LINN ENERGY, LLC
Form 10-Q
May 14, 2007

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 March 31, 2007

OR

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

for the transition period from to

Commission File Number: 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 7000 **Houston, Texas** *(Address of principal executive offices)*	**77002** *(Zip Code)*

(281) 605-4100

(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 o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer o Accelerated filer o Non-accelerated filer x

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

As of April 30, 2007, there were 57,798,965 units outstanding.

TABLE OF CONTENTS

GLOSSARY OF TERMS

As commonly used in the oil and gas industry and as used in this Quarterly Report on Form10-Q, the following terms have the following meanings:

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

Bcf. One billion cubic feet.

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

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

Development well. A well drilled within the proved area of an oil or gas reservoir to the depth of a stratigraphic horizon known to be productive.

Dth. One decatherm, equivalent to one million British thermal units.

Developed acres. Acres spaced or assigned to productive wells.

Dry hole or *well.* A well found to be incapable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of such production would exceed production expenses and taxes.

Field. An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature and/or stratigraphic condition.

FERC. Federal Energy Regulatory Commission.

Gross acres or *gross wells.* The total acres or wells, as the case may be, in which a working interest is owned.

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.

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

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

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.

Net acres or *net wells.* The sum of the fractional working interests owned in gross acres or gross wells, as the case may be.

NGL. Natural gas liquids, which are the hydrocarbon liquids contained within gas.

NYMEX. The New York Mercantile Exchange.

Oil. Crude oil, condensate and natural gas liquids.

Productive well. A well that is found to be capable of producing hydrocarbons in sufficient quantities such that proceeds from the sale of such production exceeds production expenses and taxes.

Proved developed reserves. Reserves that can be expected to be recovered through existing wells with existing equipment and operating methods. Additional oil and gas expected to be obtained through the application of fluid injection or other improved recovery techniques for supplementing the natural forces and mechanisms of primary recovery are included in proved developed reserves only after testing by a pilot project or after the operation of an installed program has confirmed through production response that increased recovery will be achieved.

Proved reserves. Proved oil and gas reserves are the estimated quantities of gas, natural gas liquids and oil which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based on future conditions. The definition of proved reserves is in accordance with the Securities and Exchange Commission s definition set forth in Regulation S-X Rule 4-10 (a) and its subsequent staff interpretations and guidance.

Proved undeveloped drilling location. A site on which a development well can be drilled consistent with spacing rules for purposes of recovering proved undeveloped reserves.

Proved undeveloped reserves or *PUDs.* Reserves that are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage are limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units are claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation. Estimates for proved undeveloped reserves are not attributed to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proved effective by actual tests in the area and in the same reservoir.

Recompletion. The completion for production of an existing wellbore in another formation from that which the well has been previously completed.

Reservoir. A porous and permeable underground formation containing a natural accumulation of economically productive oil and/or gas that is confined by impermeable rock or water barriers and is individual and separate from other reserves.

Standardized Measure. Standardized Measure, or standardized measure of discounted future net cash flows relating to proved oil and gas reserve quantities, is the present value of estimated future net revenues to be generated from the production of proved reserves, determined in accordance with the rules and regulations of the Securities and Exchange Commission (using prices and costs in effect as of the date of estimation) without giving effect to non-property related expenses such as general and administrative expenses, debt service and future income tax expenses or to depreciation, depletion and amortization and discounted using an annual discount rate of 10%. Our Standardized Measure does not include future income tax expenses because our reserves are owned by our subsidiary Linn Energy Holdings, LLC, which is not subject to income taxes.

Successful well. A well capable of producing oil and/or gas in commercial quantities.

Undeveloped acreage. Lease acreage on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil and gas regardless of whether such acreage contains proved reserves.

Unproved reserves. Lease acreage on which wells have not been drilled and where it is either probable or possible that the acreage contains reserves.

Working interest. The operating interest that gives the owner the right to drill, produce and conduct operating activities on the property and a share of production.

