STONE ENERGY CORP
Form 10-Q
August 04, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

or

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

For the transition period from to

Commission file number 1-12074

STONE ENERGY CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**72-1235413**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
625 E. Kaliste Saloom Road **Lafayette, Louisiana**	**70508**
(Address of Principal Executive Offices)	(Zip Code)

Registrant s Telephone Number, Including Area Code: **(337) 237-0410**

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

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

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of August 2, 2011, there were 49,026,575 shares of the registrant s common stock, par value $.01 per share, outstanding.

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EX-101 INSTANCE DOCUMENT
EX-101 SCHEMA DOCUMENT
EX-101 CALCULATION LINKBASE DOCUMENT
EX-101 LABELS LINKBASE DOCUMENT
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PART I FINANCIAL INFORMATION
Item 1. Financial Statements

STONE ENERGY CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEET
(In thousands of dollars)

	June 30, 2011 (Unaudited)	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 82,021	$ 106,956
Restricted cash		5,500
Accounts receivable	132,127	88,529
Fair value of hedging contracts	11,531	12,955
Current income tax receivable	6,403	
Deferred taxes	26,027	27,274
Inventory	5,302	6,465
Other current assets	1,248	768
Total current assets	264,659	248,447
Oil and gas properties, full cost method of accounting:		
Proved	5,943,929	5,789,578
Less: accumulated depreciation, depletion and amortization	(4,945,158)	(4,804,949)
Net proved oil and gas properties	998,771	984,629
Unevaluated	510,717	413,180
Other property and equipment, net	10,754	10,722
Fair value of hedging contracts	4,748	
Other assets, net	24,694	22,112
Total assets	$ 1,814,343	$ 1,679,090
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable to vendors	$ 93,054	$ 103,208
Undistributed oil and gas proceeds	14,706	10,037
Accrued interest	14,058	14,062
Fair value of hedging contracts	25,384	32,144
Asset retirement obligations	48,590	42,300
Current income tax payable		239
Other current liabilities	15,850	16,075
Total current liabilities	211,642	218,065
Long-term debt	575,000	575,000
Deferred taxes	157,690	99,227
Asset retirement obligations	306,357	331,620
Fair value of hedging contracts	7,887	3,606

Other long-term liabilities	21,482	21,215
Total liabilities	1,280,058	1,248,733
Commitments and contingencies		
Stockholders equity:		
Common stock, $.01 par value; authorized 100,000,000 shares; issued 48,017,749 and 47,764,505 shares, respectively	480	478
Treasury stock (16,582 shares, respectively, at cost)	(860)	(860)
Additional paid-in capital	1,334,800	1,331,500
Accumulated deficit	(789,569)	(886,557)
Accumulated other comprehensive loss	(10,566)	(14,204)
Total stockholders equity	534,285	430,357
Total liabilities and stockholders equity	$ 1,814,343	$ 1,679,090

The accompanying notes are an integral part of this statement.

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STONE ENERGY CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Operating revenue:				
Oil production	$ 175,357	$ 103,159	$ 327,352	$ 203,724
Gas production	56,513	60,823	102,371	124,049
Other operational income	864	1,431	1,749	2,687
Derivative income, net	1,398	2,225		3,413
Total operating revenue	234,132	167,638	431,472	333,873
Operating expenses:				
Lease operating expenses	46,734	36,883	85,540	75,547
Other operational expenses	136	2,447	798	2,447
Production taxes	1,801	1,590	4,336	3,244
Depreciation, depletion and amortization	72,646	63,765	140,315	124,418
Accretion expense	7,717	8,462	15,434	16,924
Salaries, general and administrative expenses	10,610	9,963	22,343	20,448
Incentive compensation expense	2,333	421	5,017	1,346
Derivative expenses, net			782	
Total operating expenses	141,977	123,531	274,565	244,374
Income from operations	92,155	44,107	156,907	89,499
Other (income) expenses:				
Interest expense	1,980	2,540	5,091	6,606
Interest income	(53)	(1,002)	(147)	(1,059)
Other income	(563)		(1,127)	(776)
Loss on early extinguishment of debt	607		607	1,820
Other expense	69	209	193	489
Total other (income) expenses	2,040	1,747	4,617	7,080
Net income before income taxes	90,115	42,360	152,290	82,419
Provision (benefit) for income taxes:				
Current	(2,362)	(1,392)	(2,362)	(5,264)
Deferred	35,281	15,880	57,664	34,393

Total income taxes	32,919	14,488	55,302	29,129
Net income	$ 57,196	$ 27,872	$ 96,988	$ 53,290
Basic earnings per share	$ 1.17	$ 0.57	$ 1.98	$ 1.10
Diluted earnings per share	$ 1.17	$ 0.57	$ 1.98	$ 1.10
Average shares outstanding	47,961	47,654	47,930	47,631
Average shares outstanding assuming dilution	48,006	47,678	47,973	47,657

The accompanying notes are an integral part of this statement.

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STONE ENERGY CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(In thousands of dollars)
(Unaudited)

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Cash flows from operating activities:		
Net income	$ 96,988	$ 53,290
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	140,315	124,418
Accretion expense	15,434	16,924
Deferred income tax provision	57,664	34,393
Settlement of asset retirement obligations	(33,568)	(19,798)
Non-cash stock compensation expense	3,138	2,741
Excess tax benefits	(1,060)	(294)
Non-cash derivative income	(118)	(1,818)
Loss on early extinguishment of debt	607	1,820
Other non-cash (income) expense	(155)	519
Change in current income taxes	(6,245)	(8,813)
(Increase) decrease in accounts receivable	(37,428)	27,500
Increase in other current assets	(476)	(153)
Decrease in inventory	1,163	936
Increase (decrease) in accounts payable	5,854	(15)
Increase (decrease) in other current liabilities	4,440	(21,469)
Other	(21)	153
Net cash provided by operating activities	246,532	210,334
Cash flows from investing activities:		
Investment in oil and gas properties	(272,451)	(169,983)
Proceeds from sale of oil and gas properties, net of expenses	6,692	29,727
Investment in fixed and other assets	(894)	(1,125)
Net cash used in investing activities	(266,653)	(141,381)
Cash flows from financing activities:		
Repayments of bank borrowings		(125,000)
Redemption of senior subordinated notes		(200,503)
Proceeds from issuance of senior notes		275,000
Deferred financing costs	(4,017)	(9,701)
Excess tax benefits	1,060	294
Net payments for share based compensation	(1,857)	(1,071)
Net cash used in financing activities	(4,814)	(60,981)

Net increase (decrease) in cash and cash equivalents	(24,935)	7,972
Cash and cash equivalents, beginning of period	106,956	69,293
Cash and cash equivalents, end of period	$ 82,021	$ 77,265

The accompanying notes are an integral part of this statement.

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STONE ENERGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 Interim Financial Statements

The condensed consolidated financial statements of Stone Energy Corporation (Stone) and its subsidiaries as of June 30, 2011 and for the three and six-month periods ended June 30, 2011 and 2010 are unaudited and reflect all adjustments (consisting only of normal recurring adjustments), which are, in the opinion of management, necessary for a fair presentation of the financial position and operating results for the interim periods. The condensed consolidated balance sheet at December 31, 2010 has been derived from the audited financial statements at that date. The condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto, together with management s discussion and analysis of financial condition and results of operations, contained in our Annual Report on Form 10-K for the year ended December 31, 2010. The results of operations for the three and six-month periods ended June 30, 2011 are not necessarily indicative of future financial results. Certain 2010 amounts have been changed from amounts originally presented to correct a prior period immaterial error.

Note 2 Earnings Per Share

The following table sets forth the calculation of basic and diluted weighted average shares outstanding and earnings per share for the indicated periods.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(in thousands, except per share data)			
Income (numerator):				
Net income	$ 57,196	$ 27,872	$ 96,988	$ 53,290
Net income attributable to participating securities	(1,192)	(485)	(2,022)	(927)
Net income attributable to common stock basic and diluted	$ 56,004	$ 27,387	$ 94,966	$ 52,363
Weighted average shares (denominator):				
Weighted average shares basic	47,961	47,654	47,930	47,631
Diluted effect of stock options	45	24	43	26
Weighted average shares diluted	48,006	47,678	47,973	47,657
Basic income per common share	$ 1.17	$ 0.57	$ 1.98	$ 1.10
Diluted income per common share	$ 1.17	$ 0.57	$ 1.98	$ 1.10

Stock options that were considered antidilutive because the exercise price of the option exceeded the average price of our common stock for the applicable period totaled approximately 398,000 and 422,000 shares for the three months ended June 30, 2011 and 2010, respectively. Stock options that were considered antidilutive totaled approximately 398,000 and 423,000 shares during the six months ended June 30, 2011 and 2010, respectively.

During the three months ended June 30, 2011 and 2010, approximately 73,000 and 55,000 shares of common stock, respectively, were issued upon the vesting of restricted stock by employees and nonemployee directors. During the six months ended June 30, 2011 and 2010, approximately 253,000 and 195,000 shares of common stock, respectively, were issued upon the vesting of restricted stock by employees and nonemployee directors.

