LINN ENERGY, LLC
Form 10-Q
August 08, 2013

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, 2013

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	77002
(Address of principal executive offices)	(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 has submitted electronically and posted on its corporate website, 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 x 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 the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ 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, 2013, there were 235,190,863 units outstanding.

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GLOSSARY OF TERMS

As commonly used in the oil and natural 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 natural 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 natural gas to one Bbl of oil, condensate or natural gas liquids.

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

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

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 natural gas to one Bbl of oil, condensate or natural gas liquids.

MMcfe/d. MMcfe per day.

MMMBtu. One billion British thermal units.

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PART I – FINANCIAL INFORMATION
Item 1. Financial Statements
LINN ENERGY, LLC
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2013 (Unaudited)	December 31, 2012
	(in thousands, except unit amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$1,152	$1,243
Accounts receivable – trade, net	343,002	371,333
Derivative instruments	289,499	350,695
Other current assets	57,727	88,157
Total current assets	691,380	811,428
Noncurrent assets:		
Oil and natural gas properties (successful efforts method)	11,866,089	11,611,330
Less accumulated depletion and amortization	(2,358,158)	(2,025,656)
	9,507,931	9,585,674
Other property and equipment	534,280	469,188
Less accumulated depreciation	(91,357)	(73,721)
	442,923	395,467
Derivative instruments	663,765	530,216
Other noncurrent assets	124,995	128,453
	788,760	658,669
Total noncurrent assets	10,739,614	10,639,810
Total assets	$11,430,994	$11,451,238
LIABILITIES AND UNITHOLDERS' CAPITAL		
Current liabilities:		
Accounts payable and accrued expenses	$673,926	$707,861
Derivative instruments	2,632	26
Other accrued liabilities	100,699	115,245
Total current liabilities	777,257	823,132
Noncurrent liabilities:		
Credit facility	1,435,000	1,180,000
Senior notes, net	4,820,673	4,857,817
Derivative instruments	—	4,114
Other noncurrent liabilities	166,532	158,995
Total noncurrent liabilities	6,422,205	6,200,926
Commitments and contingencies (Note 10)		
Unitholders' capital:		

235,209,281 units and 234,513,243 units issued and outstanding at June 30, 2013, and December 31, 2012, respectively	3,817,320	4,136,240
Accumulated income	414,212	290,940
	4,231,532	4,427,180
Total liabilities and unitholders’ capital	$11,430,994	$11,451,238

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, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
	(in thousands, except per unit amounts)			
Revenues and other:				
Oil, natural gas and natural gas liquids sales	$488,207	$347,227	$950,939	$696,122
Gains on oil and natural gas derivatives	326,733	439,647	218,363	441,678
Marketing revenues	17,222	10,841	27,074	12,131
Other revenues	6,663	2,882	11,509	4,756
	838,825	800,597	1,207,885	1,154,687
Expenses:				
Lease operating expenses	83,584	70,129	172,305	141,765
Transportation expenses	29,298	21,815	56,481	32,377
Marketing expenses	9,360	6,458	16,734	7,150
General and administrative expenses	46,305	41,185	104,871	84,506
Exploration costs	818	407	3,044	817
Depreciation, depletion and amortization	198,629	143,506	396,070	260,782
Impairment of long-lived assets	(14,851)	146,499	42,202	146,499
Taxes, other than income taxes	32,397	30,656	72,068	55,851
(Gains) losses on sale of assets and other, net	(959)	(2)	2,213	1,492
	384,581	460,653	865,988	731,239
Other income and (expenses):				
Interest expense, net of amounts capitalized	(103,847)	(94,390)	(204,206)	(171,909)
Loss on extinguishment of debt	(4,187)	—	(4,187)	—
Other, net	(2,182)	(7,956)	(3,825)	(11,225)
	(110,216)	(102,346)	(212,218)	(183,134)
Income before income taxes	344,028	237,598	129,679	240,314
Income tax expense (benefit)	(1,129)	512	6,407	9,430
Net income	$345,157	$237,086	$123,272	$230,884
Net income per unit:				
Basic	$1.47	$1.19	$0.52	$1.17
Diluted	$1.46	$1.19	$0.52	$1.16
Weighted average units outstanding:				
Basic	233,448	197,507	233,313	195,382
Diluted	233,910	198,160	233,800	196,039
Distributions declared per unit	$0.725	$0.725	$1.45	$1.415

