LINN ENERGY, LLC
Form 10-Q
August 06, 2009

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

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

For the Quarterly Period Ended June 30, 2009

OR

¨ 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: 000-51719

LINN ENERGY, LLC
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	65-1177591 (IRS Employer Identification No.)
600 Travis, Suite 5100 Houston, Texas (Address of principal executive offices)	77002 (Zip Code)

(281) 840-4000
(Registrant’s telephone number, including area code)

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

Indicate by check mark whether the registrant (1) 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 (§232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

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 definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one).

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

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

As of July 31, 2009, there were 121,284,576 units outstanding.

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GLOSSARY OF TERMS

As commonly used in the oil and gas industry and as used in this Quarterly Report on Form 10-Q, the following terms have the following meanings:

Bbl. One stock tank barrel or 42 United States gallons liquid volume.

Bcf. One billion cubic feet.

Bcfe. One billion cubic feet equivalent, determined using a ratio of six Mcf of gas to one Bbl of oil, condensate or natural gas liquids.

Btu. One British thermal unit, which is the heat required to raise the temperature of a one-pound mass of water from 58.5 to 59.5 degrees Fahrenheit.

MBbls. One thousand barrels of oil or other liquid hydrocarbons.

MBbls/d. MBbls per day.

Mcf. One thousand cubic feet.

Mcfe. One thousand cubic feet equivalent, determined using the ratio of six Mcf of gas to one Bbl of oil, condensate or natural gas liquids.

MMBbls. One million barrels of oil or other liquid hydrocarbons.

MMBtu. One million British thermal units.

MMcf. One million cubic feet.

MMcf/d. MMcf per day.

MMcfe. One million cubic feet equivalent, determined using a ratio of six Mcf of gas to one Bbl of oil, condensate or natural gas liquids.

MMcfe/d. MMcfe per day.

MMMBtu. One billion British thermal units.

Tcfe. One trillion cubic feet equivalent, determined using the ratio of six Mcf of gas to one Bbl of oil, condensate or natural gas liquids.

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PART I – FINANCIAL INFORMATION
Item 1. Financial Statements

LINN ENERGY, LLC
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2009 (Unaudited)	December 31, 2008
	(in thousands, except unit amounts)	
Assets		
Current assets:		
Cash and cash equivalents	$27,100	$ 28,668
Accounts receivable – trade, net	102,521	138,983
Derivative instruments	314,806	368,951
Other current assets	21,585	27,329
Total current assets	466,012	563,931
Noncurrent assets:		
Oil and gas properties (successful efforts method)	3,928,302	3,831,183
Less accumulated depletion and amortization	(376,608)	(278,805)
	3,551,694	3,552,378
Other property and equipment	115,896	111,459
Less accumulated depreciation	(18,333)	(13,171)
	97,563	98,288
Derivative instruments	248,248	493,705
Other noncurrent assets	69,189	13,718
	317,437	507,423
Total noncurrent assets	3,966,694	4,158,089
Total assets	$4,432,706	$ 4,722,020
Liabilities and Unitholders' Capital		
Current liabilities:		
Accounts payable and accrued expenses	$120,360	$ 163,662
Derivative instruments	42,671	47,005
Other accrued liabilities	27,103	27,163
Total current liabilities	190,134	237,830
Noncurrent liabilities:		
Credit facility	1,118,000	1,403,393
Senior notes, net	488,167	250,175
Derivative instruments	32,387	39,350
Other noncurrent liabilities	33,831	30,586
Total noncurrent liabilities	1,672,385	1,723,504
Unitholders' capital:		
	2,067,661	2,109,089

121,288,461 units and 114,079,533 units issued and outstanding at June 30, 2009, and December 31, 2008, respectively		
Accumulated income	502,526	651,597
	2,570,187	2,760,686
Total liabilities and unitholders' capital	$4,432,706	$ 4,722,020

The accompanying notes are an integral part of these condensed consolidated financial statements.