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Note 3 Derivative Instruments and Hedging Activities

Our hedging strategy is designed to protect our near and intermediate term cash flow from future declines in oil and natural gas prices. This protection is essential to capital budget planning, which is sensitive to expenditures that must be committed to in advance such as rig contracts and the purchase of tubular goods. We enter into hedging transactions to secure a commodity price for a portion of future production that is acceptable at the time of the transaction. These hedges are designated as cash flow hedges upon entering into the contract. We do not enter into hedging transactions for trading purposes. We have no fair value hedges.

The nature of a derivative instrument must be evaluated to determine if it qualifies for hedge accounting treatment. If the instrument qualifies for hedge accounting treatment, it is recorded as either an asset or liability measured at fair value and subsequent changes in the derivative s fair value are recognized in equity through other comprehensive income (loss), net of related taxes, to the extent the hedge is considered effective. Additionally, monthly settlements of effective hedges are reflected in revenue from oil and gas production and cash flows from operations. Instruments not qualifying for hedge accounting are recorded in the balance sheet at fair value and changes in fair value are recognized in earnings through derivative expense (income). Typically, a small portion of our derivative contracts are determined to be ineffective. This is because oil and natural gas price changes in the markets in which we sell our products are not 100% correlative to changes in the underlying price basis indicative in the derivative contracts. Monthly settlements of ineffective hedges are recognized in earnings through derivative expense (income) and cash flows from operations.

We have entered into fixed-price swaps with various counterparties for a portion of our expected 2011, 2012 and 2013 oil and natural gas production from the Gulf Coast Basin. The fixed-price oil swap settlements are based upon an average of the New York Mercantile Exchange (NYMEX) closing price for West Texas Intermediate (WTI) during the entire calendar month. Some of our fixed-price gas swap settlements are based on an average of NYMEX prices for the last three days of a respective month and some are based on the NYMEX price for the last day of a respective month. Swaps typically provide for monthly payments by us if prices rise above the swap price or to us if prices fall below the swap price. Our fixed-price swap contracts for 2011, 2012 and 2013 are with J.P. Morgan Chase Bank, N.A., The Toronto-Dominion Bank, Barclays Bank PLC, BNP Paribas, The Bank of Nova Scotia, Bank of America and Natixis**.**

During the six-month periods ended June 30, 2011 and 2010, certain of our derivative contracts were determined to be partially ineffective because of differences in the relationship between the fixed price in the derivative contract and actual prices realized. All of our derivative instruments at June 30, 2011 and December 31, 2010 were designated as effective cash flow hedges. The following tables disclose the location and fair value amounts of derivative instruments reported in our balance sheet at June 30, 2011 and December 31, 2010.

Fair Value of Derivative Instruments at June 30, 2011
(in millions)

	Asset Derivatives		Liability Derivatives	
Description	**Balance Sheet Location**	**Fair Value**	**Balance Sheet Location**	**Fair Value**
Commodity contracts	Current assets: Fair value of hedging contracts	$ 11.5	Current liabilities: Fair value of hedging contracts	$ (25.4)
	Long-term assets: Fair value of hedging contracts	4.7	Long-term liabilities: Fair value of hedging contracts	(7.9)
		$ 16.2		$ (33.3)

Fair Value of Derivative Instruments at December 31, 2010
(in millions)

	Asset Derivatives		Liability Derivatives	
		Fair		**Fair**

Description	Balance Sheet Location	Value	Balance Sheet Location	Value
Commodity contracts	Current assets: Fair value of hedging contracts	$ 13.0	Current liabilities: Fair value of hedging contracts	$ (32.1)
	Long-term assets: Fair value of hedging contracts		Long-term liabilities: Fair value of hedging contracts	(3.6)
		$ 13.0		$ (35.7)

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The following tables disclose the effect of derivative instruments in the statement of operations for the three and six-month periods ended June 30, 2011 and 2010.

The Effect of Derivative Instruments on the Statement of Operations for the Three Months Ended June 30, 2011 and 2010
(in millions)

Derivatives in Cash Flow Hedging Relationships	**Amount of Gain Recognized in OCI on Derivative (a)**		**Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (b)**			**Gain Recognized in Income on Derivative (Ineffective Portion)**		
	2011	**2010**	**Location**	**2011**	**2010**	**Location**	**2011**	**2010**
Commodity contracts	$ 36.1	$ 15.0	Operating revenue - oil/gas production	$ (10.5)	$ 4.8	Derivative income, net	$ 1.4	$ 2.2
Total	$ 36.1	$ 15.0		$ (10.5)	$ 4.8		$ 1.4	$ 2.2

(a) Net of related tax effect.

(b) For the three months ended June 30, 2011, effective hedging contracts decreased oil revenue by $14.3 million and increased gas revenue by $3.8 million. For the three months ended June 30, 2010, effective hedging contracts decreased oil revenue by $5.8 million and increased gas revenue by $10.6 million.

The Effect of Derivative Instruments on the Statement of Operations for the Six Months Ended June 30, 2011 and 2010
(in millions)

Derivatives in Cash Flow Hedging Relationships	**Amount of Gain Recognized in OCI on Derivative (a)**		**Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) (b)**			**Gain (Loss) Recognized in Income on Derivative (Ineffective Portion)**		
	2011	**2010**	**Location**	**2011**	**2010**	**Location**	**2011**	**2010**
Commodity contracts	$ 3.6	$ 28.1	Operating revenue - oil/gas production	$ (14.4)	$ 2.2	Derivative income (expense), net	$ (0.8)	$ 3.4
Total	$ 3.6	$ 28.1		$ (14.4)	$ 2.2		$ (0.8)	$ 3.4

(a) Net of related tax effect.

(b) For the six months ended June 30, 2011, effective hedging contracts decreased oil revenue by $22.8 million and increased gas revenue by $8.4 million. For the six months ended June 30, 2010, effective hedging contracts decreased oil revenue by $14.1 million and increased gas revenue by $16.3 million.

At June 30, 2011, we had an accumulated other comprehensive loss of $10.6 million, net of tax, which related to the fair value of our 2011, 2012 and 2013 swap contracts that were outstanding as of June 30, 2011. We believe that approximately $8.6 million of the accumulated other comprehensive loss will be reclassified into earnings in the next twelve months.

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The following table illustrates our hedging positions for calendar years 2011, 2012 and 2013 as of August 2, 2011:

	Fixed-Price Swaps			
	Natural Gas		Oil	
	Daily Volume (MMBtus/d)	Swap Price	Daily Volume (Bbls/d)	Swap Price
2011	10,000(a)	$4.565	1,000	$ 70.05
2011	20,000	5.200	1,000	78.20
2011	10,000	6.830	1,000	80.20
2011			1,000	83.00
2011			1,000	83.05
2011			1,000(b)	85.20
2011			1,000	85.25
2011			1,000	89.00
2011			1,000(c)	97.75
2011			1,000(c)	104.30
2012	10,000	5.035	1,000	90.30
2012	10,000	5.040	1,000	90.41
2012	10,000	5.050	1,000	90.45
2012			1,000	95.50
2012			1,000	97.60
2012			1,000	100.00
2012			1,000	101.55
2012			1,000	104.25
2013	10,000	5.270	1,000	97.15
2013	10,000	5.320	1,000	101.53
2013			1,000	103.00
2013			1,000	104.50

(a) February December

(b) January June

(c) July December

Note 4 Long-Term Debt

Long-term debt consisted of the following at:

	June 30, 2011	December 31, 2010
	(in millions)	
$6^3/4$% Senior Subordinated Notes due 2014	$ 200.0	$ 200.0
$8^5/8$% Senior Notes due 2017	375.0	375.0
Bank debt		
Total long-term debt	$ 575.0	$ 575.0

On June 30, 2011, we had no outstanding borrowings under our bank credit facility and letters of credit totaling $61.1 million had been issued pursuant to the facility. On April 26, 2011, we entered into an amended and restated revolving credit facility totaling $700 million through a syndicated bank group, replacing our previous $700 million facility. The new credit facility matures on September 15, 2014 or, if the notes issued under our 2004 indenture are retired on or before April 15, 2014, on April 26, 2015. Our initial borrowing base under the new credit facility was set at $400 million. The new credit facility decreases our borrowing base grid by 25 basis points in respect of London Interbank Offering Rate (Libor Rate) advances and base rate advances. As of August 2, 2011, we had no outstanding borrowings under our bank credit facility and letters of credit totaling $61.1 million had been issued pursuant to the facility, leaving $338.9 million of availability under the facility. Our bank credit facility is guaranteed by our only material subsidiary, Stone Energy Offshore, L.L.C. (Stone Offshore).

The borrowing base under our bank credit facility is redetermined by the lenders semi-annually, typically on May 1 and November 1, taking into consideration the estimated value of our oil and gas properties and those of our direct and indirect material subsidiaries in accordance with the lenders customary practices for oil and gas loans. In addition, we and the lenders each have discretion at any time, but not more than two additional times in any calendar year, to have the borrowing base redetermined. Our bank credit facility is collateralized by substantially all of Stone s and Stone Offshore s assets. Stone and

Stone Offshore are required to mortgage, and grant a security interest in, their oil and gas reserves representing at least 80% of the discounted present value of the future net cash flows from their oil and gas reserves reviewed in determining the borrowing base. At our option, loans under our bank credit facility will bear interest at a rate based on the adjusted Libor Rate plus an applicable margin, or a rate based on the prime rate or Federal funds rate plus an applicable margin. Our bank credit facility provides for optional and mandatory prepayments, affirmative and negative covenants, and interest coverage ratio and leverage ratio maintenance covenants. We were in compliance with all covenants as of June 30, 2011.