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	Total Unitholders' Capital
	(in thousands)			
December 31, 2012	234,513	$4,136,240	$290,940	$4,427,180
Issuance of units	696	2,031	—	2,031
Distributions to unitholders		(341,117)	—	(341,117)
Unit-based compensation expenses		19,575	—	19,575
Excess tax benefit from unit-based compensation		591	—	591
Net income		—	123,272	123,272
June 30, 2013	235,209	$3,817,320	$414,212	$4,231,532

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,	
	2013	2012
	(in thousands)	
Cash flow from operating activities:		
Net income	$123,272	$230,884
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation, depletion and amortization	396,070	260,782
Impairment of long-lived assets	42,202	146,499
Unit-based compensation expenses	19,575	14,834
Loss on extinguishment of debt	4,187	—
Amortization and write-off of deferred financing fees	10,905	15,001
Losses on sale of assets and other, net	16,814	903
Deferred income tax	5,725	5,991
Derivatives activities:		
Total gains	(218,363)	(441,678)
Cash settlements	144,502	174,316
Premiums paid for derivatives	—	(583,434)
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable – trade, net	36,174	(14,372)
(Increase) decrease in other assets	2,260	(1,840)
Increase (decrease) in accounts payable and accrued expenses	(5,319)	39,346
Increase (decrease) in other liabilities	(16,648)	30,339
Net cash provided by (used in) operating activities	561,356	(122,429)
Cash flow from investing activities:		
Acquisition of oil and natural gas properties and joint-venture funding	(64,381)	(1,762,933)
Development of oil and natural gas properties	(495,899)	(481,140)
Purchases of other property and equipment	(55,147)	(22,433)
Proceeds from sale of properties and equipment and other	210,899	575
Net cash used in investing activities	(404,528)	(2,265,931)
Cash flow from financing activities:		
Proceeds from sale of units	—	761,362
Proceeds from borrowings	775,000	3,954,802
Repayments of debt	(560,737)	(1,945,000)
Distributions to unitholders	(341,117)	(282,166)
Financing fees, offering expenses and other, net	(30,656)	(103,121)
Excess tax benefit from unit-based compensation	591	3,252
Net cash provided by (used in) financing activities	(156,919)	2,389,129
Net increase (decrease) in cash and cash equivalents	(91)	769
Cash and cash equivalents:		
Beginning	1,243	1,114
Ending	$1,152	$1,883

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

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

Note 1 – Basis of Presentation

Nature of Business

Linn Energy, LLC ("LINN Energy" or the "Company") is an independent oil and natural gas company. LINN Energy's mission is to acquire, develop and maximize cash flow from a growing portfolio of long-life oil and natural gas assets. The Company's properties are located in the United States ("U.S."), in the Mid-Continent, the Hugoton Basin, the Green River Basin, the Permian Basin, the Williston/Powder River Basin, Michigan, Illinois, California and east Texas.

Principles of Consolidation and Reporting

The condensed consolidated financial statements at June 30, 2013, and for the three months and six months ended June 30, 2013, and June 30, 2012, are unaudited, but in the opinion of management include all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the results for the interim periods. Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been condensed or omitted under Securities and Exchange Commission ("SEC") rules and regulations; 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, 2012. 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. Investments in noncontrolled entities over which the Company exercises significant influence are accounted for under the equity method. The Company's other investment is accounted for at cost.

The condensed consolidated financial statements for previous periods include certain reclassifications that were made to conform to current presentation. Such reclassifications have no impact on previously reported net income (loss), unitholders' capital or cash flows.

