 earnings before interest, taxes, depreciation, amortization and exploration expenses, or TEV/2006E EBITDAX;

total enterprise value per unit of proved reserves, or TEV/Proved Reserves; and

total enterprise value per unit of daily production, or TEV/Unit Production.

	Implied Share Price		Per Share
Stone:	**Low**	**High**	**Merger Consideration**
2.25x to 4.0x Equity Value/2006E Cash Flow	$ 37.15	$ 66.05	$ 51.00
3.0x to 5.0x TEV/2006E EBITDAX	$ 24.89	$ 61.55	$ 51.00
$17.50 to $22.50 TEV/Proved Reserves	$ 38.35	$ 57.91	$ 51.00
$40,000 to $60,000 TEV/Unit Production	$ 32.24	$ 63.40	$ 51.00

	Implied Share Price		Per Share
EPL:	**Low**	**High**	**Merger Consideration**
2.25x to 4.0x Equity Value/2006E Cash Flow	$ 24.24	$ 43.10	$ 51.00
3.0x to 5.0x TEV/2006E EBITDAX	$ 28.83	$ 51.69	$ 51.00
$17.50 to $22.50 TEV/Proved Reserves	$ 20.05	$ 27.34	$ 51.00
$40,000 to $60,000 TEV/Unit Production	$ 17.15	$ 28.45	$ 51.00

	Implied Exchange Ratio	
Number of EPL shares per Stone share:	**Low**	**High**
2.25x to 4.0x Equity Value/2006E Cash Flow	0.862x	2.724x
3.0x to 5.0x TEV/2006E EBITDAX	0.482x	2.135x
$17.50 to $22.50 TEV/Proved Reserves	1.403x	2.888x
$40,000 to $60,000 TEV/Unit Production	1.133x	3.697x

By applying the above multiples to the indicated financial and operational metrics, Evercore calculated the selected ranges of implied equity values per share for each of Stone and EPL set forth in the two tables above. The low end of the implied exchange ratio was calculated by taking the low end of Stone s selected value range and dividing it by the high end of Energy Partner s selected value range. The high end of the implied exchange ratio was calculated by taking the high end of Stone s selected value range and dividing it by the low end of EPL selected value range. Evercore noted that in each case, the low end of the implied exchange ratio range was below the minimum exchange ratio merger consideration of 2.066x and in each case except the for the calculation based on TEV/2006E EBITDAX, the high end of the implied exchange ratio range was above the maximum exchange ratio merger consideration of 2.525x.

Evercore selected the peer group companies above because their businesses and operating profiles are reasonably similar to those of Stone and EPL. However, because of the inherent differences between the business, operations and prospects of each of Stone and EPL and the businesses, operations and prospects of the selected peer group companies, no peer group company is exactly the same as either Stone or EPL. Accordingly, Evercore believed that it was inappropriate to, and therefore did not, rely solely on the quantitative results of the peer group company analysis. Evercore also made qualitative judgments concerning differences between the financial and operating characteristics and prospects of each of Stone and EPL and the companies included in the peer group company analysis that would affect the public trading values of each in order to

provide a context in which to consider the results of the quantitative analysis. These qualitative judgments related primarily to the differing sizes, growth prospects, profitability levels and degree of operational risk between either Stone or EPL and the companies included in the peer group trading analysis.

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Net Asset Valuation

Evercore conducted an after-tax valuation analysis of each of Stone and EPL to estimate the net asset value per share for each company. Evercore performed its analysis based on a variety of data sources provided by the respective managements of each of Stone and EPL and certain other publicly available information. Evercore relied on the respective reserve reports provided by the respective managements of each of Stone and EPL and the economic models received from EPL management to generate the estimated cash flows for each company. Evercore assumed forecasted commodity prices based on the publicly available trading prices on the NYMEX and First Call price decks, as of June 9, 2006.

In the case of each company, Evercore used a discount rate of 10% and various probabilities based on discussions with EPL s management relating to the projected cash flows associated with different classes of reserves to estimate a range of present values for the future cash flows generated by the respective reserve reports provided by the respective managements of each of Stone and EPL and the economic models received from EPL s management. Evercore then adjusted those values for other assets and liabilities, including the marked-to-market value of outstanding hedge positions, present value estimates of general and administrative expenses and net debt.

As a result of the calculations described above, Evercore estimated the net asset value of Stone to range approximately from $1.5 billion to $2.0 billion or $52.28 to $72.37 per share (and $60.39 to $84.98 per share, as adjusted to reflect EPL management estimates of the value of synergies to be realized as a result of the merger) and the net asset value of EPL to range approximately from $1.3 billion to $1.4 billion or $32.27 to $35.19 per share.

Evercore used these respective net asset valuations to estimate a range of implied share prices for each of Stone and EPL as well as a range of implied exchange ratios. The low end of the implied exchange ratio was calculated by taking the low end of Stone s net asset value per share range and dividing it by the high end of Energy Partner s net asset value per share range. The high end of the implied exchange ratio was calculated by taking the high end of Stone s net asset value per share range and dividing it by the low end of Energy Partner s net asset value per share range. The resulting implied exchange ratios ranged from to 1.486x to 2.242x (and 1.446x to 2.272x, as adjusted to reflect EPL management estimates of the value of synergies, including an allocation of total synergies between Stone and EPL, to be realized as a result of the merger). Evercore then compared the implied exchange rate ratios with the merger consideration exchange ratio range of 2.066x to 2.525x. Evercore noted that the low end of the implied exchange ratio range was below the minimum exchange ratio merger consideration of 2.066x and the high end of the implied exchange ratio range was below the maximum exchange ratio merger consideration of 2.525x.