Note 5 Comprehensive Income

The following table illustrates the components of comprehensive income for the three and six-month periods ended June 30, 2011 and 2010:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
	(in millions)			
Net income	$ 57.2	$ 27.9	$ 97.0	$ 53.3
Other comprehensive income, net of tax effect:				
Adjustment for fair value accounting of derivatives	36.1	15.0	3.6	28.1
Comprehensive income	$ 93.3	$ 42.9	$ 100.6	$ 81.4

Note 6 Asset Retirement Obligations

The change in our asset retirement obligations during the six months ended June 30, 2011 is set forth below:

	Six Months Ended June 30, 2011
	(in millions)
Asset retirement obligations as of the beginning of the period, including current portion	$ 373.9
Liabilities settled	(33.6)
Divestment of properties	(0.8)
Accretion expense	15.4
Asset retirement obligations as of the end of the period, including current portion	$ 354.9

In October 2010, we received notification from the Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE) indicating that certain identified wells and facilities operated by us would need to be retired on a timing schedule, which was accelerated from the timing estimated in calculating liabilities for asset retirement obligations at December 31, 2009. In February 2011, we submitted an abandonment plan addressing the identified wells and facilities. The BOEMRE has indicated they will issue a final order upon review of the plan. During 2010, we increased our asset retirement obligations in the amount of $54.4 million for the estimated impact of the accelerated timing of the retirement of these assets and other factors. The final order will ultimately determine the impact on our asset retirement obligations and could result in additional upward or downward revisions.

Note 7 Fair Value Measurements

U.S. Generally Accepted Accounting Principles establish a fair value hierarchy which has three levels based on the reliability of the inputs used to determine the fair value. These levels include: Level 1, defined as inputs such as unadjusted quoted prices in active markets for identical assets or liabilities; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs for use when little or no market data exists, therefore requiring an entity to develop its own assumptions.

As of June 30, 2011 and December 31, 2010, we held certain financial assets and liabilities that are required to be measured at fair value on a recurring basis, including our commodity derivative instruments and our investments in money market funds. We utilize the services of an independent third party to assist us in valuing our derivative instruments. We used the income approach in determining the fair value of our derivative instruments utilizing a proprietary pricing model. The model accounts for our credit risk and the credit risk of our counterparties in the discount rate applied to estimated future cash inflows and outflows. Our swap contracts are included within the Level 2 fair value hierarchy. For a more detailed description of our

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derivative instruments, see **Note 3 Derivative Instruments and Hedging Activities**. We used the market approach in determining the fair value of our investments in money market funds, which are included within the Level 1 fair value hierarchy.

The following tables present our assets and liabilities that are measured at fair value on a recurring basis at June 30, 2011:

		Fair Value Measurements at June 30, 2011		
Assets	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
		(in millions)		
Money market funds	$ 7.2	$ 7.2	$	$
Hedging contracts	16.2		16.2	
Total	$ 23.4	$ 7.2	$ 16.2	$

		Fair Value Measurements at June 30, 2011		
Liabilities	**Total**	**Quoted Prices in Active Markets for Identical Liabilities (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
		(in millions)		
Hedging contracts	$ (33.3)	$	$ (33.3)	$
Total	$ (33.3)	$	$ (33.3)	$

The following tables present our assets and liabilities that are measured at fair value on a recurring basis at December 31, 2010:

		Fair Value Measurements at December 31, 2010		
Assets	**Total**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
		(in millions)		
Money market funds	$ 7.3	$ 7.3	$	$
Hedging contracts	13.0		13.0	

Total	$ 20.3	$ 7.3	$ 13.0	$

Liabilities	Total	Fair Value Measurements at December 31, 2010 Quoted Prices in Active Markets for Identical Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in millions)		
Hedging contracts	$ (35.7)	$	$ (35.7)	$
Total	$ (35.7)	$	$ (35.7)	$

The fair value of cash and cash equivalents approximated book value at June 30, 2011 and December 31, 2010. As of June 30, 2011 and December 31, 2010, the fair value of our $375 million 8$^{5}/8$% Senior Notes due 2017 was approximately $388.1 million and $380.6 million, respectively. As of June 30, 2011 and December 31, 2010, the fair value of our $200 million 6$^{3}/4$% Senior Subordinated Notes due 2014 was approximately $198.5 million and $197.0 million, respectively. The fair value of our outstanding notes was determined based upon quotes obtained from brokers.

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Note 8 Commitments and Contingencies

We are named as a defendant in certain lawsuits and are a party to certain regulatory proceedings arising in the ordinary course of business. We do not expect these matters, individually or in the aggregate, will have a material adverse effect on our financial condition.

Franchise Tax Action. We have been served with several petitions filed by the Louisiana Department of Revenue (LDR) in Louisiana state court claiming additional franchise taxes due. In addition, we have received preliminary assessments from the LDR for additional franchise taxes resulting from audits of Stone and our subsidiaries. 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. Total asserted claims plus estimated accrued interest amount to approximately $29.4 million. The franchise tax year 2010 for Stone remains subject to examination, which potentially exposes us to additional estimated assessments of $0.8 million including accrued interest.

Lafourche Parish, Louisiana, Landowner Action. In December 2008, Stephen E. Coignet, *et al*., filed civil action No. 110741 in the 17th Judicial District Court, Lafourche Parish, Louisiana, against Stone. Plaintiffs have since filed three supplemental petitions, including a third supplemental and restated petition on October 25, 2010. Plaintiffs are landowners of approximately sixty acres that are subject to mineral leases in favor of Stone. Plaintiffs allege that Stone conducted its mineral operations imprudently resulting in damages to plaintiffs in excess of $60 million. The Company disagrees with plaintiffs contentions and intends to vigorously defend itself against these claims.

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Note 9 Guarantor Financial Statements

Stone Offshore is an unconditional guarantor (the Guarantor Subsidiary) of our 6^3/4% Senior Subordinated Notes due 2014 and our 8^5/8% Senior Notes due 2017. Our remaining subsidiaries (the Non-Guarantor Subsidiaries) have not provided guarantees. The following presents condensed consolidating financial information as of June 30, 2011 and December 31, 2010 and for the three and six-month periods ended June 30, 2011 and 2010 on an issuer (parent company), guarantor subsidiary, non-guarantor subsidiaries, and consolidated basis. Elimination entries presented are necessary to combine the entities.

CONDENSED CONSOLIDATING BALANCE SHEET (UNAUDITED)
JUNE 30, 2011
(In thousands of dollars)

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ 81,589	$ 319	$ 113	$	$ 82,021
Accounts receivable	161,028	89,968	1,318	(120,187)	132,127
Fair value of hedging contracts		11,531			11,531
Current income tax receivable	4,050	2,353			6,403
Deferred taxes *	3,168	22,859			26,027
Inventory	5,018	284			5,302
Other current assets	1,248				1,248
Total current assets	256,101	127,314	1,431	(120,187)	264,659
Oil and gas properties, full cost method:					
Proved, net	134,198	861,144	3,429		998,771
Unevaluated	320,977	189,740			510,717
Other property and equipment, net	10,754				10,754
Fair value of hedging contracts		4,748			4,748
Other assets, net	24,694				24,694
Investment in subsidiary	532,538	2,383		(534,921)	
Total assets	$ 1,279,262	$ 1,185,329	$ 4,860	$ (655,108)	$ 1,814,343
Liabilities and Stockholders Equity					
Current liabilities:					
Accounts payable to vendors	$ 74,089	$ 139,153	$	$ (120,188)	$ 93,054
Undistributed oil and gas proceeds	13,451	1,255			14,706
Accrued interest	14,058				14,058
Fair value of hedging contracts		25,384			25,384
Asset retirement obligations		48,590			48,590
Other current liabilities	11,897	3,953			15,850

Total current liabilities	113,495	218,335		(120,188)	211,642
Long-term debt	575,000				575,000
Deferred taxes *	41,523	116,167			157,690
Asset retirement obligations	190	301,570	4,597		306,357
Fair value of hedging contracts		7,887			7,887
Other long-term liabilities	14,769	6,713			21,482
Total liabilities	744,977	650,672	4,597	(120,188)	1,280,058
Commitments and contingencies					
Stockholders equity:					
Common stock	480				480
Treasury stock	(860)				(860)
Additional paid-in capital	1,334,800	1,673,597	1,639	(1,675,236)	1,334,800
Accumulated earnings (deficit)	(789,569)	(1,128,374)	(1,376)	1,129,750	(789,569)
Accumulated other comprehensive income (loss)	(10,566)	(10,566)		10,566	(10,566)
Total stockholders equity	534,285	534,657	263	(534,920)	534,285
Total liabilities and stockholders equity	$ 1,279,262	$ 1,185,329	$ 4,860	$ (655,108)	$ 1,814,343

* Deferred income taxes have been allocated to guarantor subsidiary where related oil and gas properties reside.