Use of Estimates

The preparation of the accompanying condensed consolidated financial statements in conformity with GAAP requires Company management 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, natural gas and natural gas liquids ("NGL"), future cash flows from oil and natural gas properties, depreciation, depletion and amortization, asset retirement obligations, certain revenues and operating expenses, fair values of commodity derivatives and fair values of assets acquired and liabilities assumed. As fair value is a market-based measurement, it is determined based on the assumptions that market participants would use. 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. 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.

Recently Issued Accounting Standards

In December 2011, the Financial Accounting Standards Board issued an Accounting Standards Update ("ASU") that requires an entity to disclose information about offsetting and related arrangements to enable users of its financial statements to understand the effect of those arrangements on its financial position. The ASU requires disclosure of both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. The ASU is to be applied retrospectively and is effective for periods beginning on or after January 1, 2013. The

Company adopted the ASU effective January 1, 2013. The adoption of the requirements of the ASU, which expanded disclosures, had no effect on the Company's financial position.

Note 2 – Acquisitions, Joint-Venture Funding and Divestiture

For the six months ended June 30, 2013, the Company paid approximately $69 million, including interest, towards the future funding commitment related to the joint-venture agreement it entered into with an affiliate of Anadarko Petroleum Corporation ("Anadarko") in April 2012. From inception of the agreement through June 30, 2013, the Company has funded approximately $270 million towards the total commitment of $400 million.

Acquisition – Pending

On February 20, 2013, LinnCo, LLC ("LinnCo"), an affiliate of LINN Energy, and Berry Petroleum Company ("Berry") entered into a definitive merger agreement under which LinnCo would acquire all of the outstanding common shares of Berry. Under the terms of the agreement, Berry's shareholders will receive 1.25 LinnCo common shares for each Berry common share they own. This transaction, which is expected to be a tax-free exchange to Berry's shareholders, represents value of $46.2375 per common share, based on the closing price of LinnCo common shares on February 20, 2013, the last trading day before the public announcement.

In connection with the proposed transaction described above, LinnCo will contribute Berry to LINN Energy in exchange for newly issued LINN Energy units, after which Berry will be an indirect wholly owned subsidiary of LINN Energy. At February 21, 2013, the date of the public announcement, the transaction had a preliminary value of approximately $4.4 billion, including the assumption of approximately $1.7 billion of Berry's debt. The transaction is subject to approvals by Berry and LinnCo shareholders, LINN Energy unitholders and regulatory agencies. Due to the pending SEC inquiry (see Note 16), the timing of closing this proposed transaction is uncertain.

Acquisitions – 2012

On May 1, 2012, the Company completed the acquisition of certain oil and natural gas properties located in east Texas. The results of operations of these properties have been included in the condensed consolidated financial statements since the acquisition date. The Company paid approximately $168 million in total consideration for these properties. The transaction was financed primarily with borrowings under the Company's Credit Facility, as defined in Note 6.

On April 3, 2012, the Company entered into a joint-venture agreement ("Agreement") with Anadarko whereby the Company will participate as a partner in the CO_2 enhanced oil recovery development of the Salt Creek field, located in the Powder River Basin of Wyoming. Anadarko assigned the Company 23% of its interest in the field in exchange for future funding of $400 million of Anadarko's development costs. The results of operations of these properties have been included in the condensed consolidated financial statements since the Agreement date.

On March 30, 2012, the Company completed the acquisition of certain oil and natural gas properties and the Jayhawk natural gas processing plant located in the Hugoton Basin in Kansas from BP America Production Company ("BP"). The results of operations of these properties have been included in the condensed consolidated financial statements since the acquisition date. The Company paid approximately $1.16 billion in total consideration for these properties. The transaction was financed primarily with proceeds from the March 2012 debt offering (see Note 6).