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LINN ENERGY, LLC
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(in thousands, except per unit amounts)			
Revenues and other:				
Oil, gas and natural gas liquid sales	$91,906	$255,586	$171,770	$431,458
Loss on oil and gas derivatives	(232,775)	(870,804)	(71,460)	(1,139,598)
Gas marketing revenues	1,183	3,593	1,699	6,409
Other revenues	641	642	1,607	1,121
	(139,045)	(610,983)	103,616	(700,610)
Expenses:				
Lease operating expenses	33,137	25,161	66,869	44,651
Transportation expenses	2,516	3,663	5,483	6,991
Gas marketing expenses	880	3,103	1,220	5,520
General and administrative expenses	20,291	18,020	43,592	37,096
Exploration costs	2,199	61	3,764	2,681
Depreciation, depletion and amortization	50,390	50,885	102,494	95,255
Taxes, other than income taxes	7,882	17,628	15,449	30,601
(Gain) loss on sale of assets and other, net	(5)		(26,716)	
	117,290	118,521	212,155	222,795
Other income and (expenses):				
Interest expense, net of amounts capitalized	(23,262)	(23,332)	(37,671)	(48,625)
Gain (loss) on interest rate swaps	11,918	31,604	347	(7,789)
Other, net	(837)	(4,313)	(1,230)	(4,476)
	(12,181)	3,959	(38,554)	(60,890)
Loss from continuing operations before income taxes	(268,516)	(725,545)	(147,093)	(984,295)
Income tax benefit (expense)	(185)	164	(321)	(45)
Loss from continuing operations	(268,701)	(725,381)	(147,414)	(984,340)
Discontinued operations:				
Gain (loss) on sale of assets, net of taxes	330	(1,028)	(718)	(1,322)
Income (loss) from discontinued operations, net of taxes	(101)	14,267	(939)	14,161
	229	13,239	(1,657)	12,839
Net loss	$(268,472)	$(712,142)	$(149,071)	$(971,501)
Loss per unit – continuing operations:				
Units – basic	$(2.31)	$(6.35)	$(1.28)	$(8.63)
Units – diluted	$(2.31)	$(6.35)	$(1.28)	$(8.63)
Income (loss) per unit – discontinued operations:				
Units – basic	$0.01	$0.12	$(0.02)	$0.11
Units – diluted	$0.01	$0.12	$(0.02)	$0.11
Net loss per unit:				
Units – basic	$(2.30)	$(6.23)	$(1.30)	$(8.52)
Units – diluted	$(2.30)	$(6.23)	$(1.30)	$(8.52)

Weighted average units outstanding:				
Units – basic	116,497	114,252	114,993	114,005
Units – diluted	116,497	114,252	114,993	114,005
Distributions declared per unit	$0.63	$0.63	$1.26	$1.26

The accompanying notes are an integral part of these condensed consolidated financial statements.

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LINN ENERGY, LLC
CONDENSED CONSOLIDATED STATEMENT OF UNITHOLDERS' CAPITAL
(Unaudited)

	Units	Unitholders' Capital	Accumulated Income	Treasury Units (at Cost)	Total Unitholders' Capital
			(in thousands)		
December 31, 2008	114,080	$2,109,089	$651,597	$	$2,760,686
Sale of units, net of underwriting discounts and expenses of $4,473	6,325	98,308			98,308
Issuance of units	1,070				
Cancellation of units	(187)	(2,696)		2,696	
Purchase of units				(2,696)	(2,696)
Distributions to unitholders		(144,994)			(144,994)
Unit-based compensation expenses		7,954			7,954
Net loss			(149,071)		(149,071)
June 30, 2009	121,288	$2,067,661	$502,526	$	$2,570,187

The accompanying notes are an integral part of these condensed consolidated financial statements.

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LINN ENERGY, LLC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30, 2009	2008
	(in thousands)	
Cash flow from operating activities:		
Net loss	$(149,071)	$(971,501)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, depletion and amortization	102,494	101,469
Unit-based compensation expenses	7,954	7,852
Amortization and write-off of deferred financing fees and other	8,323	7,001
(Gain) loss on sale of assets, net	(24,933)	1,326
Mark-to-market on derivatives:		
Total losses	71,113	1,147,387
Cash settlements	212,993	(28,550)
Cash settlements on canceled derivatives	4,197	(68,197)
Premiums paid for derivatives		(1,278)
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable – trade, net	35,809	(125,286)
(Increase) decrease in other assets	3,639	(4,967)
Decrease in accounts payable and accrued expenses	(15,536)	(5,647)
Increase in other liabilities	1,292	974
Net cash provided by operating activities	258,274	60,583
Cash flow from investing activities:		
Acquisition of oil and gas properties		(570,504)
Development of oil and gas properties	(125,107)	(172,994)
Purchases of other property and equipment	(4,952)	(5,945)
Proceeds from sales of oil and gas properties and other property and equipment	26,649	76,560
Net cash used in investing activities	(103,410)	(672,883)
Cash flow from financing activities:		
Proceeds from sale of units	102,781	
Purchase of units	(2,696)	(1,642)
Proceeds from issuance of debt	406,703	1,173,000
Principal payments on debt	(454,393)	(384,916)
Distributions to unitholders	(144,994)	(144,755)
Financing fees, offering expenses and other, net	(63,833)	(21,216)
Net cash provided by (used in) financing activities	(156,432)	620,471
Net increase (decrease) in cash and cash equivalents	(1,568)	8,171
Cash and cash equivalents:		
Beginning	28,668	1,441
Ending	$27,100	$9,612

The accompanying notes are an integral part of these condensed consolidated financial statements.