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CONDENSED CONSOLIDATING BALANCE SHEET (UNAUDITED)
DECEMBER 31, 2010
(In thousands of dollars)

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$ 105,115	$ 1,659	$ 182	$	$ 106,956
Restricted cash	5,500				5,500
Accounts receivable	26,760	61,560	902	(693)	88,529
Fair value of hedging contracts	12,955				12,955
Deferred taxes *	27,274				27,274
Inventory	6,168	297			6,465
Other current assets	753	15			768
Total current assets	184,525	63,531	1,084	(693)	248,447
Oil and gas properties, full cost method:					
Proved, net	260,434	720,309	3,886		984,629
Unevaluated	337,725	75,455			413,180
Other property and equipment, net	10,722				10,722
Other assets, net	22,112				22,112
Investment in subsidiary	427,273	1,561		(428,834)	
Total assets	$ 1,242,791	$ 860,856	$ 4,970	$ (429,527)	$ 1,679,090
Liabilities and Stockholders Equity					
Current liabilities:					
Accounts payable to vendors	$ 60,019	$ 43,881	$	$ (692)	$ 103,208
Undistributed oil and gas proceeds	9,491	546			10,037
Accrued interest	14,062				14,062
Fair value of hedging contracts	32,144				32,144
Asset retirement obligations		42,300			42,300
Current income tax payable	239				239
Other current liabilities	16,075				16,075
Total current liabilities	132,030	86,727		(692)	218,065
Long-term debt	575,000				575,000
Deferred taxes *	(41,804)	141,031			99,227
Asset retirement obligations	129,100	198,105	4,415		331,620
Fair value of hedging contracts	3,606				3,606
Other long-term liabilities	14,502	6,713			21,215

Total liabilities	812,434	432,576	4,415	(692)	1,248,733
Commitments and contingencies					
Stockholders equity:					
Common stock	478				478
Treasury stock	(860)				(860)
Additional paid-in capital	1,331,500	1,673,598	1,640	(1,675,238)	1,331,500
Accumulated earnings (deficit)	(886,557)	(1,245,318)	(1,085)	1,246,403	(886,557)
Accumulated other comprehensive loss	(14,204)				(14,204)
Total stockholders equity	430,357	428,280	555	(428,835)	430,357
Total liabilities and stockholders equity	$ 1,242,791	$ 860,856	$ 4,970	$ (429,527)	$ 1,679,090

* Deferred income taxes have been allocated to guarantor subsidiary where related oil and gas properties reside.

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CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (UNAUDITED)
THREE MONTHS ENDED JUNE 30, 2011
(In thousands of dollars)

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue:					
Oil production	$ 732	$ 174,625	$	$	$ 175,357
Gas production	4,303	52,210			56,513
Other operational income	587	104	173		864
Derivative income, net		1,398			1,398
Total operating revenue	5,622	228,337	173		234,132
Operating expenses:					
Lease operating expenses	390	46,344			46,734
Other operational expense	93	40	3		136
Production taxes	245	1,556			1,801
Depreciation, depletion, amortization	(24)	72,426	244		72,646
Accretion expense	4	7,622	91		7,717
Salaries, general and administrative	10,562	48			10,610
Incentive compensation expense	2,333				2,333
Total operating expenses	13,603	128,036	338		141,977
Income (loss) from operations	(7,981)	100,301	(165)		92,155
Other (income) expenses:					
Interest expense	1,979	1			1,980
Interest income	(53)				(53)
Other (income) expense, net	56	(547)	(3)		(494)
Loss on early extinguishment of debt	607				607
(Income) loss from investment in subsidiaries	(63,621)	162		63,459	
Total other (income) expenses	(61,032)	(384)	(3)	63,459	2,040
Income (loss) before taxes	53,051	100,685	(162)	(63,459)	90,115
Provision (benefit) for income taxes:					
Current	(9)	(2,353)			(2,362)
Deferred	(4,136)	39,417			35,281

Total income taxes		(4,145)		37,064						32,919
Net income (loss)	$	57,196	$	63,621	$	(162)	$	(63,459)	$	57,196

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CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (UNAUDITED)
THREE MONTHS ENDED JUNE 30, 2010
(In thousands of dollars)

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue:					
Oil production	$ 13,533	$ 89,626	$	$	$ 103,159
Gas production	16,406	44,417			60,823
Other operational income	1,205	(18)	244		1,431
Derivative income, net	2,225				2,225
Total operating revenue	33,369	134,025	244		167,638
Operating expenses:					
Lease operating expenses	6,285	30,598			36,883
Other operational expense	1,275	1,172			2,447
Production taxes	1,256	334			1,590
Depreciation, depletion, amortization	10,318	53,170	277		63,765
Accretion expense	3,627	4,724	111		8,462
Salaries, general and administrative	9,960	3			9,963
Incentive compensation expense	421				421
Total operating expenses	33,142	90,001	388		123,531
Income (loss) from operations	227	44,024	(144)		44,107
Other (income) expenses:					
Interest expense	2,563	(23)			2,540
Interest income	(1,002)				(1,002)
Other (income) expense, net	196	(1)	14		209
(Income) loss from investment in subsidiaries	(28,617)	158		28,459	
Total other (income) expenses	(26,860)	134	14	28,459	1,747
Income (loss) before taxes	27,087	43,890	(158)	(28,459)	42,360
Provision (benefit) for income taxes:					
Current	(1,304)	(88)			(1,392)
Deferred	519	15,361			15,880

Total income taxes	(785)	15,273			14,488
Net income (loss)	$ 27,872	$ 28,617	$ (158)	$ (28,459)	$ 27,872

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (UNAUDITED)
SIX MONTHS ENDED JUNE 30, 2011
(In thousands of dollars)

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue:					
Oil production	$ 1,518	$ 325,834	$	$	$ 327,352
Gas production	5,583	96,788			102,371
Other operational income	1,309	85	355		1,749
Total operating revenue	8,410	422,707	355		431,472
Operating expenses:					
Lease operating expenses	746	84,794			85,540
Other operational expense	93	702	3		798
Production taxes	392	3,944			4,336
Depreciation, depletion, amortization	5,918	133,936	461		140,315
Accretion expense	8	15,244	182		15,434
Salaries, general and administrative	22,293	50			22,343
Incentive compensation expense	5,017				5,017
Derivative expenses, net		782			782
Total operating expenses	34,467	239,452	646		274,565
Income (loss) from operations	(26,057)	183,255	(291)		156,907
Other (income) expenses:					
Interest expense	5,010	81			5,091
Interest income	(141)	(6)			(147)
Other (income) expense, net	179	(1,113)			(934)
Loss on early extinguishment of debt	607				607
(Income) loss from investment in subsidiaries	(116,944)	291		116,653	
Total other (income) expenses	(111,289)	(747)		116,653	4,617
Income (loss) before taxes	85,232	184,002	(291)	(116,653)	152,290
Provision (benefit) for income taxes:					

Current	(9)	(2,353)			(2,362)
Deferred	(11,747)	69,411			57,664
Total income taxes	(11,756)	67,058			55,302
Net income (loss)	$ 96,988	$ 116,944	$ (291)	$ (116,653)	$ 96,988

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CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS (UNAUDITED)
SIX MONTHS ENDED JUNE 30, 2010
(In thousands of dollars)

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue:					
Oil production	$ 24,609	$ 179,115	$	$	$ 203,724
Gas production	29,424	94,625			124,049
Other operational income	2,187	(30)	530		2,687
Derivative income, net	3,413				3,413
Total operating revenue	59,633	273,710	530		333,873
Operating expenses:					
Lease operating expenses	17,196	58,351			75,547
Other operational expense	1,275	1,172			2,447
Production taxes	2,309	935			3,244
Depreciation, depletion, amortization	20,826	103,049	543		124,418
Accretion expense	7,254	9,449	221		16,924
Salaries, general and administrative	20,442	6			20,448
Incentive compensation expense	1,346				1,346
Total operating expenses	70,648	172,962	764		244,374
Income (loss) from operations	(11,015)	100,748	(234)		89,499
Other (income) expenses:					
Interest expense	6,629	(23)			6,606
Interest income	(1,057)	(2)			(1,059)
Other (income) expense, net	369	(672)	16		(287)
Loss on early extinguishment of debt	1,820				1,820
(Income) loss from investment in subsidiaries	(65,865)	250		65,615	
Total other (income) expenses	(58,104)	(447)	16	65,615	7,080
Income (loss) before taxes	47,089	101,195	(250)	(65,615)	82,419
Provision (benefit) for income taxes:					
Current	(5,176)	(88)			(5,264)
Deferred	(1,025)	35,418			34,393

Total income taxes	(6,201)	35,330			29,129
Net income (loss)	$ 53,290	$ 65,865	$ (250)	$ (65,615)	$ 53,290

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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (UNAUDITED)
SIX MONTHS ENDED JUNE 30, 2011
(In thousands of dollars)

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:					
Net income (loss)	$ 96,988	$ 116,944	$ (291)	$ (116,653)	$ 96,988
Adjustments to reconcile net income (loss) to net cash provided by operating activities:					
Depreciation, depletion and amortization	5,918	133,936	461		140,315
Accretion expense	8	15,244	182		15,434
Deferred income tax provision (benefit)	(11,747)	69,411			57,664
Settlement of asset retirement obligations		(33,568)			(33,568)
Non-cash stock compensation expense	3,138				3,138
Excess tax benefits	(1,060)				(1,060)
Non-cash derivative income		(118)			(118)
Loss on early extinguishment of debt	607				607
Non-cash (income) loss from investment in subsidiaries	(116,944)	291		116,653	
Other non-cash expense (income)	959	(1,114)			(155)
Change in current income taxes	(3,893)	(2,352)			(6,245)
Change in intercompany receivables/payables	149,716	(149,290)	(426)		
(Increase) decrease in accounts receivable	(15,198)	(22,239)	9		(37,428)
(Increase) decrease in other current assets	(491)	15			(476)
Decrease in inventory	1,149	14			1,163
Increase in accounts payable	2,494	3,360			5,854
Increase (decrease) in other current liabilities	(224)	4,664			4,440
Other	(21)				(21)
Net cash provided by (used in) operating activities	111,399	135,198	(65)		246,532
Cash flows from investing activities:					
Investment in oil and gas properties	(134,792)	(137,655)	(4)		(272,451)