Divestiture – 2013

On May 31, 2013, the Company, through one of its wholly owned subsidiaries, together with the Company's partners, Panther Energy, LLC and Red Willow Mid-Continent, LLC, completed the sale of its interests in certain oil and natural gas properties located in the Mid-Continent region ("Panther Properties") to Midstates Petroleum Company, Inc. At March 31, 2013, the carrying value of the Panther Properties was reduced to fair value less costs to sell resulting in an impairment charge of approximately $57 million and the properties were classified as "assets held for sale." On May 31, 2013, upon the completion of the sale, the Company recorded an adjustment of approximately $15 million to reduce the initial impairment charge recorded in March 2013 resulting in a total impairment charge of approximately $42 million for the six months ended June 30, 2013. Proceeds received for the Company's portion of its interests in the properties were approximately $219 million, net of costs to sell of approximately $2 million. The Company used the net proceeds from the sale to repay borrowings under its Credit Facility, as defined in Note 6.

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Note 3 – Unitholders' Capital

Public Offering of Units

In January 2012, the Company sold 19,550,000 units representing limited liability company interests at $35.95 per unit ($34.512 per unit, net of underwriting discount) for net proceeds of approximately $674 million (after underwriting discount and offering expenses of approximately $28 million). The Company used the net proceeds from the sale of these units to repay a portion of the outstanding indebtedness under its Credit Facility.

Equity Distribution Agreement

The Company has an equity distribution agreement pursuant to which it may from time to time issue and sell units representing limited liability company interests having an aggregate offering price of up to $500 million. Sales of units, if any, will be made through a sales agent by means of ordinary brokers' transactions, in block transactions, or as otherwise agreed with the agent. The Company expects to use the net proceeds from any sale of the units for general corporate purposes, which may include, among other things, capital expenditures, acquisitions and the repayment of debt.

In January 2012, the Company, under its equity distribution agreement, issued and sold 1,539,651 units representing limited liability company interests at an average unit price of $38.02 for proceeds of approximately $57 million (net of approximately $2 million in commissions and professional service expenses). The Company used the net proceeds for general corporate purposes, including the repayment of a portion of the indebtedness outstanding under its Credit Facility. At June 30, 2013, units equaling approximately $411 million in aggregate offering price remained available to be issued and sold under the agreement.

Distributions

Under the Company's limited liability company agreement, the Company's unitholders are entitled to receive a distribution of available cash, which includes cash on hand plus borrowings less any reserves established by the Board of Directors to provide for the proper conduct of the Company's business (including reserves for future capital expenditures, including drilling, acquisitions and anticipated future credit needs) or to fund distributions over the next four quarters. Distributions paid by the Company are presented on the condensed consolidated statement of unitholders' capital and the condensed consolidated statements of cash flows. In April 2013, the Company's Board of Directors approved a change in its distribution policy that provides a distribution with respect to any quarter may be made, at the discretion of the Board of Directors, (i) within 45 days following the end of each quarter or (ii) in three equal installments within 15, 45 and 75 days following the end of each quarter. On July 1, 2013, the Company's Board of Directors declared a cash distribution of $0.725 per unit with respect to the second quarter of 2013, to be paid in three equal monthly installments of $0.2416 per unit. The first monthly distribution, totaling approximately $57 million, was paid on July 15, 2013, to unitholders of record as of the close of business on July 10, 2013.

Note 4 – Oil and Natural Gas Properties

Oil and Natural Gas Capitalized Costs

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

	June 30, 2013	December 31, 2012
	(in thousands)	
Proved properties:		
Leasehold acquisition	$8,466,258	$8,603,888
Development	3,015,279	2,553,127
Unproved properties	384,552	454,315
	11,866,089	11,611,330
Less accumulated depletion and amortization	(2,358,158)	(2,025,656)
	$9,507,931	$9,585,674

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Note 5 – Unit-Based Compensation

During the six months ended June 30, 2013, the Company granted 652,840 restricted units and 105,530 phantom units to employees, primarily as part of its annual review of its nonexecutive employees' compensation, with an aggregate fair value of approximately $29 million. The restricted units and phantom units vest over three years. A summary of unit-based compensation expenses included on the condensed consolidated statements of operations is presented below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
	(in thousands)			
General and administrative expenses	$7,136	$6,289	$17,001	$13,911
Lease operating expenses	1,177	374	2,574	923
Total unit-based compensation expenses	$8,313	$6,663	$19,575	$14,834
Income tax benefit	$3,072	$2,462	$7,233	$5,481