	Implied Share Price		Per Share
Stone:	**Low**	**High**	**Merger Consideration**
First Call and NYMEX, 10% discount rate	$ 52.28	$ 72.37	$ 51.00
Net asset value with estimated synergies	$ 60.39	$ 84.98	$ 51.00

	Implied Share Price	
EPL:	**Low**	**High**
First Call and NYMEX, 10% discount rate	$ 32.27	$ 35.19

	Implied Share Price		Per Share
Number of EPL shares per Stone share:	**Low**	**High**	**Merger Consideration**
First Call and NYMEX, 10% discount rate	1.486x	2.242x	$ 51.00
Net asset value with estimated synergies	1.446x	2.272x	$ 51.00

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Selected Precedent Transaction Analysis

Evercore reviewed and analyzed selected corporate merger and acquisition transactions involving companies that Evercore based on its experience with merger and acquisition transactions, judged to be similar in some respects to the proposed merger for purposes of this analysis. Evercore reviewed, among other things, the ratio of the target companies total enterprise value implied in the respective transactions to their LTM EBITDAX, their proved reserves volumes and their LTM average daily production volumes.

The corporate precedent transactions selected in the Evercore analysis included:

Target	Acquiror
Stone Energy Corporation	Plains Exploration & Production Company
Marlin Energy LLC	Energy XXI Gulf Coast Inc.
Remington Oil & Gas Corporation	Helix Energy Solutions Group
Spinnaker Exploration	Norsk Hydro ASA
Forest Oil (Gulf of Mexico Assets)	Mariner Energy, Inc.
Gryphon Exploration Company	Woodside Petroleum Ltd

Evercore noted that the mean and median for the ratio of total enterprise value to LTM EBITDAX was 5.8x and 5.4x, respectively. Evercore noted that the mean and median for the ratio of total enterprise value to proved reserves in barrels of oil equivalent (Boe) was $26.09 and $23.24, respectively. Evercore noted that the mean and median for the ratio of total enterprise value to LTM average daily production in Boe per day was $60,683 and $57,802, respectively.

Based on its valuation analysis of the selected precedent transactions, and taking into consideration the differences that may exist between the above transactions and Energy Partner s proposed merger with Stone, Evercore selected a transaction value to 2006E EBITDAX ratio range of 4.0x to 6.0x, which yielded implied share prices ranging from $43.22 to $79.88. Evercore selected a transaction value to proved reserves in Boe ratio range of $20.00 to $30.00, which yielded implied share prices ranging from $48.13 to $87.24. Evercore selected a transaction value to Q4 2006E average daily production in Boe per day ratio range of $40,000 to $65,000, which yielded implied share prices ranging from $32.24 to $71.19, compared to the $51.00 per share merger consideration.

Based on the $21.56 price of the EPL common stock as of May 24, 2006, the transactional value to 2006E EBITDAX ratio range of 4.0x to 6.0x yielded implied exchange ratios ranging from 2.005x to 3.705x, the transaction value to proved reserves in Boe ratio range of $20.00 to $30.00 yielded implied exchange ratios ranging from 2.232x to 4.046x and the transaction value to Q4 2006E average daily production in Boe per day ratio range of $40,000 to $65,000 yielded implied exchange ratios ranging from 1.495x to 3.302x.

	Implied Share Price		**Per Share**
Stone:	**Low**	**High**	**Merger Consideration**
4.0x to 6.0x TEV to 2006E EBITDAX	$ 43.22	$ 79.88	$ 51.00
$20.00 to $30.00 TEV per Unit Proved Reserves	$ 48.13	$ 87.24	$ 51.00
$40,000 to $65,000 TEV per Unit of Daily Production	$ 32.24	$ 71.19	$ 51.00

	Implied Exchange Ratio	
Number of EPL shares per Stone share:	**Low**	**High**
4.0x to 6.0x TEV to 2006E EBITDAX	2.005x	3.705x
$20.00 to $30.00 TEV per Unit Proved Reserves	2.232x	4.046x
$40,000 to $65,000 TEV per Unit of Daily Production	1.495x	3.302x

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Evercore noted that the merger and acquisition transaction environment varies over time because of macroeconomic factors such as interest rate and equity market fluctuations and microeconomic factors such as industry results and growth expectations. Evercore also noted that no company or transaction reviewed was identical to the proposed merger and that, accordingly, these analyses involve complex considerations and judgments concerning differences in financial and operating characteristics and other factors that would affect the acquisition values in the precedent transactions, including the size, economic and other characteristics of the markets of each company and the competitive environment in which it operates.

Implied Transaction Premiums Analysis

Evercore reviewed and analyzed the premiums paid relative to public market pre-announcement trading prices for a selected group of transactions. Evercore examined a group of 75 U.S. transactions with transaction values between $1.5 billion and $2.5 billion and a group of 26 U.S. E&P sector transactions with transaction values between $500 million and $5 billion that were announced since January 1, 2000. Evercore calculated and compared the premiums paid in these transactions based on the value of the per share consideration received in the transaction relative to the closing stock price of the target company one day, one week and one month prior to the respective date of announcement of the transaction.