Proceeds from sale of oil and gas properties, net of expenses	5,575	1,117			6,692
Investment in fixed and other assets	(894)				(894)
Net cash used in investing activities	(130,111)	(136,538)	(4)		(266,653)
Cash flows from financing activities:					
Deferred financing costs	(4,017)				(4,017)
Excess tax benefits	1,060				1,060
Net payments for share based compensation	(1,857)				(1,857)
Net cash used in financing activities	(4,814)				(4,814)
Net decrease in cash and cash equivalents	(23,526)	(1,340)	(69)		(24,935)
Cash and cash equivalents, beginning of period	105,115	1,659	182		106,956
Cash and cash equivalents, end of period	$ 81,589	$ 319	$ 113	$	$ 82,021

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CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS (UNAUDITED)
SIX MONTHS ENDED JUNE 30, 2010
(In thousands of dollars)

	Parent	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash flows from operating activities:					
Net income (loss)	$ 53,290	$ 65,865	$ (250)	$ (65,615)	$ 53,290
Adjustments to reconcile net income (loss) to net cash provided by operating activities:					
Depreciation, depletion and amortization	20,826	103,049	543		124,418
Accretion expense	7,254	9,449	221		16,924
Deferred income tax provision (benefit)	(1,025)	35,418			34,393
Settlement of asset retirement obligations	(960)	(18,838)			(19,798)
Non-cash stock compensation expense	2,741				2,741
Excess tax benefits	(294)				(294)
Non-cash derivative income	(1,818)				(1,818)
Loss on early extinguishment of debt	1,820				1,820
Non-cash (income) loss from investment in subsidiaries	(65,865)	250		65,615	
Other non-cash expenses	519				519
Change in current income taxes	(8,725)	(88)			(8,813)
(Increase) decrease in accounts receivable	149,721	(121,407)	(814)		27,500
(Increase) decrease in other current assets	(181)	28			(153)
Decrease in inventory	813	123			936
Increase (decrease) in accounts payable	47	(62)			(15)
Decrease in other current liabilities	(21,209)	(260)			(21,469)
Other	181	(28)			153
Net cash provided by (used in) operating activities	137,135	73,499	(300)		210,334
Cash flows from investing activities:					
Investment in oil and gas properties	(92,960)	(76,939)	(84)		(169,983)
	29,047	680			29,727

Proceeds from sale of oil and gas properties, net of expenses					
Investment in fixed and other assets	(1,125)				(1,125)
Net cash used in investing activities	(65,038)	(76,259)	(84)		(141,381)
Cash flows from financing activities:					
Repayment of bank borrowings	(125,000)				(125,000)
Redemption of senior subordinated notes	(200,503)				(200,503)
Proceeds from issuance of senior notes	275,000				275,000
Deferred financing costs	(9,701)				(9,701)
Excess tax benefits	294				294
Net payments for share based compensation	(1,071)				(1,071)
Net cash used in financing activities	(60,981)				(60,981)
Net increase (decrease) in cash and cash equivalents	11,116	(2,760)	(384)		7,972
Cash and cash equivalents, beginning of period	64,830	3,963	500		69,293
Cash and cash equivalents, end of period	$ 75,946	$ 1,203	$ 116	$	$ 77,265

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

TO THE STOCKHOLDERS OF
STONE ENERGY CORPORATION:

We have reviewed the condensed consolidated balance sheet of Stone Energy Corporation as of June 30, 2011, and the related condensed consolidated statement of operations for the three and six-month periods ended June 30, 2011 and 2010, and the condensed consolidated statement of cash flows for the six-month periods ended June 30, 2011 and 2010. These financial statements are the responsibility of the Company s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Stone Energy Corporation as of December 31, 2010, and the related consolidated statements of operations, cash flows, changes in stockholders equity and comprehensive income for the year then ended (not presented herein) and in our report dated March 3, 2011, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2010, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP
New Orleans, Louisiana
August 4, 2011

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

Forward-Looking Statements

The information in this Quarterly Report on Form 10-Q includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements, other than statements of historical or current facts, that address activities, events, outcomes and other matters that we plan, expect, intend, assume, believe, budget, predict, forecast, project, estimate or anticipate (and other similar expressions) will, should or may occur in the future are forward-looking statements. These forward-looking statements are based on management s current belief, based on currently available information, as to the outcome and timing of future events. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements as described in our Annual Report on Form 10-K and in this Quarterly Report on Form 10-Q.

Forward-looking statements appear in a number of places and include statements with respect to, among other things:

- any expected results or benefits associated with our acquisitions;
- estimates of our future oil and natural gas production, including estimates of any increases in oil and gas production;
- planned capital expenditures and the availability of capital resources to fund capital expenditures;
- our outlook on oil and gas prices;
- estimates of our oil and gas reserves;
- any estimates of future earnings growth;
- the impact of political and regulatory developments;
- our outlook on the resolution of pending litigation and government inquiry;
- estimates of the impact of new accounting pronouncements on earnings in future periods;
- our future financial condition or results of operations and our future revenues and expenses;
- our access to capital and our anticipated liquidity;
- estimates of future income taxes; and
- our business strategy and other plans and objectives for future operations.

We caution you that these forward-looking statements are subject to risks and uncertainties, many of which are beyond our control, incident to the exploration for and development, production and marketing of oil and natural gas. These risks include, among other things:

- consequences of the Deepwater Horizon oil spill and resulting stringent regulatory requirements;
- commodity price volatility;
- domestic and worldwide economic conditions;
- the availability of capital on economic terms to fund our capital expenditures and acquisitions;

our level of indebtedness;

declines in the value of our oil and gas properties resulting in a decrease in our borrowing base under our credit facility and ceiling test write-downs and impairments;

our ability to replace and sustain production;

the impact of a financial crisis on our business operations, financial condition and ability to raise capital;

the ability of financial counterparties to perform or fulfill their obligations under existing agreements;

third party interruption of sales to market;

lack of availability and cost of goods and services;

regulatory and environmental risks associated with drilling and production activities;

drilling and other operating risks;

unsuccessful exploration and development drilling activities;

hurricanes and other weather conditions;

the adverse effects of changes in applicable tax, environmental, derivatives and other regulatory legislation, including changes affecting our offshore and Appalachian operations;

the uncertainty inherent in estimating proved oil and natural gas reserves and in projecting future rates of production and timing of development expenditures; and

the other risks described in our Annual Report on Form 10-K and our Quarterly Reports on Form 10-Q.

Should one or more of the risks or uncertainties described above, in our Annual Report on Form 10-K for the year ended December 31, 2010, or in our Quarterly Reports on Form 10-Q occur, or should underlying assumptions prove incorrect, our actual results and plans could differ materially from those expressed in any forward-looking statements. We specifically disclaim all responsibility to publicly update any information contained in a forward-looking statement or any forward-looking

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statement in its entirety and therefore disclaim any resulting liability for potentially related damages. All forward-looking statements attributable to us are expressly qualified in their entirety by this cautionary statement.

Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) contained in this Form 10-Q should be read in conjunction with the MD&A contained in our Annual Report on Form 10-K for the year ended December 31, 2010. Certain 2010 amounts have been changed from amounts originally presented to correct a prior period immaterial error. All period to period comparisons are based upon corrected amounts.

Overview

We are an independent oil and gas company engaged in the acquisition, exploration, exploitation, development and operation of oil and gas properties located primarily in the Gulf of Mexico (GOM). We have been operating in the Gulf Coast Basin since our incorporation in 1993 and have established a technical and operational expertise in this area. More recently, we have made strategic investments in the deep water and deep shelf GOM, which we have targeted as important exploration areas. We are also active in the Appalachia region, where we have established a significant acreage position and have development operations in the Marcellus Shale. We have also targeted several exploratory oil projects in the Rocky Mountain region. Throughout this document, reference to our Gulf Coast Basin properties includes our Gulf Coast onshore, shelf, deep shelf and deep water properties.

Critical Accounting Policies

Our Annual Report on Form 10-K describes the accounting policies that we believe are critical to the reporting of our financial position and operating results and that require management s most difficult, subjective or complex judgments. Our most significant estimates are:

- remaining proved oil and gas reserves volumes and the timing of their production;
- estimated costs to develop and produce proved oil and gas reserves;
- accruals of exploration costs, development costs, operating costs and production revenue;
- timing and future costs to abandon our oil and gas properties;
- the effectiveness and estimated fair value of derivative positions;
- classification of unevaluated property costs;
- capitalized general and administrative costs and interest;
- insurance recoveries related to hurricanes and other events;
- estimates of fair value in business combinations;
- current income taxes; and
- contingencies.

This Quarterly Report on Form 10-Q should be read together with the discussion contained in our Annual Report on Form 10-K regarding these critical accounting policies.