LINN ENERGY, LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) Basis of Presentation

Nature of Business

Linn Energy, LLC ("LINN Energy" or the "Company") is an independent oil and gas company focused on the development and acquisition of long-life properties which complement its asset profile in producing basins within the United States.

Principles of Consolidation and Reporting

The condensed consolidated financial statements at June 30, 2009, and for the three months and six months ended June 30, 2009, and June 30, 2008, are unaudited, but in the opinion of management include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the results for the interim periods. Subsequent events were evaluated through the issuance date of the financial statements, August 6, 2009. Certain information and note disclosures normally included in annual financial statements prepared in accordance with United States generally accepted accounting principles ("GAAP") have been condensed or omitted under Securities and Exchange Commission ("SEC") rules and regulations, and as such this report should be read in conjunction with the financial statements and notes in the Company's Annual Report on Form 10-K for the year ended December 31, 2008. The results reported in these unaudited condensed consolidated financial statements should not necessarily be taken as indicative of results that may be expected for the entire year.

The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated upon consolidation.

Presentation Change

Certain amounts in the condensed consolidated financial statements and notes thereto have been reclassified to conform to the 2009 financial statement presentation. In particular, the condensed consolidated statements of operations include categories of expense titled "lease operating expenses," "transportation expenses," "exploration costs," "taxes, other than income taxes" and "(gain) loss on sale of assets and other, net" which were not reported in prior period presentations. The new categories present expenses in greater detail than was previously reported and all comparative periods presented have been reclassified to conform to the 2009 financial statement presentation. There was no impact to net income (loss) for prior periods.

Discontinued Operations

The Company's Appalachian Basin and Mid Atlantic Well Service, Inc. ("Mid Atlantic") operations have been classified as discontinued operations on the condensed consolidated statements of operations for all periods presented. Unless otherwise indicated, information about the statements of operations that is presented in the notes to condensed consolidated financial statements relates only to LINN Energy's continuing operations. See Note 2 for additional details.

Use of Estimates

The preparation of the accompanying condensed consolidated financial statements in conformity with GAAP requires management of the Company to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amount of assets and liabilities reported, disclosures about contingent assets and liabilities, and reported amounts of revenues and expenses. The estimates that are particularly significant to the financial statements include estimates of the Company's reserves of oil, gas and natural gas liquids (“NGL”), future cash flows from oil and gas properties, depreciation, depletion and amortization, asset retirement obligations, the fair value of commodity and interest rate derivatives and unit-based compensation expenses. These estimates and assumptions are based on management’s best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Such estimates and assumptions are adjusted when facts and circumstances dictate. Illiquid credit markets and volatile equity and energy markets have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ from these estimates. Any changes in estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

(2) Acquisitions, Divestitures and Discontinued Operations

Acquisitions

On July 14, 2009, and August 5, 2009, the Company entered into agreements to purchase certain oil and gas properties located in the Permian Basin in Texas and New Mexico for contract prices of $22.6 million and $95.0 million, respectively. The Company anticipates closing the transactions in the third quarter of 2009, subject to closing conditions.

On January 31, 2008, the Company completed the acquisition of certain oil and gas properties located primarily in the Mid-Continent Shallow region from Lamamco Drilling Company for a purchase price of $542.2 million.

Divestitures

On December 4, 2008, the Company completed the sale of its deep rights in certain central Oklahoma acreage, which includes the Woodford Shale interval, to Devon Energy Production Company, LP (“Devon”). During 2008, the Company received net proceeds of $153.2 million and the carrying value of net assets sold was $54.2 million. In the first quarter of 2009, certain post-closing matters were resolved and the Company recorded a gain of $25.4 million, which is recorded in “(gain) loss on sale of assets and other, net” on the condensed consolidated statements of operations for the six months ended June 30, 2009.

On August 15, 2008, the Company completed the sale of certain properties in the Verden area in Oklahoma to Laredo Petroleum, Inc. During 2008, the Company received net proceeds equal to the carrying value of net assets sold of $169.4 million.

On July 1, 2008, the Company completed the sale of its interests in oil and gas properties located in the Appalachian Basin to XTO Energy, Inc. During 2008, the Company received net proceeds of $566.5 million and the carrying value of net assets sold was $405.8 million. In addition, in March 2008, the Company exited the drilling and service business in the Appalachian Basin provided by its wholly owned subsidiary Mid Atlantic. The Company used the net proceeds from all divestitures to reduce indebtedness.