The following tables summarizes the analysis: [a]

U.S. Transactions between $1.5 billion and $2.5 billion from January 2000 to May 2006 (75 Transactions)

	Premium to Average Stock Price:		
	1 Day Prior	1 Week Prior	1 Month Prior
Mean	33.8%	34.8%	42.6%
Median	25.0%	28.7%	36.0%
Implied Per Share Price Based on Mean	$ 54.54	$ 55.77	$ 69.70
Implied Per Share Price Based on Median	$ 50.95	$ 53.26	$ 66.43

U.S. E&P Transactions between $500 million and $5 billion from January 2000 to May 2006 (26 Transactions)

	Premium to Average Stock Price:		
	1 Day Prior	1 Week Prior	1 Month Prior
Mean	17.0%	20.1%	28.5%
Median	17.1%	19.4%	26.9%
Implied Per Share Price Based on Mean	$ 47.70	$ 49.71	$ 62.79
Implied Per Share Price Based on Median	$ 47.74	$ 49.42	$ 62.00

Based on its analysis of U.S. transactions between $1.5 and $2.5 billion in transaction values, Evercore estimated approximate implied share prices ranging from $50.95 to $69.70 per share, compared to the $51.00 per share merger consideration. Based on its analysis of U.S. E&P transactions between $500 million and $5 billion in transaction values, Evercore estimated approximate implied share prices ranging from $47.70 to $62.79 per share, compared to the $51.00 per share merger consideration.

	Implied Share Price		Per Share
Stone:	**Low**	**High**	**Merger Consideration**
U.S. M&A Transactions $1.5 to $2.5 billion	$ 50.95	$ 69.70	$ 51.00

U.S. E&P M&A Transactions $0.5 to $5.0 billion	$ 47.70	$ 62.79	$ 51.00

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[a] Source: *Thomson Financial*

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Based on its analysis of U.S. transactions between $1.5 and $2.5 billion in transaction values, Evercore estimated implied exchange ratios ranging from 2.363x to 3.233x based on the $21.56 price of the EPL common stock as of May 24, 2006, the last trading day prior to the announcement of the proposed merger. Based on its analysis of E&P transactions between $500 million and $5 billion in transaction values, Evercore estimated implied exchange ratios ranging from 2.212x to 2.912x based on the $21.56 price of the EPL common stock as of May 24, 2006, the last trading day prior to the announcement of the proposed merger.

	Implied Exchange Ratio	
Number of EPL shares per Stone share:	**Low**	**High**
U.S. M&A Transactions $1.5 to $2.5 billion	2.363x	3.233x
U.S. E&P M&A Transactions $0.5 to $5.0 billion	2.212x	2.912x

CFPS Accretion/Dilution

Evercore analyzed the potential pro forma effect of the merger on EPL s 2007 and 2008 estimated CFPS based on financial projections and estimates provided by EPL s management. Evercore compared the estimated CFPS for 2007 and 2008 on a stand-alone basis for each of EPL and Stone and on a pro forma basis after giving effect to the merger. Based on its analysis, Evercore concluded that the merger would be accretive to EPL s CFPS in each of 2007 and 2008.

The preparation of a fairness opinion is a complex process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of these methods to the particular circumstances and, therefore, is not necessarily susceptible to partial analysis or summary description. Selecting portions of the analysis or the summary set forth above, without considering the analyses as a whole, could create an incomplete view of the processes underlying the opinion of Evercore. In arriving at its fairness determination, Evercore considered the results of all these constituent analyses and did not attribute any particular weight to any particular factor or analysis considered by it; rather, Evercore made its determination as to fairness on the basis of its experience and professional judgment after considering the results of all such analyses. The foregoing summary does not purport to be a complete description of the analyses performed by Evercore. In performing its analyses, Evercore considered industry performance, general business and economic conditions and other matters, many of which are beyond the control of EPL, Stone or Evercore. The analyses performed by Evercore are not necessarily indicative of actual values or actual future results, which may be significantly more or less favorable than suggested by such analyses. Accordingly, such analyses and estimates are inherently subject to substantial uncertainty.

Analyses relating to the value of businesses or securities do not purport to be appraisals or to reflect the prices at which any security may trade at the present time or at any time in the future.

As described above, Evercore s opinion to the EPL Board of directors was among many factors taken into consideration by the EPL Board of directors in making its determination to approve the merger agreement. The opinion of Evercore was provided solely to the EPL Board of directors and does not constitute a recommendation to any person, including the holders of EPL common stock, as to how such person should vote or act on any matter related to the merger agreement or the merger.

Evercore has acted as financial advisor to EPL in connection with the merger. EPL agreed to pay Evercore an opinion fee of $500,000, which became payable upon the delivery of the opinion and $7,000,000, which will become payable upon consummation of the merger. EPL also agreed to reimburse Evercore for its expenses in connection with, and to indemnify Evercore against certain liabilities that could arise out of, its engagement.

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Opinion of Banc of America Securities LLC

EPL retained Banc of America Securities LLC (Banc of America Securities) as its financial advisor in connection with the proposed merger. Banc of America Securities is an internationally recognized investment banking firm, which is regularly engaged in the valuation of businesses and securities in connection with mergers and acquisitions, negotiated underwritings, secondary distributions of listed and unlisted securities, private placements and valuations for corporate and other purposes. EPL selected Banc of America Securities on the basis of Banc of America Securities experience in transactions similar to the merger and its reputation in the independent oil and natural gas industry and investment community.