Other Factors Affecting Our Business and Financial Results

In addition to the matters discussed above, our business, financial condition and results of operations are affected by a number of other factors. This Quarterly Report on Form 10-Q should be read in conjunction with the discussion in Part I, Item 1A, of our Annual Report on Form 10-K regarding these other risk factors and in this report under Part II, Item 1A, Risk Factors.

Known Trends and Uncertainties

Deepwater Horizon Explosion and Oil Spill - The April 2010 explosion and sinking of the Deepwater Horizon drilling rig and resulting oil spill has created uncertainties about the impact on our future operations in the GOM. Increased regulation in a number of areas could disrupt, delay or prohibit future drilling programs and ultimately impact the fair value of our unevaluated properties, a substantial portion of which is in the deep water of the GOM. As of June 30, 2011, we have substantial investments in unevaluated oil and gas properties that relate to offshore leases, the majority of which are in the deep water GOM. If the fair value of these investments were to fall below the recorded amounts, the excess would be transferred to evaluated oil and gas properties thereby affecting the computation of amounts for depreciation, depletion and amortization and potentially our ceiling test computation. As of June 30, 2011, the computation of our ceiling test indicated a cushion of approximately $303.9 million.

Asset Retirement Obligations In October 2010, we received notification from the BOEMRE indicating that certain identified wells and facilities operated by us would need to be retired on a timing schedule which was accelerated from the timing estimated in calculating liabilities for asset retirement obligations at December 31, 2009. In February 2011, we submitted an abandonment plan addressing the identified wells and facilities. The BOEMRE has indicated they will issue a final order upon review of the plan. During 2010, we increased our asset retirement obligations in the amount of $54.4 million for the estimated impact of the accelerated timing of the retirement of these assets and other factors. The final order will ultimately determine the impact on our asset retirement obligations and could result in additional upward or downward revisions.

Hurricanes Since the majority of our production originates in the GOM, we are particularly vulnerable to the effects of hurricanes on production. Additionally, affordable insurance coverage for property damage to our facilities for hurricanes is becoming more difficult to obtain. We have narrowed our insurance coverage to selected properties, increased our deductibles and are shouldering more hurricane related risk in the environment of rising insurance rates. Significant hurricane impacts could include reductions and/or deferrals of future oil and natural gas production and revenues, increased lease operating expenses for evacuations and repairs and possible acceleration of plugging and abandonment costs.

Louisiana Franchise Taxes We have 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 (OCS), which are transported through the state of Louisiana, should be sourced to Louisiana for purposes of computing franchise taxes. We disagree with the state s position. However, if the state s position were to be upheld, we could incur additional expenses for alleged underpaid franchise taxes in prior years and higher franchise tax expense in future years. See **Part II, Item 1. Legal Proceedings.**

Liquidity and Capital Resources

At August 2, 2011, we had $338.9 million of availability under our bank credit facility and cash on hand of approximately $60.8 million. In May 2011, our capital expenditure budget for 2011 was increased from $425 million up to $500 million due to a projected increase in production, oil prices and estimated cash flow, combined with an attractive inventory of capital projects. Our capital expenditure budget excludes material acquisitions and capitalized salaries, general and administrative expenses and interest. We intend to finance our capital expenditure budget primarily with cash flow from operations and borrowings under our bank credit facility if necessary. If we do not have sufficient cash flow from operations or availability under our bank credit facility, we may be forced to reduce our capital expenditures. To the extent that 2011 cash flow from operations exceeds our estimated 2011 capital expenditures, we may expand our capital budget or invest in money markets.

There is a significant amount of uncertainty regarding our industry resulting from the explosion and sinking of the Deepwater Horizon oil rig in the Gulf of Mexico and resulting oil spill. Several bills have been introduced in Congress which would require us to demonstrate our capabilities for greater financial responsibility in the event of spills. In addition, we are subject to an annual evaluation for exemption from supplemental bonding on plugging and abandoning obligations. It is possible that the resolution of these uncertainties could cause severe impacts on our liquidity in the event we are required to post additional bonds or letters of credit.

Cash Flow and Working Capital. Net cash flow provided by operating activities totaled $246.5 million during the six months ended June 30, 2011 compared to $210.3 million in the comparable period in 2010. Based on our outlook of commodity prices and our estimated production, we expect to fund our 2011 capital expenditures with cash flow provided by operating activities and borrowings under our bank credit facility.

Net cash flow used in investing activities totaled $266.7 million and $141.4 million during the six months ended June 30, 2011 and 2010, respectively, which primarily represents our investment in oil and natural gas properties, offset by proceeds from the sale of oil and natural gas properties.

Net cash flow used in financing activities totaled $4.8 million for the six months ended June 30, 2011, which primarily represents $4.0 million of deferred financing costs associated with our new bank credit facility and $1.9 million of net payments for share based compensation, slightly offset by $1.1 million of excess tax benefits related to share based compensation. Net cash flow used in financing activities totaled $61.0 million for the six months ended June 30, 2010, which primarily represents repayments of borrowings under our bank credit facility of \$125.0 million, the redemption of our $8^{1}/4\%$ Senior Subordinated Notes due 2011 of \$200.5 million, net of proceeds from the public offering of our $8^{5}/8\%$ Senior Notes due 2017 of approximately \$275 million less \$9.7 million of deferred financing costs.

We had working capital at June 30, 2011 of \$53.0 million.

Capital Expenditures. During the three months ended June 30, 2011, additions to oil and gas property costs of \$102.4 million included \$5.7 million of lease and property acquisition costs, \$5.7 million of capitalized salaries, general and administrative expenses (inclusive of incentive compensation) and $10.8 million of capitalized interest. During the six months ended June 30, 2011, additions to oil and gas property costs of $251.9 million included $34.7 million of lease and property acquisition costs, $12.1 million of capitalized salaries, general and administrative expenses (inclusive of incentive compensation) and $20.5 million of capitalized interest. These investments were financed by cash flow from operations**.**

Bank Credit Facility. On June 30, 2011, we had no outstanding borrowings under our bank credit facility and letters of credit totaling $61.1 million had been issued pursuant to the facility. On April 26, 2011, we entered into an amended and restated revolving credit facility totaling $700 million through a syndicated bank group, replacing our previous $700 million facility. The new credit facility matures on September 15, 2014 or, if the notes issued under our 2004 indenture are retired on or before April 15, 2014, on April 26, 2015. Our initial borrowing base under the new credit facility was set at $400 million. The new credit facility decreases our borrowing base grid by 25 basis points in respect of London Interbank Offering Rate (Libor Rate) advances and base rate advances. As of August 2, 2011, we had no outstanding borrowings under our bank credit facility and letters of credit totaling $61.1 million had been issued pursuant to the facility, leaving $338.9 million of availability under the facility. Our bank credit facility is guaranteed by our only material subsidiary, Stone Energy Offshore, L.L.C. (Stone Offshore).

The borrowing base under our bank credit facility is redetermined by the lenders semi-annually, on May 1 and November 1, taking into consideration the estimated value of our oil and gas properties and those of our direct and indirect material subsidiaries in accordance with the lenders customary practices for oil and gas loans. In addition, we and the lenders each have discretion at any time, but not more than two additional times in any calendar year, to have the borrowing base redetermined. Our bank credit facility is collateralized by substantially all of Stone s and Stone Offshore s assets. Stone and Stone Offshore are required to mortgage, and grant a security interest in, their oil and gas reserves representing at least 80% of the discounted present value of the future net cash flows from their oil and gas reserves reviewed in determining the borrowing base. At our option, loans under the credit facility will bear interest at a rate based on the adjusted Libor Rate plus an applicable margin, or a rate based on the prime rate or Federal funds rate plus an applicable margin. Our bank credit facility provides for optional and mandatory prepayments, affirmative and negative covenants, and interest coverage ratio and leverage ratio maintenance covenants. We were in compliance with all covenants as of June 30, 2011.

Share Repurchase Program. On September 24, 2007, our Board of Directors authorized a share repurchase program for an aggregate amount of up to $100 million. The shares may be repurchased from time to time in the open market or through privately negotiated transactions. The repurchase program is subject to business and market conditions, and may be suspended or discontinued at any time. Through June 30, 2011, 300,000 shares had been repurchased under this program at a total cost of approximately $7.1 million, or an average price of $23.57 per share. No shares were repurchased during the six months ended June 30, 2011.

Results of Operations

The following tables set forth certain information with respect to our oil and gas operations.

	Three Months Ended June 30,			
	2011	**2010**	**Variance**	**% Change**
Production:				
Oil (MBbls)	1,667	1,430	237	17%
Natural gas (MMcf)	10,614	11,146	(532)	(5%)
Oil and natural gas (MMcfe)	20,616	19,726	890	5%
Revenue data (in thousands) (a):				
Oil revenue	$ 175,357	$ 103,159	$ 72,198	70%
Natural gas revenue	56,513	60,823	(4,310)	(7%)
Total oil and natural gas revenue	$ 231,870	$ 163,982	$ 67,888	41%

Average prices (a):				
Oil (per Bbl)	$ 105.19	$ 72.14	$ 33.05	46%
Natural gas (per Mcf)	5.32	5.46	(0.14)	(3%)
Oil and natural gas (per Mcfe)	11.25	8.31	2.94	35%
Expenses (per Mcfe):				
Lease operating expenses	$ 2.27	$ 1.87	$ 0.40	21%
Salaries, general and administrative expenses (b)	0.51	0.51		
DD&A expense on oil and gas properties	3.48	3.16	0.32	10%

(a) Includes the cash settlement of effective hedging contracts.