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LINN ENERGY, LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Unaudited)

Discontinued Operations

The Company's Appalachian Basin and Mid Atlantic operations have been classified as discontinued operations on the condensed consolidated statements of operations for all periods presented. The following summarizes the Appalachian Basin and Mid Atlantic amounts included in "income (loss) from discontinued operations, net of taxes" on the condensed consolidated statements of operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in thousands)			
Total revenues and other	$ (5)	$ 28,824	$ (1,216)	$ 49,985
Total operating expenses	(96)	(8,054)	277	(22,230)
Interest expense	—	(6,503)	—	(13,594)
Income (loss) from discontinued operations, net of taxes	$ (101)	$ 14,267	$ (939)	$ 14,161

Discontinued operations activity in the three months and six months ended June 30, 2009, primarily represents activity related to post-closing adjustments. The Company computed interest expense related to discontinued operations for the three months and six months ended June 30, 2008, in accordance with Emerging Issues Task Force Issue ("EITF") No. 87-24, "Allocation of Interest to Discontinued Operations," based on debt required to be repaid as a result of the disposal transaction.

(3) Unitholders' Capital

Public Offering of Units

In May 2009, the Company sold 6,325,000 units representing limited liability company interests at $16.25 per unit ($15.60 per unit, net of underwriting discount), for net proceeds (after underwriting discount of $4.1 million and offering expenses of $0.4 million), of approximately $98.3 million, which was used to reduce indebtedness. The units were registered under the Securities Act of 1933, as amended ("Securities Act") on a Registration Statement on Form S-3 filed May 11, 2009.

Unit Repurchase Plan

In October 2008, the Board of Directors of the Company authorized the repurchase of up to $100.0 million of the Company's outstanding units from time to time on the open market or in negotiated purchases. During the six months ended June 30, 2009, 123,800 units were repurchased at an average unit price of $12.99, for a total cost of approximately $1.6 million. All units were subsequently canceled. At June 30, 2009, approximately $85.4 million was available for unit repurchase under the program. The timing and amounts of any such repurchases will be at the discretion of management, subject to market conditions and other factors, and in accordance with applicable securities laws and other legal requirements. The repurchase plan does not obligate the Company to acquire any specific number of units and may be discontinued at any time. Units are repurchased at fair market value on the date of repurchase.

Cancellation of Units

During the six months ended June 30, 2009, the Company purchased 63,031 units for approximately $1.0 million, in conjunction with units received by the Company for the payment of minimum withholding taxes

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LINN ENERGY, LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Unaudited)

due on units issued under its equity compensation plan (see Note 12). All units were subsequently canceled.

Distributions

Under the limited liability company agreement, Company unitholders are entitled to receive a quarterly distribution of available cash to the extent there is sufficient cash from operations after establishment of cash reserves and payment of fees and expenses. Distributions paid by the Company during the six months ended June 30, 2009, are presented on the condensed consolidated statement of unitholders' capital. On July 23, 2009, the Company's Board of Directors declared a cash distribution of $0.63 per unit with respect to the second quarter of 2009. The distribution totaling approximately $76.4 million will be paid August 14, 2009, to unitholders of record as of the close of business August 7, 2009.

(4) Oil and Gas Capitalized Costs

Aggregate capitalized costs related to oil and gas production activities with applicable accumulated depletion and amortization are presented below:

	June 30, 2009	December 31, 2008
	(in thousands)	
Proved properties:		
Leasehold acquisition	$ 3,279,858	$ 3,278,155
Development	559,328	460,730
Unproved properties	89,116	92,298
	3,928,302	3,831,183
Less accumulated depletion and amortization	(376,608)	(278,805)
	$ 3,551,694	$ 3,552,378

(5) Business and Credit Concentrations

For the three months ended June 30, 2009, the Company's four largest customers represented approximately 24%, 17%, 14% and 10% of the Company's sales. For the six months ended June 30, 2009, the Company's three largest customers represented approximately 21%, 18% and 15% of the Company's sales. For the three months and six months ended June 30, 2008, the Company's four largest customers represented 20%, 11%, 10% and 10%, and 19%, 11%, 11% and 10%, respectively, of the Company's sales.

At June 30, 2009, trade accounts receivable from three customers were more than 10% of the Company's total trade accounts receivable. At June 30, 2009, trade accounts receivable from the Company's three largest customers represented approximately 20%, 18% and 13% of the Company's receivables. At December 31, 2008, trade accounts receivable from two customers were more than 10% of the Company's total trade accounts receivable. At December 31, 2008, trade accounts receivable from the Company's two largest customers represented approximately 20% and 16% of the Company's receivables.

