

LINN ENERGY, LLC
Form 10-Q
August 07, 2008

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

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

For the Quarterly Period Ended June 30, 2008

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
(Zip Code)

(Address of principal executive offices)

(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 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 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

As of July 31, 2008, there were 115,170,758 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.

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.

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

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.

Mid-Continent I. February 2007 acquisition of oil and gas properties in the Texas Panhandle from Cavallo Energy LP, acting through its general partner, Stallion Energy LLC, for a contract price of \$415.0 million.

Mid-Continent II. June 2007 acquisition of oil and gas properties in the Texas Panhandle for a contract price of \$90.5 million.

Mid-Continent III. August 2007 acquisition of oil and gas properties in Oklahoma, Kansas and the Texas Panhandle from Dominion Resources, Inc. for a contract price of \$2.05 billion.

Mid-Continent IV. January 2008 acquisition of oil and gas properties in Oklahoma from Lamamco Drilling Company for a contract price of \$552.2 million.

MMBtu. One million British thermal units.

MMcf. One million cubic feet.

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. One MMcfe per day.

MMMBtu. One billion British thermal units.

NYMEX. The New York Mercantile Exchange.

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, 2008 (Unaudited) | December 31, 2007 |
|--|--|----------------------|
| | (in thousands, except unit amounts) | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 9,612 | \$ 1,441 |
| Accounts receivable – trade, net | 274,645 | 149,850 |
| Derivative instruments | — | 26,100 |
| Other current assets | 11,891 | 5,768 |
| Total current assets | 296,148 | 183,159 |
| Noncurrent assets: | | |
| Oil and gas properties and equipment (successful efforts method) | 3,770,466 | 3,618,741 |
| Less accumulated depreciation, depletion and amortization | (154,558) | (127,265) |
| | 3,615,908 | 3,491,476 |
| Other property and equipment | 20,628 | 37,407 |
| Less accumulated depreciation | (2,817) | (5,383) |
| | 17,811 | 32,024 |
| Goodwill | 69,674 | 64,419 |
| Other noncurrent assets, net | 17,414 | 36,625 |
| Noncurrent assets held for sale | 557,472 | — |
| | 644,560 | 101,044 |
| Total assets | \$ 4,574,427 | \$ 3,807,703 |
| Liabilities and Unitholders' Capital | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 197,786 | \$ 223,636 |
| Derivative instruments | 354,765 | 6,148 |
| Other current liabilities | 73,890 | 12,943 |
| Total current liabilities | 626,441 | 242,727 |
| Noncurrent liabilities: | | |
| Credit facility | 1,826,000 | 1,443,000 |
| Term loan | 156,398 | — |
| Senior notes, net | 250,000 | — |
| Derivative instruments | 738,127 | 63,813 |
| Other noncurrent liabilities | 29,363 | 31,522 |
| Noncurrent liabilities associated with assets held for sale | 8,020 | — |
| Total noncurrent liabilities | 3,007,908 | 1,538,335 |
| Unitholders' capital: | | |

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| | | |
|--|--------------|--------------|
| 115,202,391 units and 113,815,914 units issued and outstanding at June 30, 2008 and December 31, 2007, respectively | 2,259,598 | 2,374,660 |
| Accumulated loss | (1,319,520) | (348,019) |
| | 940,078 | 2,026,641 |
| Total liabilities and unitholders' capital | \$ 4,574,427 | \$ 3,807,703 |

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 | | Six Months Ended | |
|--|--------------------|-------------|------------------|-------------|
| | June 30, | | June 30, | |
| | 2008 | 2007 | 2008 | 2007 |
| (in thousands, except per unit amounts) | | | | |
| Revenues: | | | | |
| Oil, gas and natural gas liquid sales | \$ 255,586 | \$ 32,495 | \$ 431,458 | \$ 56,062 |
| Loss on oil and gas derivatives | (870,804) | (17,707) | (1,139,598) | (78,148) |
| Natural gas marketing revenues | 3,593 | 2,740 | 6,409 | 4,661 |
| Other revenues | 642 | 487 | 1,121 | 1,132 |
| | (610,983) | 18,015 | (700,610) | (16,293) |
| Expenses: | | | | |
| Operating expenses | 46,641 | 9,743 | 82,762 | 17,609 |
| Natural gas marketing expenses | 3,260 | 2,323 | 5,677 | 3,975 |
| General and administrative expenses | 18,171 | 11,887 | 37,398 | 22,193 |
| Data license expenses | 47 | — | 2,475 | — |
| Depreciation, depletion and amortization | 50,402 | 6,736 | 94,483 | 12,470 |
| | 118,521 | 30,689 | 222,795 | 56,247 |
| | (729,504) | (12,674) | (923,405) | (72,540) |
| Other income and (expenses): | | | | |
| Interest expense, net of amounts capitalized | (23,332) | (4,621) | (48,625) | (8,590) |
| Gain (loss) on interest rate swaps | 31,604 | 274 | (7,789) | 197 |
| Other, net | (4,313) | 136 | (4,476) | (522) |
| | 3,959 | (4,211) | (60,890) | (8,915) |
| Loss from continuing operations before income taxes | (725,545) | (16,885) | (984,295) | (81,455) |
| Income tax benefit (provision) | 164 | (179) | (45) | (4,030) |
| Loss from continuing operations | (725,381) | (17,064) | (984,340) | (85,485) |
| Income (loss) from discontinued operations, net of taxes | 13,239 | (62) | 12,839 | 512 |
| Net loss | \$ (712,142) | \$ (17,126) | \$ (971,501) | \$ (84,973) |
| Net income (loss) per unit: | | | | |
| Loss from continuing operations – basic | \$ (6.35) | \$ (0.29) | \$ (8.63) | \$ (1.63) |
| Loss from continuing operations – diluted | \$ (6.35) | \$ (0.29) | \$ (8.63) | \$ (1.63) |
| Income (loss) from discontinued operations, net of taxes – basic | \$ 0.12 | \$ — | \$ 0.11 | \$ 0.01 |
| Income (loss) from discontinued operations, net of taxes – diluted | \$ 0.12 | \$ — | \$ 0.11 | \$ 0.01 |
| Net loss – basic | \$ (6.23) | \$ (0.29) | \$ (8.52) | \$ (1.62) |
| Net loss – diluted | \$ (6.23) | \$ (0.29) | \$ (8.52) | \$ (1.62) |
| Weighted average units outstanding: | | | | |
| Units – basic | 114,252 | 59,293 | 114,005 | 52,413 |
| Units – diluted | 114,252 | 59,293 | 114,005 | 52,413 |

| | | | | | | | | |
|---------------------------------|----|------|----|------|----|------|----|------|
| Distributions declared per unit | \$ | 0.63 | \$ | 0.52 | \$ | 1.26 | \$ | 1.04 |
|---------------------------------|----|------|----|------|----|------|----|------|