(b) Exclusive of incentive compensation expense.

	Six Months Ended June 30, 2011	2010	Variance	% Change
Production:				
Oil (MBbls)	3,283	2,852	431	15%
Natural gas (MMcf)	20,194	21,744	(1,550)	(7%)
Oil and natural gas (MMcfe)	39,892	38,856	1,036	3%
Revenue data (in thousands) (a):				
Oil revenue	$ 327,352	$ 203,724	$ 123,628	61%
Natural gas revenue	102,371	124,049	(21,678)	(17%)
Total oil and natural gas revenue	$ 429,723	$ 327,773	$ 101,950	31%
Average prices (a):				
Oil (per Bbl)	$ 99.71	$ 71.43	$ 28.28	40%
Natural gas (per Mcf)	5.07	5.70	(0.63)	(11%)
Oil and natural gas (per Mcfe)	10.77	8.44	2.33	28%
Expenses (per Mcfe):				
Lease operating expenses	$ 2.14	$ 1.94	$ 0.20	10%
Salaries, general and administrative expenses (b)	0.56	0.53	0.03	6%
DD&A expense on oil and gas properties	3.46	3.13	0.33	11%

(a) Includes the cash settlement of effective hedging contracts.

(b) Exclusive of incentive compensation expense.

During the three months ended June 30, 2011, we reported net income totaling $57.2 million, or $1.17 per share, compared to net income for the three months ended June 30, 2010 of $27.9 million, or $0.57 per share. During the six months ended June 30, 2011, we reported net income totaling $97.0 million, or $1.98 per share, compared to net income for the six months ended June 30, 2010 of $53.3 million, or $1.10 per share. All per share amounts are on a diluted basis.

The variance in the three and six-month periods results was due to the following components:

Production. During the three months ended June 30, 2011, total production volumes increased to 20.6 Bcfe compared to 19.7 Bcfe produced during the comparable 2010 period. Oil production during the three months ended June 30, 2011 totaled approximately 1,667,000 barrels compared to 1,430,000 barrels produced during the three months ended June 30, 2010, while natural gas production totaled 10.6 Bcf during the three months ended June 30, 2011 compared to 11.1 Bcf produced during the comparable period of 2010. During the six months ended June 30, 2011, total production volumes increased to 39.9 Bcfe compared to 38.9 Bcfe produced during the comparable 2010 period. Oil production during the six months ended June 30, 2011 totaled approximately 3,283,000 barrels compared to 2,852,000 barrels produced during the six months ended June 30, 2010, while natural gas production totaled 20.2 Bcf during the six months ended June 30, 2011 compared to 21.7 Bcf produced during the comparable period of 2010. The increase in oil production volumes was primarily due to increases in production at our Amberjack field and Ship Shoal Block 113 where we have development programs ongoing. The decrease in gas production volumes was primarily due to natural production declines.

Prices. Prices realized during the three months ended June 30, 2011 averaged $105.19 per Bbl of oil and $5.32 per Mcf of natural gas, or 35% higher, on an Mcfe basis, than average realized prices of $72.14 per Bbl of oil and $5.46 per Mcf of natural gas during the comparable 2010 period. Prices realized during the six months ended June 30, 2011 averaged $99.71 per Bbl of oil and $5.07 per Mcf of natural gas, or 28% higher, on an Mcfe basis, than average realized prices of $71.43 per Bbl of oil and $5.70 per Mcf of natural gas during the comparable 2010 period. All unit pricing amounts include the cash settlement of effective hedging contracts.

We enter into various hedging contracts in order to reduce our exposure to the possibility of declining oil and gas prices. Our effective hedging transactions increased our average realized natural gas price by $0.36 per Mcf and decreased our average realized oil price by $8.60 per Bbl during the three months ended June 30, 2011. During the three months ended June 30, 2010, our effective hedging transactions increased our average realized natural gas price by $0.95 per Mcf and decreased our average realized oil price by $4.02 per Bbl. During the six months ended June 30, 2011, effective hedging transactions increased our average realized natural gas price by $0.42 per Mcf and decreased our average realized oil price by $6.94 per Bbl. During the six months ended June 30, 2010, effective hedging transactions increased our average realized natural gas price by $0.74 per Mcf and decreased our average realized oil price by $4.95 per Bbl.

Revenue. Oil and natural gas revenue was $231.9 million during the three months ended June 30, 2011, compared to $164.0 million during the comparable period of 2010. The increase is attributable to a 46% increase in average realized oil prices along with a 17% increase in oil production volumes, partially offset by a decline in average realized gas prices and gas production volumes. Oil and natural gas revenue for the six months ended June 30, 2011 totaled $429.7 million compared to $327.8 million during the comparable period of 2010. The increase is attributable to a 40% increase in average realized oil prices along with a 15% increase in oil production volumes, partially offset by a decline in average realized gas prices and gas production volumes.

Derivative Income/Expense. During the six months ended June 30, 2011 and 2010, certain of our derivative contracts were determined to be partially ineffective because of differences in the relationship between the fixed price in the derivative contract and actual prices realized. Net derivative income for the three months ended June 30, 2011, totaled $1.4 million, consisting of $1.9 million of cash settlements on the ineffective portion of derivative contracts, less $0.5 million of changes in the fair market value of the ineffective portion of derivative contracts. Net derivative income for the three months ended June 30, 2010, totaled $2.2 million, consisting of $1.2 million of cash settlements on the ineffective derivative contracts, plus $1.0 million of changes in the fair market value of the ineffective portion of derivative contracts.

Net derivative expense for the six months ended June 30, 2011, totaled $0.8 million, consisting of $0.1 million of cash settlements on the ineffective portion of derivative contracts, less $0.9 million of changes in the fair market value of the ineffective portion of derivative contracts. Net derivative income for the six months ended June 30, 2010, totaled $3.4 million, consisting of $1.6 million of cash settlements on the ineffective derivative contracts, plus $1.8 million of changes in the fair market value of the ineffective portion of derivative contracts.

Expenses. Lease operating expenses during the three months ended June 30, 2011 and 2010 totaled $46.7 million and $36.9 million, respectively. For the six months ended June 30, 2011 and 2010, lease operating expenses totaled $85.5 million and $75.5 million, respectively. On a unit of production basis, lease operating expenses were $2.14 per Mcfe and $1.94 per Mcfe for the six months ended June 30, 2011 and 2010, respectively. The increase in lease operating expenses in 2011 was primarily attributable to increased platform and well maintenance.

Other operational expense of $0.8 million during the six months ended June 30, 2011 includes $0.7 million for the settlement of litigation associated with an expensed operation in the first quarter of 2011. The other operational expense charge of $2.4 million for the three and six-month periods ended June 30, 2010 related to a $1.3 million loss on the sale of non-dedicated tubular inventory and $1.1 million of charges related to a delay in the drilling of the second well in our Amberjack drilling program as a result of the deep water drilling moratorium.

Depreciation, depletion and amortization (DD&A) on oil and gas properties for the three months ended June 30, 2011 totaled $71.8 million, or $3.48 per Mcfe, compared to $62.3 million, or $3.16 per Mcfe, during the comparable period of 2010. For the six months ended June 30, 2011 and 2010, DD&A expense totaled $138.2 million, or $3.46 per Mcfe, and $121.4 million, or $3.13 per Mcfe, respectively. The increase in DD&A in 2011 on a unit basis was attributable to the unit cost of current year net reserve additions (including future development costs) exceeding the per unit amortizable base as of the beginning of the year.

Accretion expense for the three months ended June 30, 2011 was $7.7 million compared to $8.5 million for the comparable period of 2010. For the six months ended June 30, 2011 and 2010, accretion expense totaled $15.4 million and $16.9 million, respectively. The decrease is primarily due to a change in the timing on certain of our asset retirement obligations.

Salaries, general and administrative (SG&A) expenses (exclusive of incentive compensation) for the three months ended June 30, 2011 were $10.6 million compared to $10.0 million for the three months ended June 30, 2010. For the six months ended June 30, 2011 and 2010, SG&A (exclusive of incentive compensation) totaled $22.3 million and $20.4 million, respectively. The increase primarily relates to salary adjustments.

For the three months ended June 30, 2011 and 2010, incentive compensation expense totaled $2.3 million and $0.4 million, respectively. For the six months ended June 30, 2011 and 2010, incentive compensation expense totaled $5.0 million and $1.3 million, respectively. These amounts relate to the accrual of estimated incentive compensation bonuses calculated based on the projected achievement of certain strategic objectives for each fiscal year.

Interest expense for the three months ended June 30, 2011 totaled $2.0 million, net of $10.8 million of capitalized interest, compared to interest expense of $2.5 million, net of $7.2 million of capitalized interest, during the comparable 2010 period. For the six months ended June 30, 2011, interest expense totaled $5.1 million, net of $20.5 million of capitalized interest, compared to interest expense of $6.6 million, net of capitalized interest of

$13.6 million for the comparable 2010 period. The decrease in interest expense is primarily the result of an increase in the amount of interest capitalized as a part of the cost oil and gas properties and a decrease in outstanding borrowings under our bank credit facility.

