LINN ENERGY, LLC
Form 10-Q
November 04, 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 September 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 October 30, 2009, there were 129,916,563 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 degrees 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

	September 30, 2009 (Unaudited)	December 31, 2008
	(in thousands, except unit amounts)	
Assets		
Current assets:		
Cash and cash equivalents	$ 10,595	$ 28,668
Accounts receivable – trade, net	98,150	138,983
Derivative instruments	290,784	368,951
Other current assets	22,748	27,329
Total current assets	422,277	563,931
Noncurrent assets:		
Oil and gas properties (successful efforts method)	4,060,403	3,831,183
Less accumulated depletion and amortization	(416,766)	(278,805)
	3,643,637	3,552,378
Other property and equipment	116,373	111,459
Less accumulated depreciation	(20,933)	(13,171)
	95,440	98,288
Derivative instruments	213,130	493,705
Other noncurrent assets	64,679	13,718
	277,809	507,423
Total noncurrent assets	4,016,886	4,158,089
Total assets	$ 4,439,163	$ 4,722,020
Liabilities and Unitholders' Capital		
Current liabilities:		
Accounts payable and accrued expenses	$ 125,731	$ 163,662
Derivative instruments	48,042	47,005
Other accrued liabilities	31,839	27,163
Total current liabilities	205,612	237,830
Noncurrent liabilities:		
Credit facility	1,251,000	1,403,393
Senior notes, net	488,492	250,175
Derivative instruments	44,945	39,350
Other noncurrent liabilities	35,613	30,586
Total noncurrent liabilities	1,820,050	1,723,504
Unitholders' capital:		
	1,994,684	2,109,089

121,276,006 units and 114,079,533 units issued and outstanding at September 30, 2009, and December 31, 2008, respectively		
Accumulated income	418,817	651,597
	2,413,501	2,760,686
Total liabilities and unitholders' capital	$4,439,163	$ 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 September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
	(in thousands, except per unit amounts)			
Revenues and other:				
Oil, gas and natural gas liquid sales	$102,989	$240,634	$274,759	$672,092
Gain (loss) on oil and gas derivatives	(14,065)	845,818	(85,525)	(293,780)
Gas marketing revenues	1,351	4,647	3,050	11,056
Other revenues	150	561	1,757	1,682
	90,425	1,091,660	194,041	391,050
Expenses:				
Lease operating expenses	33,453	33,503	100,322	78,154
Transportation expenses	6,367	5,683	11,850	12,674
Gas marketing expenses	98	4,061	1,318	9,581
General and administrative expenses	19,655	18,692	63,247	55,788
Exploration costs	861	268	4,625	2,949
Bad debt expenses	500	1,436	500	1,436
Depreciation, depletion and amortization	49,440	52,004	151,934	147,259
Taxes, other than income taxes	5,965	17,242	21,414	47,843
(Gain) loss on sale of assets and other, net	1,999		(24,717)	
	118,338	132,889	330,493	355,684
Other income and (expenses):				
Interest expense, net of amounts capitalized	(28,025)	(22,574)	(65,696)	(71,199)
Loss on interest rate swaps	(25,709)	(9,694)	(25,362)	(17,483)
Other, net	(757)	(3,558)	(1,987)	(8,034)
	(54,491)	(35,826)	(93,045)	(96,716)
Income (loss) from continuing operations before income taxes	(82,404)	922,945	(229,497)	(61,350)
Income tax expense	(58)	(1,002)	(379)	(1,047)
Income (loss) from continuing operations	(82,462)	921,943	(229,876)	(62,397)
Discontinued operations:				
Gain (loss) on sale of assets, net of taxes	—	162,442	(718)	161,120
Income (loss) from discontinued operations, net of taxes	(1,247)	(1,774)	(2,186)	12,387
	(1,247)	160,668	(2,904)	173,507
Net income (loss)	$(83,709)	$ 1,082,611	$(232,780)	$ 111,110
Income (loss) per unit – continuing operations:				
Units – basic	$(0.69)	$8.01	$(1.97)	$(0.55)
Units – diluted	$(0.69)	$8.01	$(1.97)	$(0.55)
Income (loss) per unit – discontinued operations:				
Units – basic	$(0.01)	$1.39	$(0.03)	$1.52
Units – diluted	$(0.01)	$1.39	$(0.03)	$1.52
Net income (loss) per unit:				
Units – basic	$(0.70)	$9.40	$(2.00)	$0.97
Units – diluted	$(0.70)	$9.40	$(2.00)	$0.97