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

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LINN ENERGY, LLC
CONDENSED CONSOLIDATED STATEMENTS OF UNITHOLDERS' CAPITAL

(Unaudited)

| | Six Months Ended June 30, 2008 | |
|----------------------------------|-----------------------------------|--------------|
| | Units | Dollars |
| | (in thousands) | |
| Unitholders' capital: | | |
| Balance, beginning of year | 113,816 | \$ 2,374,660 |
| Issuance of units | 1,467 | 23,483 |
| Purchase of units | (81) | (1,642) |
| Distributions to unitholders | | (144,755) |
| Unit-based compensation expenses | | 7,852 |
| Balance, end of period | 115,202 | 2,259,598 |
| Treasury units (at cost): | | |
| Balance, beginning of period | — | — |
| Purchase of units | (81) | (1,642) |
| Cancellation of units | 81 | 1,642 |
| Balance, end of period | — | — |
| Accumulated loss: | | |
| Balance, beginning of period | | (348,019) |
| Net loss | | (971,501) |
| Balance, end of period | | (1,319,520) |
| Total unitholders' capital | | \$ 940,078 |

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, | |
|--|---------------------------|-------------|
| | 2008 | 2007 |
| | (in thousands) | |
| Cash flow from operating activities: | | |
| Net loss | \$ (971,501) | \$ (84,973) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation, depletion and amortization | 100,872 | 24,789 |
| Amortization and write-off of deferred financing fees and other | 8,924 | 353 |
| Unit-based compensation and unit warrant expenses | 7,852 | 7,691 |
| Deferred income tax | — | 3,360 |
| Mark-to-market on derivatives: | | |
| Total losses | 1,147,387 | 77,951 |
| Cash settlements | (28,550) | 13,504 |
| Cash settlements on canceled derivatives | (68,197) | — |
| Premiums paid for derivatives | (1,278) | (52,992) |
| Changes in assets and liabilities: | | |
| Increase in accounts receivable | (125,286) | (21,654) |
| (Increase) decrease in other assets | (4,967) | 4,294 |
| Increase (decrease) in accounts payable and accrued expenses | (4,550) | 6,800 |
| Increase (decrease) in other liabilities | (123) | 1,490 |
| Net cash provided by (used in) operating activities | 60,583 | (19,387) |
| Cash flow from investing activities: | | |
| Acquisition of oil and gas properties | (573,030) | (539,304) |
| Additions to oil and gas properties | (172,994) | (43,478) |
| Purchases of other property and equipment | (3,419) | (7,486) |
| Proceeds from pending sales of oil and gas properties | 69,250 | — |
| Proceeds from sales of other property and equipment | 7,310 | 2,934 |
| Net cash used in investing activities | (672,883) | (587,334) |
| Cash flow from financing activities: | | |
| Proceeds from sale and issuance of units | — | 620,000 |
| Purchase of units | (1,642) | (7,399) |
| Proceeds from issuance of debt | 1,173,000 | 308,000 |
| Principal payments on debt | (384,916) | (258,192) |
| Distributions to unitholders | (144,755) | (52,746) |
| Financing fees and other, net | (21,216) | (8,579) |
| Net cash provided by financing activities | 620,471 | 601,084 |
| Net increase (decrease) in cash and cash equivalents | 8,171 | (5,637) |
| Cash and cash equivalents: | | |
| Beginning | 1,441 | 6,595 |
| Ending | \$ 9,612 | \$ 958 |

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)

(1) Basis of Presentation

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.

The condensed consolidated financial statements at June 30, 2008, and for the three and six months ended June 30, 2008 and 2007, 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. 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, 2007. 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.

Certain amounts in the condensed consolidated financial statements and notes thereto have been reclassified to conform to the 2008 financial statement presentation. Such reclassifications include those related to the presentation of discontinued operations (see Note 2) on the condensed consolidated statements of operations.

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.

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses and the disclosure of contingent assets and liabilities to prepare these condensed consolidated financial statements in conformity with GAAP. Actual results could differ from those estimates.

The Company’s Appalachian Basin and Mid Atlantic Well Service (“Mid Atlantic”) operations have been classified as discontinued operations on the condensed consolidated statement of operations for all periods presented. Unless otherwise indicated, information about the statement of operations that is presented in the notes to condensed consolidated financial statements relates only to Linn Energy’s continuing operations.

(2) Assets Held for Sale and Discontinued Operations

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. (“XTO”) for a contract price of \$600.0 million, subject to closing adjustments. The Company received a cash down payment of \$60.0 million in April 2008 which is included in “other current liabilities” on the condensed consolidated balance sheet at June 30, 2008. The Company used the net proceeds from the sale of approximately \$560.0 million to repay loans outstanding under its term loan agreement and reduce indebtedness under its credit facility (see Note 8). The carrying value of net assets sold was approximately \$405.0 million, resulting in a gain on the sale of approximately \$155.0 million, which will be recorded in discontinued operations during the third quarter of 2008. The gain is subject to normal post-closing adjustments.

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 Well Service (“Mid Atlantic”). At June 30, 2008, substantially all of the property and equipment previously held by Mid Atlantic totaling approximately \$9.2 million had been sold. During the three and six months ended June 30, 2008, the Company recorded a loss

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

(Unaudited)

on the sale of the Mid Atlantic assets of approximately \$1.0 million and \$1.3 million, respectively, which is recorded in “income (loss) from discontinued operations, net of taxes” on the condensed consolidated statements of operations.

In addition, on June 3, 2008, the Company entered into an agreement to sell certain of its assets in the Verden area in Oklahoma to Laredo Petroleum, Inc. (“Laredo”) for a contract price of \$185.0 million, subject to closing adjustments. The Company received a cash down payment of \$9.3 million in May 2008 which is included in “other current liabilities” on the condensed consolidated balance sheet at June 30, 2008. The Company plans to use net proceeds from the sale to reduce indebtedness (see Note 8). The Company anticipates closing in the third quarter of 2008, subject to closing conditions. There can be no assurance that all of the conditions to closing will be satisfied. The carrying value of net assets to be sold was approximately \$143.0 million.