Workover. Operations on a producing well to restore or increase production.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

LINN ENERGY, LLC

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2007 (Unaudited) (in thousands)	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 976	$ 6,595
Receivables trade, net	23,414	19,124
Inventory	745	578
Current portion of derivatives	24,513	37,817
Current portion of deferred tax assets, net		3,344
Other current assets	2,723	2,218
Total current assets	52,371	69,676
Oil and gas properties and related equipment (successful efforts method)	1,253,363	766,638
Less accumulated depreciation, depletion and amortization	(44,188)	(33,349)
	1,209,175	733,289
Property and equipment, net	24,067	20,754
Other assets:		
Long-term portion of derivatives	86,443	70,435
Deposit for oil and gas properties		20,086
Deferred financing fees and other assets, net	2,897	2,068
	89,340	92,589
Total assets	$ 1,374,953	$ 916,308

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

LINN ENERGY, LLC

CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2007 (Unaudited) (in thousands, except unit amounts)	December 31, 2006
Liabilities and Unitholders Capital		
Current liabilities:		
Current portion of long-term notes payable	$ 871	$ 873
Accounts payable and accrued expenses	14,369	12,506
Current portion of derivatives	6,078	462
Revenue distribution	1,620	1,839
Accrued interest payable	2,441	2,084
Gas purchases payable	101	253
Total current liabilities	25,480	18,017
Long-term liabilities:		
Notes payable	2,250	2,487
Credit facility	596,750	425,750
Asset retirement obligation	14,877	8,594
Derivatives	24,785	9,934
Other long-term liabilities	968	572
Total long-term liabilities	639,630	447,337
Total liabilities	665,110	465,354
Unitholders capital:		
50,303,019 units and 33,617,187 units issued and outstanding at March 31, 2007 and December 31, 2006, respectively	577,855	246,034
9,185,965 Class B units issued and outstanding at December 31, 2006		188,590
7,465,946 Class C units issued and outstanding at March 31, 2007	183,505	
Accumulated income (loss)	(51,517)	16,330
	709,843	450,954
Total liabilities and unitholders capital	$ 1,374,953	$ 916,308

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

4

LINN ENERGY, LLC

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended March 31,	
	2007	**2006**
	(in thousands, except per unit amounts)	
Revenues:		
Oil, gas and natural gas liquid sales	$ 39,204	$ 16,375
Gain (loss) on oil and gas derivatives	(60,441)	24,246
Natural gas marketing revenues	1,778	1,218
Other revenues	2,090	289
	(17,369)	42,128
Expenses:		
Operating expenses	12,456	2,994
Natural gas marketing expenses	1,347	983
General and administrative expenses	10,621	9,470
Depreciation, depletion and amortization	11,851	3,700
	36,275	17,147
	(53,644)	24,981
Other income and (expenses):		
Interest income	146	146
Interest expense, net of amounts capitalized	(9,913)	(2,639)
Write-off of deferred financing fees and other	(804)	(392)
	(10,571)	(2,885)
Income (loss) before income taxes	(64,215)	22,096
Income tax provision	(3,632)	(119)
Net income (loss)	$ (67,847)	$ 21,977
Net income (loss) per unit:		
Units basic	$ (1.35)	$ 0.84
Units diluted	$ (1.35)	$ 0.84
Class C units basic	$ (1.35)	$
Class C units diluted	$ (1.35)	$
Weighted average units outstanding:		
Units basic	45,456	26,273
Units diluted	45,456	26,273
Class C units basic	4,894	
Class C units diluted	4,894	
Distributions declared per unit	$ 0.52	$

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

LINN ENERGY, LLC

CONDENSED CONSOLIDATED STATEMENT OF UNITHOLDERS CAPITAL

(Unaudited)