Weighted average units outstanding:				
Units – basic	119,792	114,321	116,610	114,111
Units – diluted	119,792	114,345	116,610	114,111
Distributions declared per unit	$0.63	$0.63	$1.89	$1.89

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 (in thousands)	Treasury Units (at Cost)	Total Unitholders' Capital
December 31, 2008	114,080	$ 2,109,089	$ 651,597	$	$ 2,760,686
Sale of units, net of underwriting discounts and expenses of $4,533	6,325	98,248			98,248
Issuance of units	1,058				
Cancellation of units	(187)	(2,696)		2,696	
Purchase of units				(2,696)	(2,696)
Distributions to unitholders		(221,430)			(221,430)
Unit-based compensation expenses		11,473			11,473
Net loss			(232,780)		(232,780)
September 30, 2009	121,276	$ 1,994,684	$ 418,817	$	$ 2,413,501

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)

	Nine Months Ended September 30, 2009	2008
	(in thousands)	
Cash flow from operating activities:		
Net income (loss)	$(232,780)	$111,110
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion and amortization	151,934	152,017
Unit-based compensation expenses	11,473	12,376
Bad debt expenses	500	1,436
Amortization and write-off of deferred financing fees and other	14,231	12,853
(Gain) loss on sale of assets, net	(22,572)	(161,120)
Mark-to-market on derivatives:		
Total losses	110,887	311,263
Cash settlements	299,114	(72,416)
Cash settlements on canceled derivatives	48,977	(81,358)
Premiums paid for derivatives	(93,606)	(129,520)
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable – trade, net	39,260	(99,448)
(Increase) decrease in other assets	365	(3,821)
Decrease in accounts payable and accrued expenses	(3,232)	(15,810)
Increase in other liabilities	5,573	5,226
Net cash provided by operating activities	330,124	42,788
Cash flow from investing activities:		
Acquisition of oil and gas properties	(116,694)	(573,096)
Development of oil and gas properties	(152,149)	(249,833)
Purchases of other property and equipment	(5,832)	(5,309)
Proceeds from sale of properties and equipment	26,682	744,133
Net cash used in investing activities	(247,993)	(84,105)
Cash flow from financing activities:		
Proceeds from sale of units	102,781	
Purchase of units	(2,696)	(1,981)
Proceeds from borrowings	599,203	1,422,000
Repayments of debt	(513,893)	(1,095,116)
Distributions to unitholders	(221,430)	(217,331)
Financing fees, offering expenses and other, net	(64,169)	(20,427)
Net cash provided by (used in) financing activities	(100,204)	87,145
Net increase (decrease) in cash and cash equivalents	(18,073)	45,828
Cash and cash equivalents:		
Beginning	28,668	1,441
Ending	$10,595	$47,269

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 September 30, 2009, and for the three months and nine months ended September 30, 2009, and September 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, November 4, 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, fair values of commodity and interest rate derivatives, and fair values of assets acquired and liabilities assumed. 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 – 2009

On August 31, 2009, and September 30, 2009, the Company completed the acquisitions of certain oil and gas properties located in the Permian Basin in Texas and New Mexico from Forest Oil Corporation and Forest Oil Permian Corporation, (collectively referred to as “Forest”) for an aggregate contract price of $117.6 million. The Company paid $116.5 million in cash and recorded a receivable from Forest of approximately $2.7 million, resulting in total consideration for the acquisitions of approximately $113.8 million. The transactions were financed with borrowings from the Company’s Credit Facility (as defined in Note 6). The acquisitions represent a strategic entry into the Permian Basin for the Company.

The acquisitions were accounted for under the acquisition method of accounting in accordance with an accounting standard adopted by the Company effective January 1, 2009, (see Note 16). Accordingly, the Company conducted a preliminary assessment of net assets acquired and recognized provisional amounts for identifiable assets acquired and liabilities assumed at their estimated acquisition date fair values, while transaction and integration costs associated with the acquisitions were expensed as incurred. The initial accounting for the business combinations is not complete and adjustments to provisional amounts, or recognition of additional assets acquired or liabilities assumed, may occur as more detailed analyses are completed and additional information is obtained about the facts and circumstances that existed as of the acquisition dates.