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LINN ENERGY, LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Unaudited)

(6) Debt

At June 30, 2009, and December 31, 2008, the Company had the following debt outstanding:

	June 30, 2009	December 31, 2008
	(in thousands)	
Credit facility (1)	$ 1,118,000	$ 1,403,393
Senior notes due 2017, net (2)	237,808	
Senior notes due 2018, net (3)	250,359	250,175
Less current maturities		
	$ 1,606,167	$ 1,653,568

(1) Variable interest rate of 3.07% at June 30, 2009, and 2.47% at December 31, 2008.

(2) Fixed interest rate of 11.75% and effective interest rate of 12.73%. Amount is net of unamortized discount of approximately $12.2 million at June 30, 2009.

(3) Fixed interest rate of 9.875% and effective interest rate of 10.25%. Amount is net of unamortized discount of approximately $5.6 million and $5.8 million at June 30, 2009, and December 31, 2008, respectively.

Credit Facility

On April 28, 2009, the Company entered into a Fourth Amended and Restated Credit Agreement (“Credit Facility”), with an initial borrowing base of $1.75 billion and a maturity of August 2012, which amended and restated the Company’s existing credit facility, which had a maturity of August 2010. The terms of the Credit Facility required that, upon issuance of the senior notes in May 2009, (see below), the borrowing base be decreased by $62.5 million, to $1.69 billion. At June 30, 2009, available borrowing capacity was $563.9 million, which includes a $5.6 million reduction in availability for outstanding letters of credit. In connection with the amended and restated Credit Facility, the Company paid approximately $52.7 million in financing fees and expenses, which were deferred and will be amortized over the life of the Credit Facility.

Redetermination of the borrowing base under the Credit Facility occurs semi-annually, in April and October, as well as upon the occurrence of certain events, by the lenders in their sole discretion, based primarily on reserve reports that reflect oil and gas prices at such time. Significant declines in oil, gas or NGL prices may result in a decrease in the borrowing base. The Company’s obligations under the Credit Facility are secured by mortgages on its oil and gas properties as well as a pledge of all ownership interests in its operating subsidiaries. The Company is required to maintain the mortgages on properties representing at least 80% of its oil and gas properties. Additionally, the obligations under the Credit Facility are guaranteed by all of the Company’s material operating subsidiaries and may be guaranteed by any future subsidiaries.

At the Company’s election, interest on borrowings under the Credit Facility is determined by reference to either the London Interbank Offered Rate (“LIBOR”) plus an applicable margin between 2.50% and 3.25% per annum or the alternate base rate (“ABR”) plus an applicable margin between 1.00% and 1.75% per annum. Interest is generally payable quarterly for ABR loans and at the applicable maturity date for LIBOR loans. The Company is required to pay a fee of 0.5% per annum on the unused portion of the borrowing base under the Credit Facility.

The Credit Facility contains various covenants, substantially similar to those included prior to the amendment and restatement, which limit the Company’s ability to: (i) incur indebtedness; (ii) enter into commodity and interest rate swaps; (iii) grant certain liens; (iv) make certain loans, acquisitions, capital expenditures and investments; (v) make distributions other than from available cash; and (vi) merge or consolidate, or engage in certain asset dispositions, including a sale of all or substantially all of its assets. The Credit Facility also contains covenants, substantially similar to those included prior to the amendment and restatement, which require the Company to maintain adjusted earnings to interest expense and current liquidity financial ratios. The Company is in compliance with all financial and other covenants of its Credit Facility.

Senior Notes Due 2017

On May 12, 2009, the Company entered into a purchase agreement with a group of initial purchasers ("Initial Purchasers"), pursuant to which the Company agreed to issue $250.0 million in aggregate principal amount of the Company's senior notes due 2017 ("2017 Notes"). The 2017 Notes were offered and sold to the Initial Purchasers and then resold to qualified institutional buyers, each in transactions exempt from the registration requirements under the Securities Act. The Company used the net proceeds (after deducting the Initial Purchasers' discounts and offering expenses) of approximately $230.8 million to reduce indebtedness under its Credit Facility. In connection with the 2017 Notes, the Company incurred financing fees and expenses of approximately $6.9 million, which will be amortized over the life of the 2017 Notes; the expense is recorded in "interest expense, net of amounts capitalized" on the condensed consolidated statements of operations. The $12.3 million discount on the 2017 Notes will be amortized over the life of the 2017 Notes; the expense is recorded in "interest expense, net of amounts capitalized" on the condensed consolidated statements of operations. See Note 8 for fair value disclosures related to the 2017 Notes.