On June 14, 2006, at a meeting of the EPL board of directors held to evaluate the merger, Banc of America Securities delivered to the EPL board of directors an oral opinion, which was confirmed by delivery of a written opinion dated June 14, 2006, to the effect that, as of the date of the opinion and based upon and subject to various assumptions and limitations described in its opinion, the merger consideration to be paid by EPL in the merger was fair, from a financial point of view, to EPL.

The full text of Banc of America Securities written opinion to the EPL board of directors, which describes, among other things, the assumptions made, procedures followed, factors considered and limitations on the review undertaken, is attached as Annex B-2 to this joint proxy statement/prospectus and is incorporated by reference in its entirety into this joint proxy statement/prospectus. Holders of EPL common stock are encouraged to read the opinion carefully in its entirety. The following summary of Banc of America Securities opinion is qualified in its entirety by reference to the full text of the opinion. Banc of America Securities delivered its opinion to the EPL board of directors for the benefit and use of the EPL board of directors in connection with and for purposes of its evaluation of the merger consideration to be paid by EPL pursuant to the merger agreement. Banc of America Securities opinion does not address any other aspect of the merger and does not constitute a recommendation to any stockholder as to how to vote or act at the special meetings.

For purposes of its opinion, Banc of America Securities:

- reviewed certain publicly available financial statements and other business and financial information of Stone and EPL, respectively;
- reviewed certain internal financial statements and other business, financial and operating data concerning Stone and EPL, respectively;
- reviewed certain financial forecasts related to Stone prepared by the management of Stone (the Stone Forecasts) and an alternative version of the Stone Forecasts incorporating adjustments thereto made by the management of EPL (the Adjusted Stone Forecasts), and discussed with the management of EPL its assessments as to the relative likelihood of achieving the future financial results reflected in the Stone Forecasts and the Adjusted Stone Forecasts;
- reviewed certain financial forecasts related to EPL prepared by the management of EPL, including internal projected reserve information for EPL s probable and possible oil and natural gas reserves (the EPL Forecasts);
- discussed the past and current operations, financial condition and prospects of Stone with senior executives of Stone and discussed the past and current operations, financial condition and prospects of Stone and EPL with senior executives of EPL;
- reviewed and discussed with senior executives of EPL information relating to certain cost savings anticipated by the management of EPL to result from the merger (the Cost Savings);

reviewed the potential pro forma financial impact of the merger on the future financial performance of EPL, including the potential effect on EPL s earnings per share;

reviewed the reported prices and trading activity for Stone common stock and EPL common stock;

compared the financial performance of Stone and EPL and the prices and trading activity of Stone common stock and EPL common stock with that of certain other publicly traded companies Banc of America Securities deemed relevant;

compared certain financial terms of the merger to financial terms, to the extent publicly available, of certain other business combination transactions Banc of America Securities deemed relevant;

participated in discussions and negotiations among representatives of Stone and EPL and their respective advisors;

reviewed the June 14, 2006 draft of the merger agreement;

reviewed a 2005 year end report prepared by Stone for certain of Stone s proved oil and natural gas reserves and a 2005 year end reserve report prepared by independent reserve engineers retained by Stone for certain of Stone s other proved oil and natural gas reserves;

reviewed 2005 year end reserve reports prepared by independent reserve engineers retained by EPL for EPL s proved oil and natural gas reserves; and

performed such other analyses and considered such other factors as Banc of America Securities deemed appropriate.

Banc of America Securities assumed and relied upon, without independent verification, the accuracy and completeness of the financial and other information reviewed by Banc of America Securities for the purposes of their opinion. With respect to the Stone Forecasts, Banc of America Securities assumed, upon the advice of Stone, that they were reasonably prepared on bases reflecting the best currently available estimates and good faith judgments of the management of Stone as to the future financial performance of Stone. With respect to the Adjusted Stone Forecasts, the EPL Forecasts and the Cost Savings, Banc of America Securities assumed, at the direction of EPL, that they were reasonably prepared on a basis reflecting the best currently available estimates and good faith judgments of the management of EPL as to the future financial performance of Stone and EPL and the other matters covered thereby and, based on the assessments of the management of EPL as to the relative likelihood of achieving the future financial results reflected in the Stone Forecasts and the Adjusted Stone Forecasts, Banc of America Securities relied, at the direction of EPL, on the Adjusted Stone Forecasts for purposes of its opinion. Banc of America Securities also relied, at the direction of EPL, on the assessments of the management of EPL as to EPL s ability to achieve the Cost Savings and assumed, at the direction of EPL, that such Cost Savings will be realized in the amounts and at the times projected. Banc of America Securities did not make any independent valuation or appraisal of the assets or liabilities of either EPL or Stone, nor had Banc of America Securities been furnished with any such valuations or appraisals (other than the reports described in the 13th and 14th bullet points above, which Banc of America Securities reviewed and relied upon without independent verification for purposes of its opinion). Representatives of Stone advised Banc of America Securities that Stone was, as of the date of the opinion, in the process of exercising a preference right to acquire approximately 57.8 billion cubic feet of natural gas equivalent of reserves in the Gulf of Mexico in one producing field covered by two leases in which Stone had an existing ownership interest for approximately $200 million (the Amberjack Acquisition), and Banc of America Securities assumed, at EPL s direction, that such acquisition was to be consummated prior to the closing of the merger in accordance with the terms and conditions described to Banc of America Securities. Banc of America Securities also assumed, with EPL s consent, that the final executed merger agreement would not differ in any material respect from the draft merger agreement reviewed by Banc of America Securities, and that the merger would be consummated as provided in the draft merger agreement, with full satisfaction of all, and without waiver of any, material covenants and conditions set forth in the draft merger agreement. Banc of America Securities further assumed, with EPL s consent, that all governmental, regulatory or other consents or approvals necessary for consummation of the merger would be obtained without any adverse effect on EPL, Stone or the contemplated benefits of the merger.