The following summarizes the Appalachian Basin, Mid Atlantic and Verden assets and liabilities classified as held for sale on the condensed consolidated balance sheet.

| | June 30, 2008 (in thousands) |
|---|------------------------------------|
| Noncurrent assets: | |
| Oil and gas properties and equipment, net | \$ 549,910 |
| Other property and equipment, net | 7,562 |
| Total assets held for sale | \$ 557,472 |
| Noncurrent liabilities: | |
| Asset retirement obligations | \$ 8,020 |
| Total liabilities associated with assets held for sale | \$ 8,020 |

The following summarizes the Appalachian Basin and Mid Atlantic amounts included in income from discontinued operations on the condensed consolidated statements of operations.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|----------------|------------------------------|---------------|
| | 2008 | 2007 | 2008 | 2007 |
| | (in thousands) | | | |
| Total revenues | \$ 28,828 | \$ 18,096 | \$ 49,989 | \$ 36,687 |
| Total operating expenses | (9,086) | (12,702) | (23,556) | (25,071) |
| Interest expense | (6,503) | (5,605) | (13,594) | (11,472) |
| Income (loss) from discontinued operations | 13,239 | (211) | 12,839 | 144 |
| Income tax benefit | — | 149 | — | 368 |
| Income (loss) from discontinued operations, net of taxes | \$ 13,239 | \$ (62) | \$ 12,839 | \$ 512 |

The Company computed interest expense related to discontinued operations in accordance with Emerging Issues Task Force Issue No. 87-24, "Allocation of Interest to Discontinued Operations" based on debt required to be repaid as a result of the disposal transaction.

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

(Unaudited)

(3) Acquisitions

The Company accounts for its acquisitions using the purchase method of accounting as prescribed in SFAS No. 141, "Business Combinations." On January 31, 2008, the Company completed the acquisition of certain oil and gas properties located primarily in the Mid-Continent region from Lamamco Drilling Company ("Lamamco") for a contract price of \$552.2 million, subject to closing adjustments ("Mid-Continent IV"). The acquisition was financed with a combination of borrowings under the Company's credit facility and proceeds from a term loan entered into at closing (see Note 8).

The following presents the preliminary purchase accounting for the Mid-Continent IV acquisition, based on preliminary estimates of fair value:

| | Mid-Continent IV (in thousands) |
|-----------------------------------|---------------------------------------|
| Cash | \$ 532,826 |
| Estimated transaction costs | 870 |
| | 533,696 |
| Fair value of liabilities assumed | 4,029 |
| Total purchase price | \$ 537,725 |

The following presents the preliminary allocation of the purchase price for the Mid-Continent IV acquisition, based on preliminary estimates of fair value:

| | Mid-Continent IV (in thousands) |
|------------------------------|---------------------------------------|
| Current assets | \$ 1,811 |
| Oil and gas properties | 533,805 |
| Other property and equipment | 2,109 |
| | \$ 537,725 |

The purchase price and purchase price allocation above are based on reserve reports, published market prices and estimates by management. The most significant assumptions are related to the estimated fair values assigned to proved oil and gas properties. To estimate the fair values of these properties, the Company utilized estimates of oil and gas reserves. The Company estimated future prices to apply to the estimated reserve quantities acquired, and estimated future operating and development costs to arrive at estimates of future net revenues. The Company also reviewed comparable purchases and sales of oil and gas properties within the same regions. The purchase price and the allocation of the purchase price are preliminary. Items pending completion include final closing adjustments. The purchase price and purchase price allocation will be finalized within one year of the acquisition date.

The following unaudited pro forma financial information presents a summary of Linn Energy's consolidated results of continuing operations for the three and six months ended June 30, 2008 and 2007, assuming the Mid-Continent IV acquisition had been completed as of January 1, 2007, including

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

(Unaudited)

adjustments to reflect the allocation of the purchase price to the acquired net assets. The pro forma financial information also assumes that the following 2007 acquisitions were completed as of January 1, 2007:

- February 1, 2007, acquisition of certain oil and gas properties and related assets in the Texas Panhandle for a contract price of \$415.0 million (“Mid-Continent I”)
- June 12, 2007, acquisition of certain oil and gas properties in the Texas Panhandle for a contract price of \$90.5 million (“Mid-Continent II”)
- August 31, 2007, acquisition of certain oil and gas properties in the Mid-Continent, in Oklahoma, Kansas and the Texas Panhandle for a contract price of \$2.05 billion (“Mid-Continent III”)

The revenues and expenses of the Mid-Continent I, Mid-Continent II and Mid-Continent III assets are included in the consolidated results of the Company as of February 1, 2007, June 12, 2007 and September 1, 2007, respectively. The revenues and expenses of the Mid-Continent IV assets are included in the consolidated results of the Company effective February 1, 2008. The pro forma financial information is not necessarily indicative of the results of operations if the acquisitions had been effective as of these dates. All amounts reflect continuing operations.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|------------|------------------------------|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| | (in thousands, except per unit amounts) | | | |
| Total revenues | \$ (610,983) | \$ 122,051 | \$ (691,337) | \$ 184,575 |
| Total operating expenses | \$ 118,521 | \$ 89,830 | \$ 227,432 | \$ 170,924 |
| Income (loss) from continuing operations | \$ (725,381) | \$ 4,972 | \$ (983,334) | \$ (44,994) |
| Income (loss) from continuing operations per unit: | | | | |
| Units – basic | \$ (6.35) | \$ 0.08 | \$ (8.62) | \$ (0.86) |
| Units – diluted | \$ (6.35) | \$ 0.08 | \$ (8.62) | \$ (0.86) |

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

(Unaudited)

(4) Goodwill

The entire goodwill balance of \$69.7 million at June 30, 2008 and \$64.4 million at December 31, 2007 is related to the Mid-Continent III acquisition in August 2007 (see Note 3).

The following reflects the changes in the carrying amount of goodwill during the six months ended June 30, 2008 and the year ended December 31, 2007, which resulted from normal post-closing adjustments (in thousands):

| | | |
|---|----|--------|
| Balance, December 31, 2006 | \$ | — |
| Mid-Continent III acquisition | | 64,419 |
| Balance, December 31, 2007 | | 64,419 |
| Mid-Continent III acquisition – purchase accounting adjustments | | 5,255 |
| Balance, June 30, 2008 | \$ | 69,674 |

(5) Unitholders' Capital

Issuance of Units

During the six months ended June 30, 2008, the Company issued 410,000 units in connection with the termination of certain contractual obligations in the Western region (equal to a fair value of approximately \$8.7 million).

During the six months ended June 30, 2008, the Company issued 600,000 units in connection with the acquisition of certain gas properties in the Appalachian Basin (equal to a fair value of approximately \$14.7 million).

Cancellation of Units

During the six months ended June 30, 2008, the Company purchased 80,780 restricted units from employees for approximately \$1.6 million in conjunction with the vesting of restricted unit awards. The proceeds were used to fund the employees' minimum payroll taxes on the awards, and the Company canceled the units.