	Three Months Ended March 31, 2007	2006
	(in thousands)	
Unitholders capital:		
Balance, beginning of period	$ 434,624	$ 16,024
Sale of units, net of offering expense of $4,339		225,139
Sale of private placement units, net of expense of $6,860	353,140	
Cancellation of member interests		(100,778)
Cancellation of units	(7,399)	
Distribution to members	(22,745)	
Unit-based compensation expense	3,258	5,680
Unit warrant expense	482	
Balance, end of period	761,360	146,065
Accumulated income (loss):		
Balance, beginning of period	16,330	(62,855)
Net income (loss)	(67,847)	21,977
Balance, end of period	(51,517)	(40,878)
Treasury units (at cost):		
Balance, beginning of period		
Purchase of units	(7,399)	
Sale of units		13,671
Redemption of member interests		(114,449)
Cancellation of member interests		100,778
Cancellation of units	7,399	
Balance, end of period		
Total unitholders capital	$ 709,843	$ 105,187

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

LINN ENERGY, LLC

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended March 31, 2007	2006
	(in thousands)	
Cash flow from operating activities:		
Net income (loss)	$ (67,847)	$ 21,977
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation, depletion and amortization	11,851	3,700
Amortization and write-off of deferred financing fees and other	718	582
Gain on sale of assets	(946)	
Accretion of asset retirement obligation	110	58
Unit-based compensation and unit warrant expense	3,740	5,680
Deferred income tax	3,501	
Mark-to-market on oil and gas and interest rate derivatives:		
Total (gains) losses	60,518	(24,653)
Realized gains	6,447	651
Premiums paid for oil and gas derivatives	(52,992)	
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(3,923)	8,126
Increase in inventory and other assets	(672)	(992)
Decrease in derivatives	3,766	
Decrease in accounts payable and accrued expenses	(2,428)	(4,344)
Increase (decrease) in accrued interest payable	357	(489)
Decrease in revenue distribution	(219)	(4,562)
Decrease in gas purchases payable	(152)	(447)
Increase in other liabilities	282	113
Net cash provided by (used in) operating activities	(37,889)	5,400
Cash flow from investing activities:		
Acquisition of oil and gas properties	(440,418)	(17,640)
Development of oil and gas properties	(10,378)	(4,144)
Change in payable related to investing activities	(8,337)	3,024
Purchases of property and equipment	(3,284)	(747)
Proceeds from sale of assets	2,492	14
Net cash used in investing activities	(459,925)	(19,493)
Cash flow from financing activities:		
Proceeds from sale of units	360,000	243,149
Redemption and cancellation of units	(7,399)	(114,449)
Principal payments on notes payable	(239)	(60,056)
Proceeds from credit facility	171,000	13,000
Payments on credit facility		(62,000)
Distribution to members	(22,745)	
Offering costs	(6,860)	(807)
Financing fees	(1,562)	95
Net cash provided by financing activities	492,195	18,932
Net increase (decrease) in cash	(5,619)	4,839
Cash and cash equivalents:		
Beginning	6,595	11,041
Ending	$ 976	$ 15,880

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

LINN ENERGY, LLC

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS SUPPLEMENTAL DISCLOSURES

(Unaudited)

	Three Months Ended March 31, 2007	2006
	(in thousands)	
Supplemental disclosure of cash flow information:		
Cash payments for interest	$ 9,310	$ 3,336
Supplemental disclosures of non-cash investing and financing activities:		
Acquisitions of vehicles and equipment through issuance of notes payable	$	$ 1,172
In connection with the purchase of oil and gas properties, liabilities were assumed as follows:		
Fair value of assets acquired	$ 450,694	$ 17,640
Cash paid	(440,418)	(17,640)
Liabilities assumed	$ 10,276	$

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

LINN ENERGY, LLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Basis of Presentation

The condensed consolidated financial statements at March 31, 2007, and for the three months ended March 31, 2007 and 2006, 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. 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 financial information included herein should be read in conjunction with the financial statements and notes in our Annual Report on Form 10-K for the year ended December 31, 2006. Certain amounts in the condensed consolidated financial statements and notes thereto have been reclassified to conform to the 2007 financial statement presentation.