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

The following presents the preliminary values assigned to the net assets acquired as of the acquisition dates (in thousands):

Assets:		
Current assets	$	800
Oil and gas properties		115,952
Total assets acquired	$	116,752
Liabilities:		
Current liabilities	$	1,567
Asset retirement obligations		1,350
Total liabilities assumed	$	2,917
Net assets acquired	$	113,835

Current assets include gas imbalance receivables, prepaid ad valorem taxes, and inventory of oil produced but not yet sold. Current liabilities include gas imbalance payables, ad valorem taxes payable and environmental liabilities.

The preliminary fair values of oil and gas properties and asset retirement obligation liabilities were measured using valuation techniques that convert future cash flows to a single discounted amount. Significant inputs to the valuation of oil and gas properties include estimates of: (i) oil and gas reserves; (ii) future operating and development costs; (iii) future oil and gas prices; and (iv) a market-based weighted average cost of capital rate. Significant inputs to the valuation of asset retirement obligation liabilities include estimates of: (i) plug and abandon costs per well; (ii) remaining life per well; and (iii) a credit-adjusted risk-free interest rate.

Acquisition – 2008

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 $542.2 million.

Divestitures – 2008

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 nine months ended September 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

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

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.

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 September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(in thousands)			
Total revenues and other	$ —	$ (421)	$ (1,216)	$ 49,564
Total operating expenses	(1,247)	(1,549)	(970)	(23,779)
Interest expense	—	196	—	(13,398)
Income (loss) from discontinued operations, net of taxes	$ (1,247)	$ (1,774)	$ (2,186)	$ 12,387

Discontinued operations activity for 2009 primarily represents activity related to post-closing adjustments. The Company computed interest expense related to discontinued operations for 2008 based on debt required to be repaid as a result of the disposal transaction.

(3) Unitholders' Capital

Public Offering of Units

In October 2009, the Company sold 8,625,000 units, representing limited liability company interests at $21.90 per unit ($21.024 per unit, net of underwriting discount), for net proceeds (after underwriting discount of $7.6 million and estimated offering expenses of $0.7 million) of approximately $180.6 million, which was used to reduce indebtedness under the Company's Credit Facility.

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 $98.2 million, which was used to reduce indebtedness under the Company's Credit Facility.

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 nine months ended September 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 September 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.

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

Cancellation of Units

During the nine months ended September 30, 2009, the Company purchased 63,031 units for approximately $1.1 million, in conjunction with units received by the Company for the payment of minimum withholding taxes 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 nine months ended September 30, 2009, are presented on the condensed consolidated statement of unitholders' capital. On October 21, 2009, the Company's Board of Directors declared a cash distribution of $0.63 per unit with respect to the third quarter of 2009. The distribution, totaling approximately $81.9 million, will be paid November 13, 2009, to unitholders of record as of the close of business November 6, 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:

	September 30, 2009	December 31, 2008
	(in thousands)	
Proved properties:		
Leasehold acquisition	$ 3,396,033	$ 3,278,155
Development	581,976	460,730
Unproved properties	82,394	92,298
	4,060,403	3,831,183
Less accumulated depletion and amortization	(416,766)	(278,805)
	$ 3,643,637	$ 3,552,378

(5) Business and Credit Concentrations

For the three months and nine months ended September 30, 2009, the Company's three largest customers represented approximately 26%, 19% and 15%, and 23%, 18% and 15%, respectively, of the Company's sales. For the three months and nine months ended September 30, 2008, the Company's four largest customers represented approximately 17%, 12%, 11% and 10%, and 19%, 11%, 11% and 10%, respectively, of the Company's sales.

At September 30, 2009, trade accounts receivable from three customers were more than 10% of the Company's total trade accounts receivable. At September 30, 2009, trade accounts receivable from the Company's three largest customers represented approximately 24%, 18% and 13%, respectively, 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%, respectively, of the Company's receivables.

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

(6) Debt

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

	September 30, 2009	December 31, 2008
	(in thousands)	
Credit facility (1)	$ 1,251,000	$ 1,403,393
Senior notes due 2017, net (2)	238,038	
Senior notes due 2018, net (3)	250,454	250,175
Less current maturities		
	$ 1,739,492	$ 1,653,568

(1) Variable interest rate of 3.0% at September 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 $12.0 million at September 30, 2009.