(6) Oil and Gas Capitalized Costs

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

| | June 30, 2008 | December 31, 2007 |
|-------------------------------------|------------------|----------------------|
| | (in thousands) | |
| Proved properties: | | |
| Leasehold acquisition | \$ 3,311,669 | \$ 3,095,400 |
| Development | 271,374 | 254,251 |
| Unproved properties | 100,994 | 156,908 |
| Gas compression plant and pipelines | 86,429 | 112,182 |

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| | | |
|---|--------------|--------------|
| | 3,770,466 | 3,618,741 |
| Less accumulated depletion, depreciation and amortization | (154,558) | (127,265) |
| | \$ 3,615,908 | \$ 3,491,476 |

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

(Unaudited)

(7) Business and Credit Concentrations

For the three and six months ended June 30, 2008, the Company's four largest customers represented approximately 20%, 11%, 10% and 10% and 20%, 11%, 11% and 10%, respectively, of the Company's sales. For the three and six months ended June 30, 2007, the Company's four largest customers represented approximately 40%, 24%, 13% and 12% and 34%, 23%, 14% and 12%, respectively, of the Company's sales.

At June 30, 2008, two customers' trade accounts receivable from oil, gas and natural gas liquids ("NGL") sales accounted for more than 10% of the Company's total trade accounts receivable. As of June 30, 2008, trade accounts receivable from the Company's two largest customers represented approximately 16% and 11% of the Company's receivables. At December 31, 2007, three customers' trade accounts receivable from oil, gas and NGL sales accounted for more than 10% of the Company's total trade accounts receivable. As of December 31, 2007, trade accounts receivable from the Company's three largest customers represented approximately 22%, 13% and 12% of the Company's receivables.

(8) Debt

At June 30, 2008 and December 31, 2007, the Company had the following debt outstanding:

| | June 30, 2008 | December 31, 2007 | |
|-------------------------|------------------|----------------------|--|
| (in thousands) | | | |
| Credit facility (1) | \$ 1,826,000 | \$ 1,443,000 | |
| Term loan (2) | 156,398 | — | |
| Senior notes, net (3) | 250,000 | — | |
| Less current maturities | — | — | |
| | \$ 2,232,398 | \$ 1,443,000 | |

(1) Variable rate of 4.21% at June 30, 2008 and 7.02% at December 31, 2007.

(2) Variable rate of 7.45% at June 30, 2008. This balance was repaid in full on July 1, 2008.

(3) Fixed rate of 9.875%; net of unamortized discount of approximately \$5.9 million at June 30, 2008.

Credit Facility

At June 30, 2008, the Company had a \$2.0 billion borrowing base under its Third Amended and Restated Credit Agreement ("Credit Facility") with a maturity of August 2010. Effective July 1, 2008, in connection with the sale of Appalachian Basin oil and gas properties, the borrowing base was redetermined and decreased to \$1.85 billion, all of which is conforming.

The borrowing base under the Credit Facility will be redetermined semi-annually by the lenders in their sole discretion, based on, among other things, reserve reports as prepared by reserve engineers taking into account the oil and gas prices at such time. 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 1.00% and 1.75% per annum or the alternate base rate ("ABR") plus an applicable margin between 0% and 0.25% per annum.

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(Unaudited)

At June 30, 2008, available borrowing under the Credit Facility was \$170.3 million, which includes a \$3.7 million reduction in availability for outstanding letters of credit. On July 1, 2008, the Company repaid \$357.6 million in indebtedness under its Credit Facility with a portion of the net proceeds from the sale of properties in the Appalachian Basin (see Note 2). Available borrowing under the Credit Facility was \$330.1 million at July 31, 2008 which includes a \$6.5 million reduction in availability for outstanding letters of credit.

Term Loan

On January 31, 2008, in order to fund a portion of the January 2008 acquisition of oil and gas properties in the Mid-Continent (see Note 3), the Company entered into a \$400.0 million Second Lien Term Loan Agreement (“Term Loan”) maturing on July 31, 2009, secured by a second priority lien on all oil and gas properties as well as a second priority pledge on all ownership interests in its operating subsidiaries. Covenants under the Term Loan are substantially similar to those under the Credit Facility. Interest is determined by reference to LIBOR plus an applicable margin of 5.0% for the first twelve months and 7.5% for the remaining period until maturity or a domestic bank rate plus an applicable margin of 3.5% for the first twelve months and 6.0% for the remaining period until maturity.

On June 30, 2008, the Company repaid \$243.6 million in indebtedness under the Term Loan with net proceeds from the Senior Notes (see below). On July 1, 2008, the Company repaid the balance of the term loan of \$156.4 million. Deferred financing fees associated with the Term Loan of approximately \$2.8 million were written off during the six months ended June 30, 2008. Additionally, approximately \$1.9 million in fees were written off in July 2008.

Senior Notes

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 (“Senior Notes”). The Senior 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 of 1933, as amended (“Securities Act”). The Company used the net proceeds (after deducting the Initial Purchasers’ discounts and offering expense) of approximately \$243.6 million to repay loans outstanding under the Company’s Term Loan (see above). In connection with the Senior Notes, the Company incurred financing fees of approximately \$7.3 million, which will be amortized over the life of the Senior Notes and recorded in interest expense. The \$5.9 million discount on the Senior Notes will be amortized over the life of the Senior Notes and recorded in interest expense.

The Senior Notes were issued under an Indenture dated June 27, 2008 (“Indenture”), mature on July 1, 2018 and bear interest at 9.875%. Interest is payable semi-annually beginning January 1, 2009. The 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 guaranteed the Senior Notes on a senior unsecured basis. The Indenture provides that the Company may redeem 1) on or prior to July 1, 2011, up to 35% of the aggregate principal amount of the Senior Notes at a redemption price of 109.875% of the principal amount, plus accrued and unpaid interest, 2) prior to July 1, 2013, all or part of the Senior 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 3) on or after July 1, 2013, all or part of the Senior 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 Senior Notes at a redemption price equal to 101%, plus accrued and unpaid interest.

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(Unaudited)

The Senior 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 Senior 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 Senior Notes in exchange for outstanding Senior Notes. In certain circumstances, the Company may be required to file a shelf registration statement to cover resales of the Senior Notes. The Company will not be obligated to file the registration statements described above if the restrictive legend on the Senior Notes has been removed and the Senior 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 Senior 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 Senior Notes under certain circumstances.

(9) 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 hedge a portion of its forecasted oil, gas and NGL sales. Oil puts are also used to hedge NGL sales. See Note 10 for additional disclosures about oil and gas commodity derivatives as required by Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157").