Banc of America Securities expressed no view or opinion as to any terms, aspects or implications of the merger or related transactions (other than the consideration to paid in the merger to the extent expressly specified

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in its written opinion), including, without limitation, the form or structure of the merger or any election, proration or allocation procedures set forth in the merger agreement. In addition, no opinion was expressed as to the relative merits of the merger in comparison to other transactions available to EPL or in which EPL might have engaged or as to whether any transaction might have been more favorable to EPL as an alternative to the merger, nor did Banc of America Securities express any opinion as to the underlying business decision of the board of directors of EPL to proceed with or effect the merger or related transactions. Banc of America Securities expressed no opinion as to what the value of EPL common stock actually would be when issued pursuant to the merger or the prices at which EPL common stock or Stone common stock would trade at any time.

Banc of America Securities opinion was necessarily based on economic, market and other conditions as in effect on, and the information made available to Banc of America Securities as of, the date of the opinion. It was understood that subsequent developments could affect the opinion and Banc of America Securities has no obligation to update, revise or reaffirm its opinion.

The following represents a brief summary of the material financial analyses presented by Banc of America Securities to the EPL board of directors in connection with its opinion. The financial analyses summarized below include information presented in tabular format. In order to fully understand the financial analyses performed by Banc of America Securities, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses performed by Banc of America Securities. Considering the data in the tables below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the financial analyses performed by Banc of America Securities.

Stone Financial Analysis

Analysis of Selected Publicly Traded Companies

Banc of America Securities reviewed certain publicly available financial and stock market information of Stone and the following seven publicly held oil exploration companies in the Gulf of Mexico region:

- ATP Oil & Gas Corp.
- Bois d Arc Energy, Inc.
- Callon Petroleum Company
- Mariner Energy Inc.
- Newfield Exploration Company
- PetroQuest Energy Inc.
- W&T Offshore, Inc.

For each of these companies, Banc of America Securities reviewed (a) firm value (using closing stock prices as of May 24, 2006, the last trading day prior to public announcement of EPL s initial proposal to acquire Stone) as a multiple of estimated earnings before interest, taxes, depreciation, depletion, amortization and exploration expenses, commonly referred to as EBITDAX, for fiscal year 2007, (b) the ratio of firm value to proved reserves, measured per thousand cubic feet equivalent, commonly referred to as Mcfe, and (c) closing stock prices on May 24,

2006 as a multiple of cash flow per share of common stock, commonly referred to as CFPS. Estimated financial data for the selected companies and Stone was based on publicly available market data and research analysts estimates.

Based on a review of the multiples derived from the comparable companies, Banc of America Securities selected a range of multiples to apply to Stone s corresponding financial and operating statistics. This analysis

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indicated the following approximate per share equity reference ranges for Stone, as compared to the per share merger consideration:

Methodology	Implied Price Range (per share)	Per Share Merger Consideration
Estimated EBITDAX for 2007	$ 31.70-$41.33	$ 51.00
Reserves (Price/Mcfe)	$ 39.51-$51.24	$ 51.00
Estimated CFPS for 2007	$ 42.55-$51.06	$ 51.00

No company or business used in this analysis is identical to Stone or its business. Accordingly, an evaluation of the results of this analysis is not entirely mathematical. Rather, this analysis involves complex considerations and judgments concerning differences in financial and operating characteristics and other factors that could affect the acquisition, public trading or other values of the companies or business segments to which Stone was compared.

Analysis of Selected Precedent Transactions

Banc of America Securities reviewed publicly available financial information relating to the following four merger or stock purchase transactions in the oil exploration sector in the Gulf of Mexico announced since September 2005:

Date Announced	Acquiror	Target
February 22, 2006	Energy XXI Gulf Coast Inc.	Marlin Energy LLC
January 23, 2006	Helix Energy Solutions Group	Remington Oil & Gas Corporation
September 12, 2005	Mariner Energy, Inc.	Forest Oil
September 1, 2005	Woodside Petroleum Ltd.	Gryphon Exploration Company

Banc of America Securities reviewed publicly available financial information relating to the following seven asset purchase transactions in the oil exploration sector in the Gulf of Mexico announced since June 2005:

Date Announced	Acquiror	Target
May 16, 2006	Coldren Resources LP	Noble Energy Inc.
April 20, 2006	Mitsui & Co. Ltd./Mitsui & Co. (USA), Inc./Mitsui Oil Exploration Co. Ltd.	Pogo Producing Company
April 19, 2006	Apache Corp.	BP plc
April 7, 2006	Merit Energy Company	Houston Exploration Company
February 28, 2006	Merit Energy Company, Nippon Oil Corporation, Norsk Hydro ASA	Houston Exploration Company
January 24, 2006	W&T Offshore, Inc.	Kerr-McGee Corp.
June 13, 2005	Helix Energy Solutions Group	Murphy Oil Corp.

Banc of America Securities reviewed, among other things, (a) the ratio of the transaction value to proved reserves for each merger or stock purchase transaction and each asset transaction, and (b) the transaction value as a multiple of the last twelve months EBITDAX for each merger or stock purchase transaction.