The 2017 Notes were issued under an Indenture dated May 18, 2009, ("Indenture"), mature May 15, 2017, and bear interest at 11.75%. Interest is payable semi-annually beginning November 15, 2009. The 2017 Notes are general unsecured senior obligations of the Company and are effectively junior in right of payment to any secured indebtedness of the Company to the extent of the collateral securing such indebtedness. Each of the Company's material subsidiaries guaranteed the 2017 Notes on a senior unsecured basis. The Indenture provides that the Company may redeem: (i) on or prior to May 15, 2011, up to 35% of the aggregate principal amount of the 2017 Notes at a redemption price of 111.75% of the principal amount, plus accrued and unpaid interest; (ii) prior to May 15, 2013, all or part of the 2017 Notes at a redemption price equal to the principal amount, plus a make-whole premium (as defined in the Indenture) and accrued and unpaid interest; and (iii) on or after May 15, 2013, all or part of the 2017 Notes at redemption prices equal to 105.875% in 2013, 102.938% in 2014 and 100% in 2015 and thereafter. The Indenture also provides that, if a change of control (as defined in the Indenture) occurs, the holders have a right to require the Company to repurchase all or part of the 2017 Notes at a redemption price equal to 101%, plus accrued and unpaid interest.

The 2017 Notes' Indenture contains covenants that, among other things, limit the Company's ability to: (i) pay distributions on, purchase or redeem the Company's units or redeem its subordinated debt; (ii) make investments; (iii) incur or guarantee additional indebtedness or issue certain types of equity securities; (iv) create certain liens; (v) sell assets; (vi) consolidate, merge or transfer all or substantially all of the Company's assets; (vii) enter into agreements that restrict distributions or other payments from the Company's restricted subsidiaries to the Company; (viii) engage in transactions with affiliates; and (ix) create unrestricted subsidiaries.

In connection with the issuance and sale of the 2017 Notes, the Company entered into a Registration Rights Agreement ("Registration Rights Agreement") with the Initial Purchasers. Under the Registration Rights Agreement, the Company agreed to use its reasonable best efforts to file with the SEC and cause to become effective a registration statement relating to an offer to issue new notes having terms substantially identical to the 2017 Notes in exchange for outstanding 2017 Notes. In certain circumstances, the Company may be required to file a shelf registration statement to cover resales of the 2017 Notes. The Company will not be

LINN ENERGY, LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued
(Unaudited)

obligated to file the registration statements described above if the restrictive legend on the 2017 Notes has been removed and the 2017 Notes are freely tradable (in each case, other than with respect to persons that are affiliates of the Company) pursuant to Rule 144 under the Securities Act, as of the 366th day after the 2017 Notes were issued. If the Company fails to satisfy its obligations under the Registration Rights Agreement, the Company may be required to pay additional interest to holders of the 2017 Notes under certain circumstances.

Senior Notes Due 2018

On June 24, 2008, the Company entered into a purchase agreement with a group of initial purchasers ("Initial Purchasers"), pursuant to which the Company agreed to issue $255.9 million in aggregate principal amount of the Company's senior notes due 2018 ("2018 Notes"). The 2018 Notes were offered and sold to the Initial Purchasers and then resold to qualified institutional buyers, each in transactions exempt from the registration requirements under the Securities Act. The Company used the net proceeds (after deducting the Initial Purchasers' discounts and offering expenses) of approximately $243.6 million to repay an outstanding term loan. In connection with the 2018 Notes, the Company incurred financing fees and expenses of approximately $7.8 million, which will be amortized over the life of the 2018 Notes; the expense is recorded in "interest expense, net of amounts capitalized" on the condensed consolidated statements of operations. The $5.9 million discount on the 2018 Notes will be amortized over the life of the 2018 Notes; the expense is recorded in "interest expense, net of amounts capitalized" on the condensed consolidated statements of operations. See Note 8 for fair value disclosures related to the 2018 Notes.

The 2018 Notes were issued under an Indenture dated June 27, 2008, ("Indenture"), mature July 1, 2018, and bear interest at 9.875%. Interest is payable semi-annually beginning January 1, 2009. The 2018 Notes are general unsecured senior obligations of the Company and are effectively junior in right of payment to any secured indebtedness of the Company to the extent of the collateral securing such indebtedness. Each of the Company's material subsidiaries guaranteed the 2018 Notes on a senior unsecured basis. The Indenture provides that the Company may redeem: (i) on or prior to July 1, 2011, up to 35% of the aggregate principal amount of the 2018 Notes at a redemption price of 109.875% of the principal amount, plus accrued and unpaid interest; (ii) prior to July 1, 2013, all or part of the 2018 Notes at a redemption price equal to the principal amount, plus a make-whole premium (as defined in the Indenture) and accrued and unpaid interest; and (iii) on or after July 1, 2013, all or part of the 2018 Notes at redemption prices equal to 104.938% in 2013, 103.292% in 2014, 101.646% in 2015 and 100% in 2016 and thereafter. The Indenture also provides that, if a change of control (as defined in the Indenture) occurs, the holders have a right to require the Company to repurchase all or part of the 2018 Notes at a redemption price equal to 101%, plus accrued and unpaid interest.