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

The following table summarizes open positions as of June 30, 2008 and represents, as of such date, derivatives in place through December 31, 2014, on annual production volumes:

| | Year 2008 | Year 2009 | Year 2010 | Year 2011 | Year 2012 | Year 2013 | Year 2014 |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Gas Positions: | | | | | | | |
| Fixed Price Swaps: | | | | | | | |
| Hedged Volume | | | | | | | |
| (MMMBtu) | 21,313 | 42,166 | 42,086 | 33,485 | 31,162 | — | — |
| Average Price | | | | | | | |
| (\$/MMBtu) | \$ 8.65 | \$ 8.51 | \$ 8.14 | \$ 8.22 | \$ 8.46 | \$ — | \$ — |
| Puts: | | | | | | | |
| Hedged Volume | | | | | | | |
| (MMMBtu) | 3,532 | 6,960 | 6,960 | 6,960 | — | — | — |
| Average Price | | | | | | | |
| (\$/MMBtu) | \$ 8.07 | \$ 7.50 | \$ 7.50 | \$ 7.50 | \$ — | \$ — | \$ — |
| PEPL Puts: (1) | | | | | | | |
| Hedged Volume | | | | | | | |
| (MMMBtu) | 1,927 | 5,334 | 10,634 | 13,259 | 5,934 | — | — |
| Average Price | | | | | | | |
| (\$/MMBtu) | \$ 7.85 | \$ 7.85 | \$ 7.85 | \$ 7.85 | \$ 7.85 | \$ — | \$ — |
| Total: | | | | | | | |
| Hedged Volume | | | | | | | |
| (MMMBtu) | 26,772 | 54,460 | 59,680 | 53,704 | 37,096 | — | — |
| Average Price | | | | | | | |
| (\$/MMBtu) | \$ 8.52 | \$ 8.32 | \$ 8.02 | \$ 8.03 | \$ 8.36 | \$ — | \$ — |
| Oil Positions: | | | | | | | |
| Fixed Price Swaps: | | | | | | | |
| Hedged Volume (MBbls) | | | | | | | |
| | 1,376 | 2,437 | 2,150 | 2,073 | 2,025 | 900 | — |
| Average Price (\$/Bbl) | | | | | | | |
| | \$ 82.11 | \$ 78.07 | \$ 78.28 | \$ 79.65 | \$ 77.65 | \$ 72.22 | \$ — |
| Puts: (2) | | | | | | | |
| Hedged Volume (MBbls) | | | | | | | |
| | 934 | 1,843 | 2,250 | 2,352 | 500 | — | — |
| Average Price (\$/Bbl) | | | | | | | |
| | \$ 73.34 | \$ 72.13 | \$ 70.56 | \$ 69.11 | \$ 77.73 | \$ — | \$ — |
| Collars: | | | | | | | |
| Hedged Volume (MBbls) | | | | | | | |
| | — | 250 | 250 | 276 | 348 | 1,375 | 2,200 |
| Average Floor Price | | | | | | | |
| (\$/Bbl) | \$ — | \$ 90.00 | \$ 90.00 | \$ 90.00 | \$ 90.00 | \$ 110.00 | \$ 110.00 |
| Average Ceiling Price | | | | | | | |
| (\$/Bbl) | \$ — | \$ 114.25 | \$ 112.00 | \$ 112.25 | \$ 112.35 | \$ 152.00 | \$ 152.00 |
| Total: | | | | | | | |
| Hedged Volume (MBbls) | | | | | | | |
| | 2,310 | 4,530 | 4,650 | 4,701 | 2,873 | 2,275 | 2,200 |
| Average Price (\$/Bbl) | | | | | | | |
| | \$ 78.57 | \$ 76.31 | \$ 75.17 | \$ 74.98 | \$ 79.16 | \$ 95.05 | \$ 110.00 |

Gas Basis Differential
Positions:

PEPL Basis Swaps: (3)

| | | | | | | | |
|-----------------------------------|-----------|-----------|-----------|-----------|-----------|-----|---|
| Hedged Volume (MMMBtu) | 18,073 | 34,666 | 29,366 | 26,741 | 34,066 | — | — |
| Hedged Differential (\$/MMBtu) | \$ (0.95) | \$ (0.95) | \$ (0.95) | \$ (0.95) | \$ (0.95) | —\$ | — |

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

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

(3) Represents a swap of the basis between the New York Mercantile Exchange (“NYMEX”) and the PEPL spot price of gas of \$(0.95) per MMBtu for the volumes hedged.

Settled derivatives on gas production for the three and six months ended June 30, 2008 included a volume of 10,045 MMBtu and 25,158 MMBtu at an average contract price of \$8.52 and \$8.44, respectively. Settled derivatives on oil and NGL production for the three and six months ended June 30, 2008 included a volume of 1,155 MBbls and 2,137 MBbls at an average contract price of \$78.57 and \$77.31, respectively. The gas derivatives are settled based on the closing 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.

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(Unaudited)

The oil transactions are settled based on the average month's daily NYMEX price of light oil and settlement occurs on the final day of the production month.

By using derivative instruments to hedge exposures to changes in commodity prices, 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 minimizes the credit risk in derivative instruments by entering into transactions with credit-worthy counterparties.

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 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 10 for additional disclosures about interest rate swaps as required by SFAS 157.

The following presents the settlement terms of the interest rate swaps:

| | Year 2008 | Year 2009 | Year 2010 | Year 2011 (1) |
|-----------------|------------------------|--------------|--------------|------------------|
| | (dollars in thousands) | | | |
| Notional Amount | \$ 1,212,000 | \$ 1,212,000 | \$ 1,212,000 | \$ 1,212,000 |
| Fixed Rate | 4.20% | 5.06% | 5.06% | 5.06% |

(1) Represents interest rate swaps that settle in January 2011.

Outstanding Notional Amounts

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

| | June 30, 2008 | December 31, 2007 |
|--|------------------|----------------------|
| Outstanding notional amounts of gas contracts (MMMBtu) | 231,712 | 275,769 |
| Maximum number of months gas contracts outstanding | 54 | 59 |
| Outstanding notional amounts of oil contracts (MBbls) | 23,539 | 16,214 |
| Maximum number of months oil contracts outstanding | 78 | 72 |
| | \$ 1,212,000 | \$ 1,212,000 |

Outstanding notional amount of interest rate swaps (in thousands)

| | | |
|--|----|----|
| Maximum number of months interest rate swaps outstanding | 30 | 36 |
|--|----|----|

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

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, 2008 | December 31, 2007 |
|-----------------------|------------------|----------------------|
| (in thousands) | | |
| Assets: | | |
| Commodity derivatives | \$ 134,603 | \$ 246,124 |
| Interest rate swaps | — | 2,548 |
| | \$ 134,603 | \$ 248,672 |
| Liabilities: | | |
| Commodity derivatives | \$ 1,195,440 | \$ 260,058 |
| Interest rate swaps | 32,055 | 32,475 |
| | \$ 1,227,495 | \$ 292,533 |

The Company's counterparties are participants in its Credit Facility (see Note 8) which is secured by the Company's oil and gas reserves; therefore, the Company is not required to post any collateral. The counterparties are large, international financial services institutions and therefore the Company does not require collateral from the counterparties. The maximum amount of loss due to credit risk, based on the gross fair value of financial instruments that the Company would incur if its counterparties failed completely to perform according to the terms of the contracts was approximately \$15.4 million at June 30, 2008. In accordance with the Company's standard practice, its commodity and interest rate swap derivatives are subject to counterparty netting under master netting agreements and therefore the risk of such loss is substantially mitigated at June 30, 2008.