Based on a review of the multiples derived from the selected transactions, Banc of America Securities selected a range of multiples to apply to corresponding data of Stone. This analysis indicated the following approximate per share equity reference ranges for Stone, as compared to the per share merger consideration:

Methodology

	Implied Price Range (per share)		Per Share Merger Consideration	
Stock and Merger Transactions				
LTM EBITDAX	$	46.10-$65.35	$	51.00
Reserves (Transaction Value/Mcfe)	$	51.24-$74.71	$	51.00
Asset Transactions				
Reserves (Transaction Value/Mcfe)	$	45.37-$57.11	$	51.00

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No company, transaction or business used in this analysis is identical to Stone or the merger. Accordingly, an evaluation of the results of this analysis is not entirely mathematical. Rather, this analysis involves complex considerations and judgments concerning differences in financial and operating characteristics and other factors that could affect the acquisition, public trading or other values of the companies, business segments or transactions to which Stone and the merger were compared.

Net Asset Value Analysis

Banc of America Securities performed a net asset value analysis for Stone by calculating the estimated present value per share of the future cash flows expected to be generated from Stone s proved reserves, assuming no synergies from the merger and assuming $55 million of synergies estimated by EPL s management. Assuming a discount rate of 9% to 11%, this analysis indicated that the implied per share equity reference range for Stone was $49.48 to $59.07 (assuming no synergies) and was $63.76 to $77.22 (assuming synergies), as compared to the per share merger consideration of $51.00.

EPL Financial Analysis

Analysis of Selected Publicly Traded Companies

Banc of America Securities reviewed certain publicly available financial and stock market information of EPL and the following seven publicly held oil exploration companies in the Gulf of Mexico region:

- ATP Oil & Gas Corp.
- Bois d Arc Energy Inc.
- Callon Petroleum Company
- Mariner Energy, Inc.
- Newfield Exploration Company
- PetroQuest Energy Inc.
- W&T Offshore, Inc.

For each of these companies, Banc of America Securities reviewed (a) firm value (using closing stock prices as of May 24, 2006, the last trading day prior to public announcement of EPL s initial proposal to acquire Stone) as a multiple of EBITDAX for fiscal year 2007, (b) the ratio of firm value to proved reserves, measured per Mcfe, and (c) closing stock price on May 24, 2006 as a multiple of CFPS. Estimated financial data for the selected companies and EPL was based on publicly available market data and research analysts estimates.

Based on a review of the multiples derived from the comparable companies, Banc of America Securities selected a range of multiples to apply to EPL s corresponding financial and operating statistics. This analysis indicated the following approximate per share equity reference ranges for EPL, as compared to the closing price of EPL common stock on May 24, 2006.

Methodology	Implied Price Range (per share)	EPL Stock Price (May 24, 2006)
Estimated EBITDAX for 2007	$ 33.93-$40.00	$ 21.56
Reserves (Price/Mcfe)	$ 20.73-$25.11	$ 21.56
Estimated CFPS for 2007	$ 29.53-$35.44	$ 21.56

No company or business used in this analysis is identical to EPL or its business. Accordingly, an evaluation of the results of this analysis is not entirely mathematical. Rather, this analysis involves complex considerations and judgments concerning differences in financial and operating characteristics and other factors that could affect

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the acquisition, public trading or other values of the companies or business segments to which EPL was compared.

Net Asset Value Analysis

Banc of America Securities performed a net asset value analysis for EPL by calculating the estimated present value per share of the future cash flows expected to be generated from EPL s proved reserves. Assuming a discount rate of 9% to 11% and 100% proved reserves, this analysis indicated that the implied price range per share was $32.61 to $37.52, as compared to the closing price of EPL common stock on May 24, 2006, the last trading day prior to public announcement of EPL s initial proposal to acquire Stone, of $21.56.

Relative Financial Analysis

Banc of America Securities compared the net asset valuations of Stone and EPL in order to derive an implied exchange ratio. Assuming no synergies, the comparison implied an exchange ratio of 1.33x to 1.83x, as compared to the transaction exchange ratio of 2.066x to 2.525x. Assuming $55 million in synergies, the comparison implied an exchange ratio of 1.71x to 2.39x, as compared to the transaction exchange ratio of 2.066x to 2.525x.

Pro Forma Financial Analysis

Banc of America Securities analyzed the potential pro forma financial effect of the merger on EPL s 2007 and 2008 estimated CFPS, based on financial and operating projections provided by EPL s management. Banc of America Securities compared the estimated CFPS for 2007 and 2008 for EPL on a standalone basis to the estimated CFPS for 2007 and 2008 on a pro forma basis after giving effect to the merger. Banc of America Securities determined that the merger would be accretive to EPL s CFPS in each of 2007 and 2008.

The actual results achieved by the combined company may vary from projected results and the variations may be material.

Miscellaneous

As noted above, the discussion set forth above is merely a summary of the material financial analyses presented by Banc of America Securities to the EPL board of directors in connection with its opinion and is not a comprehensive description of all analyses undertaken by Banc of America Securities in connection with its opinion. The preparation of a fairness opinion is a complex analytical process involving various determinations as to the most appropriate and relevant methods of financial analysis and the application of those methods to the particular circumstances and, therefore, a fairness opinion is not readily susceptible to partial analysis or summary description. Banc of America Securities believes that its analyses and the summary above must be considered as a whole. Banc of America Securities further believes that selecting portions of its analyses and the factors considered or focusing on information presented in tabular format, without considering all analyses and factors or the narrative description of the analyses, could create a misleading or incomplete view of the processes underlying Banc of America Securities analyses and opinion. Banc of America Securities did not assign any specific weight to any of the analyses described above. The fact that any specific analysis has been referred to in the summary above is not meant to indicate that such analysis was given greater weight than any other analysis.