The 2018 Notes' Indenture contains covenants that, among other things, limit the Company's ability to: (i) pay distributions on, purchase or redeem the Company's units or redeem its subordinated debt; (ii) make investments; (iii) incur or guarantee additional indebtedness or issue certain types of equity securities; (iv) create certain liens; (v) sell assets; (vi) consolidate, merge or transfer all or substantially all of the Company's assets; (vii) enter into agreements that restrict distributions or other payments from the Company's restricted subsidiaries to the Company; (viii) engage in transactions with affiliates; and (ix) create unrestricted subsidiaries.

(7) Derivatives

Commodity Derivatives

The Company sells oil, gas and NGL in the normal course of its business and utilizes derivative instruments to minimize the variability in cash flows due to price movements in oil, gas and NGL. The Company enters into derivative instruments such as swap contracts, collars and put options to economically

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hedge a portion of its forecasted oil, gas and NGL sales. Oil puts are also used to economically hedge NGL sales. The Company did not designate these contracts as cash flow hedges under Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, ("SFAS 133"); therefore, the changes in fair value of these instruments are recorded in current earnings. See Note 8 for additional disclosures about oil and gas commodity derivatives required by SFAS No. 157, "Fair Value Measurements" ("SFAS 157").

The following table summarizes open positions as of June 30, 2009, and represents, as of such date, derivatives in place through December 31, 2014, on annual production volumes:

	Year 2009	Year 2010	Year 2011	Year 2012	Year 2013	Year 2014
Gas Positions:						
Fixed Price Swaps:						
Hedged Volume (MMMBtu)	19,793	39,566	31,901	14,676	—	—
Average Price ($/MMBtu)	$ 8.53	$ 8.50	$ 8.50	$ 8.57	$ —	$ —
Puts:						
Hedged Volume (MMMBtu)	3,480	6,960	6,960	—	—	—
Average Price ($/MMBtu)	$ 7.50	$ 7.50	$ 7.50	$ —	$ —	$ —
PEPL Puts: (1)						
Hedged Volume (MMMBtu)	2,667	10,634	13,259	5,934	—	—
Average Price ($/MMBtu)	$ 7.85	$ 7.85	$ 7.85	$ 7.85	$ —	$ —
Total:						
Hedged Volume (MMMBtu)	25,940	57,160	52,120	20,610	—	—
Average Price ($/MMBtu)	$ 8.32	$ 8.26	$ 8.20	$ 8.37	$ —	$ —
Oil Positions:						
Fixed Price Swaps:						
Hedged Volume (MBbls)	1,218	2,150	2,073	2,025	2,275	2,200
Average Price ($/Bbl)	$ 90.00	$ 90.00	$ 84.22	$ 84.22	$ 84.22	$ 84.22
Puts: (2)						
Hedged Volume (MBbls)	922	2,250	2,352	500	—	—
Average Price ($/Bbl)	$ 120.00	$ 110.00	$ 69.11	$ 77.73	$ —	$ —
Collars:						
Hedged Volume (MBbls)	125	250	276	348	—	—

Average Floor Price ($/Bbl)	$ 90.00	$ 90.00	$ 90.00	$ 90.00	$ —	$ —
Average Ceiling Price ($/Bbl)	$ 114.25	$ 112.00	$ 112.25	$ 112.35	$ —	$ —
Total:						
Hedged Volume (MBbls)	2,265	4,650	4,701	2,873	2,275	2,200
Average Price ($/Bbl)	$ 102.21	$ 99.68	$ 77.00	$ 83.79	$ 84.22	$ 84.22
Gas Basis Differential Positions:						
PEPL Basis Swaps:						
Hedged Volume (MMMBtu)	23,458	43,166	35,541	34,066	31,700	—
Hedged Differential ($/MMBtu)	$ (0.97)	$ (0.97)	$ (0.96)	$ (0.95)	$ (1.01)	$ —

(1) Settle on the Panhandle Eastern Pipeline (“PEPL”) spot price of gas to hedge basis differential associated with gas production in the Mid-Continent Deep and Mid-Continent Shallow regions.

(2) The Company utilizes oil puts to hedge revenues associated with its NGL production.