Gain (Loss) on Derivatives

Gains and losses on derivatives are reported on the condensed consolidated statements of operations in "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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

derivative instruments and are non-cash items. The following presents the Company's reported gains and losses on derivative instruments:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|-----------------------------------|--------------------------------|-------------|------------------------------|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| | (in thousands) | | | |
| Realized gains (losses): | | | | |
| Commodity derivatives | \$ (29,210) | \$ 6,200 | \$ (34,019) | \$ 13,893 |
| Canceled commodity derivatives | (68,197) | — | (68,197) | — |
| Interest rate swaps | (4,221) | — | (5,662) | 82 |
| | \$ (101,628) | \$ 6,200 | \$ (107,878) | \$ 13,975 |
| Unrealized gains (losses): | | | | |
| Commodity derivatives | \$ (773,397) | \$ (23,907) | \$ (1,037,382) | \$ (92,041) |
| Interest rate swaps | 35,825 | 274 | (2,127) | 115 |
| | \$ (737,572) | \$ (23,633) | \$ (1,039,509) | \$ (91,926) |
| Total gains (losses): | | | | |
| Commodity derivatives | \$ (870,804) | \$ (17,707) | \$ (1,139,598) | \$ (78,148) |
| Interest rate swaps | 31,604 | 274 | (7,789) | 197 |
| | \$ (839,200) | \$ (17,433) | \$ (1,147,387) | \$ (77,951) |

During the three months ended June 30, 2008, the Company canceled (before the contract settlement date) derivative contracts on estimated future gas production resulting in a realized loss of \$68.2 million. The future gas production under the canceled contracts primarily related to properties in the Appalachian Basin (see Note 2).

See Note 18 for detail about commodity derivative contracts canceled and entered into subsequent to June 30, 2008.

(10) Fair Value of Financial Instruments

The Company accounts for its oil and gas commodity derivatives and interest rate swaps at fair value (see Note 9) on a recurring basis. Effective January 1, 2008, the Company adopted SFAS 157 for these financial instruments. SFAS 157 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and enhances disclosure requirements for fair value measurements. The impact of the adoption of SFAS 157 to the Company's results of operations was a decrease to net loss by approximately \$78.4 million and \$88.0 million, or \$0.69 per unit and \$0.77 per unit, for the three and six months ended June 30, 2008, respectively, resulting from an assumed credit risk adjustment.

The fair value of derivative instruments is determined utilizing pricing models for significantly similar instruments. The models use a variety of techniques to arrive at fair value, including quotes and pricing analysis. Inputs to the pricing models include publicly available prices and forward curves generated from a compilation of data gathered from third parties.

Fair Value Hierarchy

In accordance with SFAS 157, the Company has categorized its financial instruments, based on the priority of inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

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 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

Financial assets and liabilities recorded on the condensed consolidated balance sheets are categorized based on the inputs to the valuation techniques as follows:

Level 1 Financial assets and liabilities for which values are based on unadjusted quoted prices for identical assets or liabilities in an active market that management has the ability to access.

Level 2 Financial assets and liabilities for which values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability (commodity derivatives and interest rate swaps).

Level 3 Financial assets and liabilities for which values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset or liability.

As required by SFAS 157, when the inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company conducts a review of fair value hierarchy classifications on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification for certain financial assets or liabilities.

The following presents the Company's fair value hierarchy for assets and liabilities measured at fair value on a recurring basis at June 30, 2008. These items are included in "derivative instruments" on the condensed consolidated balance sheet.

| | Fair Value Measurements on a Recurring Basis | | |
|-----------------------|--|--------------|--------------|
| | June 30, 2008 | | |
| | Level 2 | Netting (1) | Total |
| | (in thousands) | | |
| Assets: | | | |
| Commodity derivatives | \$ 134,603 | \$ (134,603) | \$ — |
| Liabilities: | | | |
| Commodity derivatives | \$ 1,195,440 | \$ (134,603) | \$ 1,060,837 |
| Interest rate swaps | \$ 32,055 | \$ — | \$ 32,055 |

(1) Represents counterparty netting under master netting agreements.

(11) Commitments and Contingencies

From time to time the Company is a party to various legal proceedings or is subject to industry rulings that could bring rise to claims in the ordinary course of business. The Company is not currently a party to any litigation or pending claims that it believes would have a material adverse effect on its business, financial position, results of operations or

liquidity.

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

(Unaudited)

(12) Earnings Per Unit

Basic and diluted earnings per unit are presented on the condensed consolidated statements of operations. Basic units outstanding excludes the effect of average anti-dilutive common stock equivalents related to unit options and warrants and unvested restricted units of 2.6 million and 2.5 million for the three and six months ended June 30, 2008, respectively. Basic units outstanding excludes the effect of average anti-dilutive common stock equivalents related to unit options and warrants and unvested restricted units of 1.9 million and 1.9 million for the three and six months ended June 30, 2007, respectively. All equivalent units were anti-dilutive for the three and six months ended June 30, 2008 and 2007, as the Company reported a net loss from operations.

(13) Unit-Based Compensation

Employee Grants

During the six months ended June 30, 2008, the Company granted an aggregate 576,970 restricted units and 691,000 unit options to employees, primarily as part of its annual review of employee compensation, with an aggregate fair value of approximately \$14.2 million. The majority of these restricted units and options vest ratably over three years. In addition, during the six months ended June 30, 2008, the Company granted 15,784 phantom units to independent members of its Board of Directors with a fair value of approximately \$0.4 million. The phantom units vest over one year. For the three and six months ended June 30, 2008, the Company recorded unit-based compensation expense in continuing operations of approximately \$3.9 million and \$7.5 million, respectively, as a non-cash charge against income before income taxes and it is included in "operating expenses" or "general and administrative expenses" on the condensed consolidated statements of operations. For the three and six months ended June 30, 2007, the Company recorded unit-based compensation and unit warrant expense in continuing operations of approximately \$3.9 million and \$7.5 million, respectively.

(14) Income Taxes

The Company is a limited liability company treated as a partnership for federal and state income tax purposes with all income tax liabilities and/or benefits of the Company being passed through to the unitholders, with the exception of the state of Texas. As such, no recognition of federal income taxes for the Company or its subsidiaries that are organized as limited liability companies have been provided for in the accompanying financial statements. Limited liability companies are subject to state income taxes in Texas. In addition, certain of the Company's subsidiaries are Subchapter C-corporations subject to federal and state income taxes.

(15) Related Party Transactions

Lehman Brothers Holdings, Inc.