In performing its analyses, Banc of America Securities considered industry performance, general business and economic conditions and other matters, many of which are beyond the control of EPL and Stone. The estimates of the future performance of EPL and Stone provided by the managements of EPL and Stone in or underlying Banc of America Securities analyses are not necessarily indicative of actual values or actual future results, which may be significantly more or less favorable than those estimates or those suggested by Banc of America Securities analyses. These analyses were prepared solely as part of Banc of America Securities analysis

of the financial fairness of the merger consideration to be paid by EPL pursuant to the merger agreement and were provided to the EPL board of directors in connection with the delivery of Banc of America Securities opinion. The analyses do not purport to be appraisals or to reflect the prices at which a company might actually be sold or the prices at which any securities have traded or may trade at any time in the future. Accordingly, the estimates used in, and the ranges of valuations resulting from, any particular analysis described above are inherently subject to substantial uncertainty and should not be taken to be Banc of America Securities view of the actual value of EPL or Stone.

The type and amount of consideration payable in the merger were determined through negotiations between EPL and Stone, rather than by any financial advisor, and were approved by the EPL board of directors. The decision of EPL to enter into the merger agreement was solely that of the EPL board of directors. As described above, Banc of America Securities opinion and analyses were only one of many factors considered by the EPL board of directors in making its determination to approve the merger agreement and should not be viewed as determinative of the views of the EPL board of directors or management with respect to the merger or the merger consideration.

EPL agreed to pay Banc of America Securities a fee of $500,000 in connection with the delivery of the opinion and $5,000,000 upon the consummation of the merger. EPL also has agreed to reimburse Banc of America Securities for all reasonable expenses, including reasonable fees and disbursements of Banc of America Securities counsel, incurred in connection with Banc of America Securities engagement, and to indemnify Banc of America Securities, any controlling person of Banc of America Securities and each of their respective directors, officers, employees, agents, affiliates and representatives against specified liabilities, including liabilities under the federal securities laws.

Banc of America Securities or its affiliates has provided, currently are providing, and in the future may provide, financial advisory and financing services to EPL and Stone, for which services Banc of America Securities has received or would expect to receive fees, including (1) acting as sole arranger and book runner for the financing for the merger, which is anticipated by EPL to include (a) $600 million in senior secured credit facilities of EPL, (b) $700 million in a senior second lien term facility of EPL, and (c) $730.0 million in gross proceeds from the issuance and sale by EPL of senior unsecured notes, or, alternatively, $730.0 million of senior unsecured bridge loans under a bridge facility for the purpose of financing in part the merger, (2) having acted as sole manager for Stone s senior notes offering in connection with the Amberjack Acquisition, (3) having acted as sole book runner on a debt offering for Stone, (4) having acted as agent bank and lender for a retired revolving credit facility of Stone, and (5) acting as lead arranger, agent bank and lender for an existing revolving credit facility of Stone which Banc of America Securities understands is expected to be refinanced by EPL in connection with the merger. In the ordinary course of businesses, Banc of America Securities and its affiliates may actively trade the debt and equity securities or loans of EPL and Stone for its own account or for the accounts of customers, and accordingly, Banc of America Securities or its affiliates may at any time hold long or short positions in such securities or loans.

Accounting Treatment

The merger will be accounted for as an acquisition of Stone by EPL using the purchase method of accounting. In addition, EPL will continue to use the successful efforts method of accounting for oil and gas properties.

Opinions as to Material U.S. Federal Income Tax Consequences of the Merger

As a condition to the merger, Stone must receive an opinion of its tax counsel, Vinson & Elkins L.L.P., to the effect that (i) the merger constitutes a reorganization under Section 368(a) of the Internal Revenue Code, (ii) Stone and EPL shall each be a party to the reorganization, (iii) no gain or loss shall be recognized by a Stone stockholder who exchanges Stone common stock solely for EPL common stock except for any gain or loss

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recognized with respect to any cash received in lieu of fractional share interests, (iv) with respect to a Stone stockholder who exchanges Stone common stock for EPL common stock and cash, gain realized (if any), but not loss, will be recognized on the exchange, but only to the extent such gain does not exceed the amount of cash received (excluding any cash received in lieu of fractional shares of EPL common stock), and (v) with respect to a Stone stockholder who exchanges Stone common stock solely for cash, gain or loss will be recognized equal to the difference, if any, between the amount of cash received and the tax basis of the Stone common stock exchanged therefor. As a condition to the merger, EPL must receive an opinion of its tax counsel, Cahill Gordon & Reindel LLP, that the merger constitutes a reorganization under Section 368(a) of the Internal Revenue Code, that EPL and Stone shall each be a party to the reorganization, and that neither EPL nor Stone will recognize any gain or loss because of the merger. It is a condition to the completion of the merger that Stone and EPL receive written opinions from their respective counsel to the effect that the merger will qualify as a reorganization within the meaning of Section 368(a) of the Code. Neither EPL nor Stone intends to waive this closing condition. In the event that either EPL or Stone waives receipt of such opinion from its counsel, however, EPL and Stone will resolicit the approval of its stockholders after providing appropriate disclosure.