Note 6 – Debt

The following summarizes debt outstanding:

	June 30, 2013		December 31, 2012	
	Carrying Value	Fair Value [1]	Carrying Value	Fair Value [1]
	(in millions, except percentages)			
Credit facility [2]	$1,435	$1,435	$1,180	$1,180
11.75% senior notes due 2017	—	—	41	44
9.875% senior notes due 2018	14	15	14	15
6.50% senior notes due May 2019	750	730	750	755
6.25% senior notes due November 2019	1,800	1,708	1,800	1,802
8.625% senior notes due 2020	1,300	1,362	1,300	1,414
7.75% senior notes due 2021	1,000	999	1,000	1,061
Less current maturities	—	—	—	—
	6,299	$6,249	6,085	$6,271
Unamortized discount	(43)		(47)	
Total debt, net of discount	$6,256		$6,038	

(1) The carrying value of the Credit Facility is estimated to be substantially the same as its fair value. Fair values of the senior notes were estimated based on prices quoted from third-party financial institutions.

(2) Variable interest rates of 1.95% and 1.97% at June 30, 2013, and December 31, 2012, respectively.

Credit Facility

In April 2013, the Company entered into a Sixth Amended and Restated Credit Agreement ("Credit Facility"), which provides for a revolving credit facility up to the lesser of: (i) the then-effective borrowing base and (ii) the maximum commitment amount of $4.0 billion. The borrowing base remained unchanged at $4.5 billion and does not include any assets to be acquired in the pending transaction with Berry (see Note 2). The maturity date is April 2018. The amended and restated agreement is substantially similar to the previous Credit Facility with revisions to permit the transactions related to the acquisition of Berry and to designate Berry as an unrestricted subsidiary under the agreement. At June 30, 2013, the borrowing capacity under the Credit Facility was approximately $2.6 billion, which includes a $5 million reduction in availability for outstanding letters of credit.

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Redetermination of the borrowing base under the Credit Facility, based primarily on reserve reports that reflect commodity prices at such time, occurs semi-annually, in April and October, as well as once annually upon requested interim redetermination by the lenders at their sole discretion. The Company also has the right to request one additional borrowing base redetermination per year at its discretion, as well as the right to an additional redetermination each year in connection with certain acquisitions. Significant declines in commodity prices may result in a decrease in the borrowing base. The Company's obligations under the Credit Facility are secured by mortgages on its and certain of its material subsidiaries' oil and natural gas properties and other personal property as well as a pledge of all ownership interests in its direct and indirect material subsidiaries. The Company is required to maintain either: 1) mortgages on properties representing at least 80% of the total value of oil and natural gas properties included on the most recent reserve report, or 2) a Collateral Coverage Ratio of at least 2.5 to 1. Collateral Coverage Ratio is defined as the ratio of the present value of future cash flows from proved reserves from the currently mortgaged properties to the lesser of: (i) the then-effective borrowing base and (ii) the maximum commitment amount. Additionally, the obligations under the Credit Facility are guaranteed by all of the Company's material subsidiaries and are required to be guaranteed by any future material 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 1.5% and 2.5% per annum (depending on the then-current level of borrowings under the Credit Facility) or the alternate base rate ("ABR") plus an applicable margin between 0.5% and 1.5% per annum (depending on the then-current level of borrowings under the Credit Facility). Interest is generally payable quarterly for loans bearing interest based on the ABR and at the end of the applicable interest period for loans bearing interest at LIBOR. The Company is required to pay a commitment fee to the lenders under the Credit Facility, which accrues at a rate per annum between 0.375% and 0.5% on the average daily unused amount of the lesser of: (i) the maximum commitment amount of the lenders and (ii) the then-effective borrowing base. The Company is in compliance with all financial and other covenants of the Credit Facility.