At June 30, 2008, on an aggregate basis, a group of certain direct or indirect wholly owned subsidiaries of Lehman Brothers Holdings, Inc. ("Lehman") owned over 10% of the Company's outstanding units. As such, Lehman is considered a related party under the provisions of SFAS No. 57 "Related Party Disclosures." Lehman subsidiaries provide certain services to the Company, including participation in the Company's Credit Facility, Term Loan, offering

of Senior Notes (see Note 8), sale of Appalachian Basin assets (see Note 2) and sale of commodity derivative instruments (see Note 9), which were all consummated on terms equivalent to those that prevail in arm's-length transactions.

During the three and six months ended June 30, 2008, the Company paid Lehman interest on borrowings of approximately \$1.0 million and \$2.2 million, respectively, and financing fees of approximately \$1.3 million and \$1.8 million, respectively. During the three and six months ended June 30, 2007, the Company paid

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Lehman interest on borrowings of approximately \$0.4 million and \$0.7 million, respectively, and financing fees of zero and approximately \$13,000, respectively.

During the three and six months ended June 30, 2007, in conjunction with its June 2007, \$260.0 million and February 2007, \$360.0 million private placements of units, the Company paid Lehman underwriting fees of approximately \$1.4 million and \$3.5 million, respectively. Lehman was a participant in the private placements and the Company received \$68.7 million and \$118.7 million, respectively, of proceeds from Lehman in relation to these transactions during the three and six months ended June 30, 2007.

During the three and six months ended June 30, 2008, the Company paid distributions on units to Lehman of approximately \$9.3 million and \$18.5 million, respectively. During the three and six months ended June 30, 2007, the Company paid distributions on units to Lehman of approximately \$2.2 million and \$3.3 million, respectively. During the three and six months ended June 30, 2008, the Company paid Lehman approximately \$18.0 million and \$18.8 million, respectively, on settled commodity derivative contracts. During the three and six months ended June 30, 2007, Lehman paid the Company approximately \$0.5 million and \$1.0 million, respectively, on settled commodity derivative contracts. In addition, during the six months ended June 30, 2008, the Company purchased approximately \$1.3 million of deal contingent oil swap contracts from Lehman.

The following sets forth the amounts due to or from Lehman as of the respective balance sheet dates included in the accompanying condensed consolidated financial statements:

| | June 30, 2008 | December 31, 2007 |
|---|------------------|----------------------|
| | (in thousands) | |
| Assets: | | |
| Current oil and gas derivative assets | \$ — | \$ 14,226 |
| Liabilities: | | |
| Accrued interest payable | \$ 143 | \$ 162 |
| Current oil and gas derivative liabilities | \$ 241,931 | \$ — |
| Other current liabilities | \$ — | \$ 1,278 |
| Long-term debt | \$ 57,000 | \$ 40,404 |
| Noncurrent oil and gas derivative liabilities | \$ 421,753 | \$ 7,028 |

Other

Eric P. Linn, brother of the Company's Chairman and Chief Executive Officer, served as President of one of the Company's wholly owned subsidiaries. Effective March 31, 2008, Mr. Linn's employment with the Company terminated and he executed a Severance Agreement and Release. Under the terms of that agreement, Mr. Linn will receive \$0.2 million in cash, six months of outplacement services, accelerated vesting of certain unvested restricted units and unvested options, and payment of COBRA coverage until December 31, 2008 or until obtainment of other comparable health care benefits.

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(Unaudited)

(16) Supplemental Disclosures to the Consolidated Statements of Cash Flows

| | Six Months Ended June 30, | |
|--|------------------------------|------------|
| | 2008 | 2007 |
| | (in thousands) | |
| Supplemental disclosure of cash flow information: | | |
| Cash payments for interest | \$ 60,662 | \$ 19,656 |
| Supplemental disclosure of non-cash investing activities: | | |
| In connection with the purchase of oil and gas properties, liabilities were assumed as follows: | | |
| Fair value of assets acquired | \$ 581,780 | \$ 545,789 |
| Cash paid | (573,030) | (539,304) |
| Liabilities assumed, net | \$ 8,750 | \$ 6,485 |
| Supplemental disclosure of non-cash financing activities: | | |
| Units issued in connection with the purchase of oil and gas properties | \$ 23,455 | \$ — |

For purposes of the statement of cash flows, the Company considers all highly liquid short-term investments with original maturities of three months or less to be cash equivalents. Restricted cash of \$0.9 million and \$0.5 million is included in “other noncurrent assets” on the condensed consolidated balance sheets at June 30, 2008 and December 31, 2007, respectively, and represents cash the Company has deposited into a separate account and designated for asset retirement obligations in accordance with contractual agreements.

The Company manages its working capital and cash requirements to borrow only as needed from its Credit Facility. At December 31, 2007, the Company had approximately \$5.2 million of outstanding checks, the balance of which is included in “other current liabilities” on the condensed consolidated balance sheet.

(17) Recently Issued Accounting Standards

In April 2008, the Financial Accounting Standards Board (“FASB”) issued FASB Staff Position (“FSP”) FAS 142-3, “Determination of the Useful Life of Intangible Assets,” which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The intent of this FSP is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact the provisions of this FSP will have on its results of operations and financial position, but does not expect it will be material.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161, “Disclosures about Derivative Instruments and Hedging Activities - an Amendment of FASB Statement 133” (“SFAS 161”). SFAS 161 requires expanded disclosure regarding derivatives and hedging activities including disclosure of the fair values of derivative instruments and their gains and losses in tabular form. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008, with early adoption encouraged. The Company adopted SFAS 161 effective

January 1, 2008 (see Note 9). The adoption of the requirements of SFAS 161, which solely expanded disclosures, had no effect on the Company's results of operations or financial position.

In February 2008, the FASB issued FASB Staff Position FAS 157-2, "Effective Date of FASB Statement No. 157," which defers the effective date of SFAS 157 for one year for certain nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements

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LINN ENERGY, LLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - Continued

(Unaudited)

on a recurring basis. On January 1, 2008, the Company adopted the provisions of SFAS 157 related to financial assets and liabilities and to nonfinancial assets and liabilities measured at fair value on a recurring basis (see Note 10). On January 1, 2009, the Company will adopt the provisions for nonfinancial assets and nonfinancial liabilities that are not required or permitted to be measured at fair value on a recurring basis, which include those measured at fair value in goodwill impairment testing, indefinite-lived intangible assets measured at fair value for impairment assessment, nonfinancial long-lived assets measured at fair value for impairment assessment, asset retirement obligations initially measured at fair value, and those initially measured at fair value in a business combination. The Company is currently evaluating the impact the provisions of SFAS 157 related to these items will have on its results of operations and financial position.

(18)

Subsequent Events

In the third quarter of 2008, the Company canceled (before the contract settlement date) swap contracts on estimated future gas production resulting in a realized loss of \$13.2 million. The swap contracts were canceled as a result of the pending sale of the Verden assets (see Note 2).