Each opinion is or will be based on certain factual representations and certifications contained in certificates signed by duly authorized officers of (i) Stone and (ii) EPL. An opinion of counsel represents counsel s legal judgment, but is not a guarantee, and is not binding on the Internal Revenue Service or any court, and there can be no assurance that following the merger the Internal Revenue Service will not successfully challenge the legal conclusions expressed in the opinions. Please review carefully the information under the caption Material U.S. Federal Income Tax Consequences of the Merger beginning on page 115 for a description of the material U.S. federal income tax consequences of the merger.

Board of Directors and Management of EPL Following the Merger

The board of directors of EPL following the merger will be increased by three director positions to fourteen and James H. Stone, Kay G. Priestly and Richard A. Pattarozzi, each of whom is currently a director of Stone, will join the board of directors of EPL. The management of EPL following the merger will consist of the same persons as prior to the merger.

Interests of Certain Persons in the Merger

In considering the recommendation of the Stone board of directors with respect to the merger, you should be aware that certain officers and directors of Stone have the following interests in the merger that are separate from and in addition to the interests of stockholders of Stone generally. The Stone board was aware of these interests and considered them in approving the merger agreement.

Outstanding Stock Options and Restricted Stock. As of June 22, 2006, directors and executive officers of Stone held options for 745,467 shares of Stone common stock and restricted stock related to 153,260 shares of Stone common stock. Stock options, whether vested or unvested, held by Stone s directors, officers and other employees will be cancelled by Stone for cash prior to the merger. The cancellation of the options held by Stone s directors and officers could result in a payment of approximately $6.9 million being made to Stone s officers and directors. The restrictions on any restricted stock awards held by Stone s directors and officers will expire immediately before the merger is completed.

Change of Control Agreements. Each of the following Stone executive officers is a party to a change of control agreement, which will be triggered by the merger and provides for payments to such officers in the amounts set forth opposite their name, assuming the merger closes on September 30, 2006:

David Welch	$ 3,025,867
Kenneth Beer	$ 1,927,733

The change of control agreements provide that these executive officers are entitled to lump sum payments and other benefits, such as continuing health coverage. The cash payments will include 2.99 times the sum of the

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Stone s officer s salary and bonus plus a prorated bonus up to the date of termination. The payments to Messrs. Welch and Beer will be subject to an excise tax imposed by Section 4999 of the Internal Revenue Code that is expected to trigger an additional payment under the change of control agreements such that the amount retained by them (after all taxes on the additional payment) is equal to the amount they would have retained if the initial payments were not subject to such excise tax. The amount of the additional payments (including excise tax on stock options and restricted stock not a part of the change of control agreements) are estimated to be $1,537,982 and $888,426 for Messrs. Welch and Beer, respectively.

Directors and Officers Indemnification and Insurance. The merger agreement provides that for six years after the effective time of the merger, EPL Acquisition Corp. LLC will indemnify the present and former officers and directors of Stone and its subsidiaries from liabilities arising out of actions or omissions in their capacity as such at or prior to the effective time of the merger, to the full extent permitted under Delaware law or the surviving corporation s certificate of incorporation and bylaws. Accordingly, EPL Acquisition Corp. LLC will maintain directors and officers insurance coverage for six years after the effective time of the merger, but only to the extent related to actions or omissions prior to the effective time of the merger, *provided* that EPL Acquisition Corp. LLC may substitute insurance policies with substantially similar coverage and amounts containing no less advantageous terms than those maintained by it as of the effective time of the merger. The aggregate amount of premiums to be paid with respect to the maintenance of such policies for the six-year period shall not exceed $3 million.

Executive Severance Payments. Each of the following Stone officers qualifies for severance payments and retention awards pursuant to Stone s executive severance policy and the terms of the merger agreement, which collectively provide for payments to such officers in the amounts set forth opposite their name:

- Andrew Gates ($599,817);
- Craig Glassinger ($764,767);
- Eldon Louviere ($509,845);
- Michael Madden ($494,849);
- James Pierret ($554,831);
- Jerome Wenzel ($629,808); and
- Florence Ziegler ($359,890).

Stone s executive severance policy and the retention award payable to all eligible Stone employees provide that these officers are entitled to the lump sum payments described above and other benefits, such as continuing health coverage. The cash payment for each officer is equal to one year base salary plus a prorated bonus up to the date of termination. In addition, each officer receives a retention award in accordance with the terms of the merger agreement. The retention award entitles each officer to the payment of such officer s annual salary until December 31, 2006 and a bonus equal to 100% of such officer s targeted bonus amount, which for 2006 is equal to 100% of such officer s annual salary. If any payment to an officer in connection with the merger is deemed an excess parachute payment for purposes of the golden parachute tax provisions of Section 280G of the Internal Revenue Code, then the cash payment will be reduced as necessary so that the cash payment is not subject to the excise tax, but only if such reduction results in the officer being in a better net after-tax position.

New EPL Directors. The board of directors of EPL following the merger will be increased by three director positions and James H. Stone, Kay G. Priestly and Richard A. Pattarozzi, each of whom is currently a director of Stone, will join the board of directors of EPL.

In considering the recommendation of the EPL board of directors with respect to the merger, you should be aware an EPL director has the following interest in the merger that is separate from and in addition to the