Senior Notes Due November 2019

On March 2, 2012, the Company issued $1.8 billion in aggregate principal amount of 6.25% senior notes due November 2019 ("November 2019 Senior Notes") at a price of 99.989%. The November 2019 Senior Notes were sold to a group of initial purchasers and then resold to qualified institutional buyers, each in transactions exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"). The Company received net proceeds of approximately $1.77 billion (after deducting the initial purchasers' discount of $198,000 and offering expenses of approximately $29 million). The Company used the net proceeds to fund the BP acquisition (see Note 2). The remaining proceeds were used to repay indebtedness under the Company's Credit Facility and for general corporate purposes. The financing fees and expenses of approximately $29 million incurred in connection with the November 2019 Senior Notes will be amortized over the life of the notes. Such amortized financing fees and expenses are recorded in "interest expense, net of amounts capitalized" on the condensed consolidated statements of operations. The November 2019 Senior Notes were issued under an indenture dated March 2, 2012 ("November 2019 Indenture"), mature November 1, 2019, and bear interest at 6.25%. Interest is payable semi-annually on May 1 and November 1, beginning November 1, 2012. The November 2019 Senior 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 has guaranteed the November 2019 Senior Notes on a senior unsecured basis. The November 2019 Indenture provides that the Company may redeem: (i) on or prior to November 1, 2015, up to 35% of the aggregate principal amount of the November 2019 Senior Notes at a redemption price of 106.25% of the principal amount redeemed, plus accrued and unpaid interest, with the net cash proceeds of one or more equity offerings; (ii) prior to November 1, 2015, all or part of the November 2019 Senior Notes at a redemption price equal to the principal amount redeemed, plus a make-whole premium (as defined in the November 2019 Indenture) and accrued and unpaid interest; and (iii) on or after November 1, 2015, all or part of the November 2019 Senior Notes at a redemption price equal to 103.125%, and decreasing percentages thereafter, of the principal amount redeemed, plus accrued and unpaid interest. The November 2019 Indenture also provides that, if a change of control (as defined in the November 2019 Indenture) occurs, the holders have a right to require the Company to repurchase all or part of the November 2019 Senior Notes at a redemption price equal to 101%, plus accrued and unpaid interest.

The November 2019 Indenture contains covenants substantially similar to those under the Company's May 2019 Senior Notes, 2010 Issued Senior Notes and 2018 Senior Notes, as defined below, 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. The Company is in compliance with all financial and other covenants of the November 2019 Senior Notes.

In connection with the issuance and sale of the November 2019 Senior Notes, the Company entered into a Registration Rights Agreement ("November 2019 Registration Rights Agreement") with the initial purchasers. Under the November 2019 Registration Rights Agreement, the Company agreed to use its reasonable 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 November 2019 Senior Notes in exchange for outstanding November 2019 Senior Notes within 400 days after the notes were issued. On March 22, 2013, the Company filed a registration statement on Form S-4 to register exchange notes that are substantially similar to the November 2019 Senior Notes. As of August 8, 2013, the registration statement has not been declared effective and due to the pending SEC inquiry (see Note 16), the timing for the registration statement to be declared effective is uncertain. Accordingly, beginning on April 8, 2013, interest accruing on the November 2019 Senior Notes increased by 0.25%, and will increase by an additional 0.25% on the 90th, 180th and 270th day after such date until such registration statement is declared effective and the Company completes an offer to exchange the November 2019 Senior Notes for registered notes. Such additional interest is expected to be approximately $4 million through October 2013 and will continue to increase until the registration statement is declared effective.

Senior Notes Due May 2019

The Company has $750 million in aggregate principal amount of 6.50% senior notes due 2019 (the "May 2019 Senior Notes"). The indentures related to the May 2019 Senior Notes contain redemption provisions and covenants that are substantially similar to those of the November 2019 Senior Notes. In an exchange offer that expired in October 2012, the Company exchanged all of its $750 million outstanding principal amount of May 2019 Senior Notes for an equal amount of new May 2019 Senior Notes. The terms of the new May 2019 Senior Notes are identical in all material respects to those of the outstanding May 2019 Senior Notes, except that the transfer restrictions, registration rights and additional interest provisions relating to the outstanding May 2019 Senior Notes do not apply to the new May 2019 Senior Notes.