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Settled derivatives on gas production for the three months and six months ended June 30, 2009, included a volume of 12,970 MMMBtu and 25,940 MMMBtu at average contract prices of $8.32. Settled derivatives on oil and NGL production for the three months and six months ended June 30, 2009, included a volume of 1,132 MBbls and 2,265 MBbls at average contract prices of $102.21. The gas derivatives are settled based on the closing New York Mercantile Exchange ("NYMEX") future price of gas or on the published PEPL spot price of gas on the settlement date, which occurs on the third day preceding the production month. The oil derivatives are settled based on the month's average daily NYMEX price of light oil and settlement occurs on the final day of the production month.

In the third quarter of 2009, the Company repositioned its commodity derivative portfolio to help protect against sustained weakness in commodity prices. The Company canceled oil and gas derivative contracts for years 2012 through 2014 and realized a net gain of approximately $44.8 million, which, along with an incremental premium payment of approximately $48.8 million, was used to raise prices for its oil and gas derivative contracts in years 2010 and 2011.

Interest Rate Swaps

The Company has entered into interest rate swap agreements based on LIBOR to minimize the effect of fluctuations in interest rates. If LIBOR is lower than the fixed rate in the contract, the Company is required to pay the counterparties the difference, and conversely, the counterparties are required to pay the Company if LIBOR is higher than the fixed rate in the contract. The Company did not designate the interest rate swap agreements as cash flow hedges under SFAS 133; therefore, the changes in fair value of these instruments are recorded in current earnings. See Note 8 for additional disclosures about interest rate swaps required by SFAS 157.

The following presents the settlement terms of the interest rate swaps at June 30, 2009:

	Year 2009	Year 2010	Year 2011	Year 2012	Year 2013 (1)
			(dollars in thousands)		
Notional Amount	$ 1,212,000	$ 1,212,000	$ 1,212,000	$ 1,212,000	$ 1,212,000
Fixed Rate	3.85 %	3.85 %	3.85 %	3.85 %	3.85 %

(1) Actual settlement term is through January 6, 2014.

Outstanding Notional Amounts

The following presents the outstanding notional amounts and maximum number of months outstanding of derivative instruments:

	June 30, 2009	December 31, 2008
Outstanding notional amounts of gas contracts (MMMBtu)	155,830	196,756
Maximum number of months gas contracts outstanding	42	48
Outstanding notional amounts of oil contracts (MBbls)	18,964	21,229
Maximum number of months oil contracts outstanding	66	72

Outstanding notional amount of interest rate swaps (in thousands)	$	1,212,000	$	1,212,000
Maximum number of months interest rate swaps outstanding		54		24

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Balance Sheet Presentation

The Company's commodity derivatives and interest rate swap derivatives are presented on a net basis in "derivative instruments" on the condensed consolidated balance sheets. The following summarizes the fair value of derivatives outstanding on a gross basis:

	June 30, 2009	December 31, 2008
	(in thousands)	
Assets:		
Commodity derivatives	$ 729,816	$ 977,847
Interest rate swaps	3,460	
	$ 733,276	$ 977,847
Liabilities:		
Commodity derivatives	$ 179,556	$ 119,124
Interest rate swaps	65,724	82,422
	$ 245,280	$ 201,546

By using derivative instruments to economically hedge exposures to changes in commodity prices and interest rates, the Company exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Company, which creates credit risk. The Company's counterparties are participants in its Credit Facility (see Note 6), which is secured by the Company's oil and gas reserves; therefore, the Company is not required to post any collateral. The Company does not require collateral from the counterparties. The maximum amount of loss due to credit risk that the Company would incur if its counterparties failed completely to perform according to the terms of the contracts, based on the gross fair value of financial instruments, was approximately $733.3 million at June 30, 2009. The Company minimizes the credit risk in derivative instruments by: (i) limiting its exposure to any single counterparty; (ii) entering into derivative instruments only with counterparties that meet the Company's minimum credit quality standard, or have a guarantee from an affiliate that meets the Company's minimum credit quality standard; and (iii) monitoring the creditworthiness of the Company's counterparties on an ongoing basis. In accordance with the Company's standard practice, its commodity and interest rate swap derivatives are subject to counterparty netting under agreements governing such derivatives and therefore the risk of such loss is somewhat mitigated.

Gain (Loss) on Derivatives

Gains and losses on derivatives are reported on the condensed consolidated statements of operations in "gain (loss) on oil and gas derivatives" and "gain (loss) on interest rate swaps" and include realized and unrealized gains (losses). Realized gains (losses), excluding canceled commodity derivatives, represent amounts related to the settlement of derivative instruments, and for commodity derivatives, are aligned with the underlying production. Unrealized gains (losses) represent the change in fair value of the derivative instruments and are noncash items.

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