(3) Fixed interest rate of 9.875% and effective interest rate of 10.25%. Amount is net of unamortized discount of approximately $5.5 million and $5.8 million at September 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 the issuance of the senior notes due 2017 in May 2009 (see below) and cancelation of certain commodity derivatives in July 2009 (see Note 7), the borrowing base be decreased by approximately $62.5 million and $45.0 million, respectively, to $1.64 billion at September 30, 2009. At September 30, 2009, available borrowing capacity was $386.0 million, which reflects borrowings used to finance the recent acquisitions in the Permian Basin (see Note 2) and a $5.5 million reduction in availability for outstanding letters of credit. In October 2009, the Company used net proceeds from its public offering of units (see Note 3) to reduce indebtedness under its Credit Facility. At October 30, 2009, available borrowing capacity was $535.0 million, which includes a $5.5 million reduction in availability for outstanding letters of credit. In connection with the amended and restated Credit Facility, during the nine months ended September 30, 2009, 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 of 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.

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 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 of 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 of 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.

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. In June 2009, the Company instructed the trustee to remove the restrictive legend from the 2018 Notes making them freely tradable (other than with respect to persons that

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are affiliates of the Company). This terminated the Company’s obligations under a registration rights agreement entered into in connection with issuance of the 2018 Notes.

Fair Value Measurements

At September 30, 2009, the estimated fair values of the 2017 Notes and the 2018 Notes were approximately $268.8 million and $254.3 million, respectively. The fair values were estimated based on prices quoted from third-party financial institutions.

(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 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; therefore, the changes in fair value of these instruments are recorded in current earnings. See Note 8 for fair value disclosures about oil and gas commodity derivatives.

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

The following table summarizes open positions as of September 30, 2009, and represents, as of such date, derivatives in place through December 31, 2013, on annual production volumes:

	Year 2009	Year 2010	Year 2011	Year 2012	Year 2013
Gas Positions:					
Fixed Price Swaps:					
Hedged Volume (MMMBtu)	9,896	39,566	31,901	—	—
Average Price ($/MMBtu)	$ 8.53	$ 8.90	$ 9.50	$ —	$ —
Puts:					
Hedged Volume (MMMBtu)	1,740	6,960	6,960	—	—
Average Price ($/MMBtu)	$ 7.50	$ 8.50	$ 9.50	$ —	$ —
PEPL Puts: (1)					
Hedged Volume (MMMBtu)	1,334	10,634	13,259	—	—
Average Price ($/MMBtu)	$ 7.85	$ 7.85	$ 8.50	$ —	$ —
Total:					
Hedged Volume (MMMBtu)	12,970	57,160	52,120	—	—
Average Price ($/MMBtu)	$ 8.32	$ 8.66	$ 9.25	$ —	$ —
Oil Positions:					
Fixed Price Swaps:					
Hedged Volume (MBbls)	609	2,150	2,073	—	—
Average Price ($/Bbl)	$ 90.00	$ 90.00	$ 90.00	$ —	$ —
Puts: (2)					
Hedged Volume (MBbls)	461	2,250	2,352	—	—
Average Price ($/Bbl)	$ 120.00	$ 110.00	$ 75.00	$ —	$ —
Collars:					
Hedged Volume (MBbls)	62	250	276	—	—
Average Floor Price ($/Bbl)	$ 90.00	$ 90.00	$ 90.00	$ —	$ —
Average Ceiling Price ($/Bbl)	$ 114.25	$ 112.00	$ 112.25	$ —	$ —
Total:					
Hedged Volume (MBbls)	1,132	4,650	4,701	—	—

Average Price ($/Bbl)	$ 102.21	$ 99.68	$ 82.50	$ —	$ —
Gas Basis Differential Positions:					
PEPL Basis Swaps:					
Hedged Volume (MMMBtu)	11,729	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.

Settled derivatives on gas production for the three months and nine months ended September 30, 2009, included a volume of 12,970 MMMBtu and 38,910 MMMBtu at average contract prices of $8.32. Settled derivatives on oil and NGL production for the three months and nine months ended September 30, 2009, included a volume of 1,132 MBbls and 3,397 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