Senior Notes Due 2020 and Senior Notes Due 2021

The Company has $1.3 billion in aggregate principal amount of 8.625% senior notes due 2020 (the "2020 Senior Notes") and $1.0 billion in aggregate principal amount of 7.75% senior notes due 2021 (the "2021 Senior Notes," and together with the 2020 Senior Notes, the "2010 Issued Senior Notes"). The indentures related to the 2010 Issued Senior Notes contain redemption provisions and covenants that are substantially similar to those of the November 2019 Senior Notes. However, the restrictive legends from each of the 2010 Issued Senior Notes have been removed making them freely tradable (other than with respect to persons that are affiliates of the Company), thereby terminating the Company's obligations under each of the registration rights agreements entered into in connection with the issuance of the 2010 Issued Senior Notes.

Senior Notes Due 2018

At June 30, 2013, the Company also had $14 million (originally $256 million) in aggregate principal amount of 9.875% senior notes due 2018 (the "2018 Senior Notes"). The indenture related to the 2018 Senior Notes initially contained redemption provisions and covenants that were substantially similar to those of the November 2019 Senior Notes; however, in conjunction with the tender offer in 2011, the indenture was amended and most of the covenants and certain default provisions were eliminated. The amendment became effective upon the execution of the supplemental indenture to the indenture governing the 2018 Senior Notes. In accordance with the provisions of the indenture related to the 2018 Senior Notes, in July 2013, the Company redeemed the remaining outstanding principal amount of $14 million.

Redemption of Senior Notes Due 2017

In accordance with the provisions of the indenture related to the Company's 11.75% senior notes due 2017 (the "2017 Senior Notes"), in June 2013, the Company redeemed the remaining outstanding principal amount of $41 million. In connection with the redemption, the Company recorded a loss on extinguishment of debt of approximately $4 million.

Note 7 – Derivatives

Commodity Derivatives

The Company utilizes derivative instruments to minimize the variability in cash flow due to commodity price movements. The Company has historically entered into derivative instruments such as swap contracts, put options and collars to economically hedge its forecasted oil, natural gas and NGL sales. The Company did not designate any of 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 natural gas commodity derivatives.

The following table summarizes derivative positions for the periods indicated as of June 30, 2013:

	July 1 - December 31, 2013	2014	2015	2016	2017	2018
Natural gas positions:						
Fixed price swaps:						
Hedged volume (MMMBtu)	44,004	97,401	118,041	121,841	120,122	36,500
Average price ($/MMBtu)	$5.22	$5.25	$5.19	$4.20	$4.26	$5.00
Put options: (1)						
Hedged volume (MMMBtu)	43,453	79,628	71,854	76,269	66,886	—
Average price ($/MMBtu)	$5.37	$5.00	$5.00	$5.00	$4.88	$—
Total:						
Hedged volume (MMMBtu)	87,457	177,029	189,895	198,110	187,008	36,500
Average price ($/MMBtu)	$5.29	$5.14	$5.12	$4.51	$4.48	$5.00
Oil positions:						
Fixed price swaps: (2)						
Hedged volume (MBbls)	5,985	11,903	11,599	11,464	4,755	—
Average price ($/Bbl)	$94.97	$92.92	$96.23	$90.56	$89.02	$—
Put options:						
Hedged volume (MBbls)	1,565	3,960	3,426	3,271	384	—
Average price ($/Bbl)	$97.86	$91.30	$90.00	$90.00	$90.00	$—
Total:						
Hedged volume (MBbls)	7,550	15,863	15,025	14,735	5,139	—
Average price ($/Bbl)	$95.57	$92.52	$94.81	$90.44	$89.10	$—
Natural gas basis differential positions: (3)						
Panhandle basis swaps:						
Hedged volume (MMMBtu)	39,089	79,388	87,162	59,954	59,138	16,425
Hedged differential ($/MMBtu)	$(0.56)	$(0.33)	$(0.33)	$(0.32)	$(0.33)	$(0.33)
NWPL Rockies basis swaps:						
Hedged volume (MMMBtu)	17,778	39,718	43,292	46,294	38,880	10,804