In addition, in the third quarter of 2008, the Company made several changes to its commodity derivative portfolio, comprised of the following:

Oil Swap Restructuring

The Company took advantage of the relative strength of crude oil prices in 2013 and 2014 by reallocating swap value from those years and canceling in-the-money collars to raise swap prices in years 2009 through 2012.

Oil Put Strike Increase

The Company also took advantage of the increase in crude oil prices by locking in these gains in the form of put strike increases. The Company increased the weighted average put strike price from \$72.13 to \$120.00 per barrel in 2009 and from \$70.56 to \$110.00 per barrel in 2010 for a total cost of \$60.6 million.

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

The following discussion and analysis should be read in conjunction with the financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q. A reference to a "Note" herein refers to the accompanying Notes to Condensed Consolidated Financial Statements contained in Item 1. "Financial Statements."

Executive Summary

Linn Energy 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. From its initial public offering in January 2006 through the date of this report (excluding the Appalachian Basin properties sold in July 2008 discussed below), the Company has completed ten acquisitions of working and royalty interests in oil and gas properties and related gathering and pipeline assets. Total acquired proved reserves were approximately 1.7 Tcfe at an acquisition cost of approximately \$2.15 per Mcfe. See Note 3 for details about the Company's recent acquisitions. The Company finances acquisitions with a combination of proceeds from the issuance of its units, bank borrowings and cash flow from operations.

On July 1, 2008, the Company completed the sale of its interests in oil and gas properties located in the Appalachian Basin to XTO for a contract price of \$600.0 million, subject to closing adjustments (see Note 2). The Company received a cash down payment of \$60.0 million in April 2008 which is included in "other current liabilities" on the condensed consolidated balance sheet at June 30, 2008. The Company used the net proceeds from the sale of \$560.0 million to repay loans outstanding under its Term Loan and reduce indebtedness under its Credit Facility (see Note 8). The assets include approximately 197 Bcfe of proved reserves at December 31, 2007. The carrying value of net assets sold was approximately \$405.0 million, resulting in a gain on the sale of approximately \$155.0 million, which will be recorded in discontinued operations during the third quarter of 2008. The gain is subject to normal post-closing adjustments.

In March 2008, the Company exited the drilling and service business in the Appalachian Basin provided by its wholly owned subsidiary Mid Atlantic. At June 30, 2008, substantially all of the property and equipment previously held by Mid Atlantic totaling approximately \$9.2 million had been sold. During the six months ended June 30, 2008, the Company recorded a loss on the sale of the Mid Atlantic assets of approximately \$1.3 million, which is recorded in "income from discontinued operations, net of taxes" on the condensed consolidated statement of operations.

The results of the Company's Appalachian Basin and Mid Atlantic operations are classified as discontinued operations for all periods presented. Unless otherwise indicated, results of operations information presented herein relates only to Linn Energy's continuing operations.

Second quarter 2008 results from continuing operations included the following:

- oil, gas and NGL sales of approximately \$255.6 million, compared to \$32.5 million in the second quarter of 2007;
 - daily production of 223.6 MMcfe/d, compared to 45.8 MMcfe/d in the second quarter of 2007; and
 - lease operating expenses of \$1.44 per Mcfe, compared to \$1.72 per Mcfe in the second quarter of 2007.

In addition, on June 3, 2008, the Company entered into an agreement to sell certain of its assets in the Verden area in Oklahoma to Laredo for a contract price of \$185.0 million, subject to closing adjustments. The Company plans to use net proceeds from the sale to reduce indebtedness. The Company anticipates closing in the third quarter of 2008, subject to closing conditions. There can be no assurance that all of the conditions to closing will be satisfied. The

assets include approximately 50,000 net acres and 45 Bcfe of proved reserves at December 31, 2007. The carrying value of net assets to be sold was approximately \$143.0 million. In the third quarter of 2008, the Company canceled (before the contract settlement date) swap contracts on estimated future gas production resulting in a realized loss of \$13.2 million. The swap contracts were canceled as a result of the pending sale of the Verden assets (see Note 2).

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

In addition, in the third quarter of 2008, the Company made several changes to its commodity derivative portfolio, comprised of the following:

Oil Swap Restructuring

The Company took advantage of the relative strength of crude oil prices in 2013 and 2014 by reallocating swap value from those years and canceling in-the-money collars to raise swap prices in years 2009 through 2012 as detailed in the table below.

| | Year 2009 | Year 2010 | Year 2011 | Year 2012 | Year 2013 | Year 2014 |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Fixed Price Oil Swaps: | | | | | | |
| Before Restructuring: | | | | | | |
| Hedged Volume (MBbls) | 2,437 | 2,150 | 2,073 | 2,025 | 900 | — |
| Average Price (\$/Bbl) | \$ 78.07 | \$ 78.28 | \$ 79.65 | \$ 77.65 | \$ 72.22 | \$ — |
| After Restructuring: | | | | | | |
| Hedged Volume (MBbls) | 2,437 | 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 |

| | Year 2013 | Year 2014 |
|--------------------------------|--------------|--------------|
| Oil Collars: | | |
| Before Restructuring: | | |
| Hedged Volume (MBbls) | 1,375 | 2,200 |
| Average Floor Price (\$/Bbl) | \$ 110.00 | \$ 110.00 |
| Average Ceiling Price (\$/Bbl) | \$ 152.00 | \$ 152.00 |
| After Restructuring: | | |
| Hedged Volume (MBbls) | — | — |
| Average Floor Price (\$/Bbl) | \$ — | \$ — |
| Average Ceiling Price (\$/Bbl) | \$ — | \$ — |

Oil Put Strike Increase

The Company also took advantage of the increase in crude oil prices by locking in these gains in the form of put strike increases. The Company increased the weighted average put strike price from \$72.13 to \$120.00 per barrel in 2009 and from \$70.56 to \$110.00 per barrel in 2010 for a total cost of \$60.6 million.

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

Results of Operations – Continuing Operations

Three Months Ended June 30, 2008 Compared to Three Months Ended June 30, 2007

| | Three Months Ended June 30, | | Variance |
|-------------------------------------|--------------------------------|-----------|--------------|
| | 2008 | 2007 | |
| | (in thousands) | | |
| Revenues: | | | |
| Gas sales | \$ 118,331 | \$ 9,232 | \$ 109,099 |
| Oil sales | 97,745 | 12,824 | 84,921 |
| NGL sales | 39,510 | 10,439 | 29,071 |
| Total oil, gas and NGL sales | 255,586 | 32,495 | 223,091 |
| Loss on oil and gas derivatives (1) | (870,804) | (17,707) | (853,097) |
| Natural gas marketing revenues | 3,593 | 2,740 | 853 |
| Other revenues | 642 | 487 | 155 |
| Total revenues | \$ (610,983) | \$ 18,015 | \$ (628,998) |
| Expenses: | | | |
| Operating expenses: | | | |
| Lease operating and other | \$ 29,321 | \$ 7,156 | |