Our effective tax rate was 36.5% and 36.3% for the three and six months ended June 30, 2011, respectively, and 34.2% and 35.3% for the comparable 2010 periods. The increased effective tax rate was due to an increase in the provision for state income taxes as our onshore operational activities increase.

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Off Balance Sheet Arrangements

None.

Recent Accounting Developments

None.

Defined Terms

Oil and condensate are stated in barrels (Bbls) or thousand barrels (MBbls). Natural gas is stated herein in billion cubic feet (Bcf), million cubic feet (MMcf) or thousand cubic feet (Mcf). Oil and condensate are converted to natural gas at a ratio of one barrel of liquids per six Mcf of gas. Bcfe, MMcfe, and Mcfe represent one billion cubic feet, one million cubic feet and one thousand cubic feet of gas equivalent, respectively. MMBtu represents one million British Thermal Units and BBtu represents one billion British Thermal Units. An active property is an oil and gas property with existing production. A primary term lease is an oil and gas property with no existing production, in which we have a specific time frame to establish production without losing the rights to explore the property. Liquidity is defined as the ability to obtain cash quickly either through the conversion of assets or incurrence of liabilities.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Commodity Price Risk

Our major market risk exposure continues to be the pricing applicable to our oil and natural gas production. Our 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 our revenues, cash flows and profitability. Price volatility is expected to continue. In order to manage our exposure to oil and natural gas price declines, we occasionally enter into oil and natural gas price hedging arrangements to secure a price for a portion of our expected future production.

Our hedging policy provides that not more than 50% of our estimated production quantities can be hedged without the consent of the board of directors. We believe our current hedging positions have hedged approximately 43% of our estimated 2011 production from estimated proved reserves, 37% of our estimated 2012 production from estimated proved reserves, and 23% of our estimated 2013 production from estimated proved reserves. See **Item 1. Financial Statements Note 3 Derivative Instruments and Hedging Activities** for a detailed discussion of hedges in place to manage our exposure to oil and natural gas price declines.

Since the filing of our Annual Report on Form 10-K for the year ended December 31, 2010, there have been no material changes in reported market risk as it relates to commodity prices.

Interest Rate Risk

We had total debt outstanding of $575 million at June 30, 2011, all of which bears interest at fixed rates. The $575 million of fixed-rate debt is comprised of $375 million of $8^5/8$% Senior Notes due 2017 and $200 million of $6^3/4$% Senior Subordinated Notes due 2014. We had no outstanding borrowings under our variable-rate bank credit facility during the six months ended June 30, 2011. We currently have no interest rate hedge positions in place to reduce our exposure to changes in interest rates.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures to ensure that material information relating to Stone Energy Corporation and its consolidated subsidiaries (collectively Stone) is made known to the officers who certify Stone s financial reports and the Board of Directors. Disclosure controls and procedures, as defined in the rules and regulations of the Securities Exchange Act of 1934, means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Act (15 U.S.C. 78a et seq.) is recorded, processed, summarized and reported, within the time periods specified in the Commission s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Act is accumulated and communicated to the issuer s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Our principal executive officer and our principal financial officer, with the participation of other members of our senior management, reviewed and evaluated the effectiveness of Stone s disclosure controls and procedures as of the end of the quarterly period ended June 30, 2011. Based on this evaluation, our principal executive officer and principal financial officer believe that as of the end of the quarterly period ended June 30, 2011:

Stone s disclosure controls and procedures were effective to ensure that information required to be disclosed by Stone in the reports it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms; and

Stone s disclosure controls and procedures were effective to ensure that information required to be disclosed by Stone in the reports that it files or submits under the Securities Exchange Act of 1934 was accumulated and communicated to Stone s management, including Stone s principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls Over Financial Reporting

There has not been any change in our internal control over financial reporting that occurred during the quarter ended June 30, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Franchise Tax Action. 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 tax 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 tax years 1999, 2000 and 2001. 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. Also, on January 2, 2008, Stone was served with a petition (civil action number 2007-6754) claiming $1.5 million of additional franchise taxes due for the 2004 franchise tax year, plus accrued interest of $800,000 calculated through November 30, 2007. Further, on January 7, 2009, Stone was served with a petition (civil action number 2008-7193) claiming additional franchise taxes due for the taxable years ended December 31, 2005 and 2006 in the amount of $4.0 million plus accrued interest calculated through October 21, 2008 in the amount of $1.7 million. In addition, we have received assessments from the LDR for additional franchise taxes in the amount of $2.9 million resulting from audits of Stone and our subsidiaries. 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. The Company disagrees with these

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contentions and intends to vigorously defend itself against these claims. The franchise tax year 2010 for Stone remains subject to examination.

Lafourche Parish, Louisiana, Landowner Action. In December 2008, Stephen E. Coignet, *et al*., filed civil action No. 110741 in the 17th Judicial District Court, Lafourche Parish, Louisiana, against Stone. Plaintiffs have since filed three supplemental petitions, including a third supplemental and restated petition on October 25, 2010. Plaintiffs are landowners of approximately sixty acres that are subject to mineral leases in favor of Stone. Plaintiffs allege that Stone conducted its mineral operations imprudently resulting in damages to plaintiffs in excess of $60 million. Plaintiffs expert witness provided his report, dated December 28, 2010, stating his opinion that one well did not produce as much production as it should have, resulting in a loss to plaintiffs in excess of $4 million, that imprudent operations destroyed hydrocarbon bearing zones resulting in a loss to plaintiffs in excess of $20 million, and that imprudent operation of a water injection secondary recovery project resulted in damages to plaintiffs of approximately $4,755,000. There are also allegations of failure to protect from drainage from a well on adjoining land, trespass, and various other breaches of the mineral leases. The Company disagrees with plaintiffs contentions and intends to vigorously defend itself against these claims.

Litigation is subject to substantial uncertainties concerning the outcome of material factual and legal issues relating to the litigation. Accordingly, 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.

Item 1A. Risk Factors

There have been no material changes with respect to Stone s risk factors previously reported in Stone s Annual Report on Form 10-K for the year ended December 31, 2010.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On September 24, 2007, our Board of Directors authorized a share repurchase program for an aggregate amount of up to $100 million. The shares may be repurchased from time to time in the open market or through privately negotiated transactions. The repurchase program is subject to business and market conditions, and may be suspended or discontinued at any time. Additionally, shares were withheld from certain employees to pay taxes associated with the employees vesting of restricted stock. The following table sets forth information regarding our repurchases or acquisitions of common stock during the three months ended June 30, 2011:

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet be Purchased Under the Plans or Programs
Share Repurchase Program:				
April 2011				
May 2011				
June 2011				
				$ 92,928,632
Other:				
April 2011				

May 2011	469(a)	$	29.50	
June 2011				
	469	$	29.50	N/A
Total	469	$	29.50	

(a) Amounts include shares withheld from employees upon the vesting of restricted stock in order to satisfy the required tax withholding obligations.

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Item 6. Exhibits

3.1	Certificate of Incorporation of the Registrant, as amended (incorporated by reference to Exhibit 3.1 to the Registrant s Registration Statement on Form S-1 (Registration No. 33-62362)).
3.2	Certificate of Amendment of the Certificate of Incorporation of Stone Energy Corporation, dated February 1, 2001 (incorporated by reference to Exhibit 4.1 to the Registrant s Form 8-K, filed February 7, 2001).
3.3	Amended & Restated Bylaws of Stone Energy Corporation, dated May 15, 2008 (incorporated by reference to Exhibit 3.1 to the Registrant s Current Report on Form 8-K dated May 15, 2008 (File No. 001-12074)).
4.1	Indenture between Stone Energy Corporation and JPMorgan Chase Bank, National Association, as trustee, dated December 15, 2004 (incorporated by reference to Exhibit 4.1 to the Registrant s Current Report on Form 8-K filed on December 15, 2004.)
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10.1	$700,000,000 Third Amended and Restated Credit Agreement among Stone Energy Corporation as Borrower, Bank of America, N.A. as Administrative Agent and Issuing Bank, and the financial institutions named therein, dated April 26, 2011 (incorporated by reference to Exhibit 10.1 to the Registrant s Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 (File No. 001-12074)).
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	Certification of Principal Executive Officer of Stone Energy Corporation as required by Rule 13a-14(a) of the Securities Exchange Act of 1934.
*31.2	Certification of Principal Financial Officer of Stone Energy Corporation as required by Rule 13a-14(a) of the Securities Exchange Act of 1934.
*#32.1	Certification of Chief Executive Officer and Chief Financial Officer of Stone Energy Corporation pursuant to 18 U.S.C. § 1350.

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**101.SCH	XBRL Schema Document
**101.CAL	XBRL Calculation Linkbase Document
**101.LAB	XBRL Label Linkbase Document
**101.PRE	XBRL Presentation Linkbase Document

* Filed or furnished herewith.

** Furnished, not filed. Users of this data submitted electronically herewith are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

\# Not considered to be filed for the purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section.

Identifies management contracts and compensatory plans or arrangements.

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SIGNATURE

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

STONE ENERGY CORPORATION

Date: August 4, 2011

By: /s/ J. Kent Pierret
J. Kent Pierret
Senior Vice President,
Chief Accounting Officer and Treasurer
(On behalf of the Registrant and as
Chief Accounting Officer)

EXHIBIT INDEX

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