(2) Summary of Significant Accounting Policies

(a) Organization and Description of Business

Linn Energy, LLC (Linn or the Company) is an independent oil and gas company focused on the development and acquisition of long-lived properties in the United States that began operations in March 2003 and was formed as a Delaware limited liability company in April 2005. Linn is a holding company that conducts its operations through, and its operating assets are owned by, its wholly-owned subsidiaries.

(b) Principles of Consolidation

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.

(c) Use of Estimates

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 estimates that are particularly significant to the financial statements include estimates of oil, gas and natural gas liquid (NGL) reserves, future cash flows from oil and gas properties, depreciation, depletion and amortization, asset retirement obligations, the fair value of derivatives and unit-based compensation expense.

The Company s estimate of proved reserves is based on the quantities of oil, gas and NGL that engineering and geological analyses demonstrate, with reasonable certainty, to be recoverable from established reservoirs in the future under current operating and economic parameters. An independent engineering firm prepared a reserve and economic evaluation of all the Company s properties on a well-by-well basis at December 31, 2006.

Reserves and their relation to estimated future net cash flows impact the Company s depletion and impairment calculations. As a result, adjustments to depletion and impairment are made concurrently with changes to reserve estimates. The Company prepares its reserve estimates, and the projected cash flows derived from these reserve estimates, in accordance with SEC guidelines.

The independent engineering firm adheres to the same guidelines when preparing their reserve reports. The accuracy of the Company s reserve estimates is a function of many factors including the following: the quality and quantity of available data, the interpretation of that data, the accuracy of various mandated economic assumptions and the judgments of the individuals preparing the estimates. As a result, the Company s proved reserve estimates developed from such assumptions could materially vary from the ultimate quantities of oil, gas and NGL eventually recovered.

(d) Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

(e) Trade Accounts Receivable, Net

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. The Company routinely assesses the financial strength of its customers and bad debts are recorded based on an account-by-account review after all means of collection have been exhausted and the potential for recovery is considered remote. The Company does not have any off-balance-sheet credit exposure related to its customers.

(f) Inventory

Inventory of well equipment, parts, and supplies are valued at cost, determined by the first-in-first-out method.

(g) Oil and Gas Properties

The Company accounts for oil and gas properties by the successful efforts method. Leasehold acquisition costs are capitalized. If proved reserves are found on an undeveloped property, leasehold costs are transferred to proved properties. Under this method of accounting, costs relating to the development of proved areas are capitalized when incurred.

Depreciation and depletion of producing oil and gas properties is recorded based on units of production. Unit rates are computed for unamortized drilling and development costs using proved developed reserves and for unamortized leasehold costs using all proved reserves. Statement of Financial Accounting Standards (SFAS) No. 19, as amended, *Financial Accounting and Reporting by Oil and Gas Producing Companies* (SFAS 19), requires that acquisition costs of proved properties be amortized on the basis of all proved reserves, developed and undeveloped, and that capitalized development costs (wells and related equipment and facilities) be amortized on the basis of proved developed reserves.

Proved reserves are estimated by an independent petroleum engineering firm and are subject to future revisions based on availability of additional information. The Company accounts for asset retirement obligations in accordance with SFAS No. 143, *Accounting for Asset Retirement Obligations* (SFAS 143). In accordance with SFAS 143, estimated asset retirement costs are recognized when the obligation is incurred, and are amortized over proved developed reserves using the units of production method. Asset retirement costs are estimated by the Company s engineers using existing regulatory requirements and anticipated future inflation rates.

Geological, geophysical, and exploratory dry hole costs on oil and gas properties relating to unsuccessful exploratory wells are charged to expense as incurred.

Upon sale or retirement of complete fields of depreciable or depleted property, the book value thereof, less proceeds or salvage value, is charged or credited to income. On sale or retirement of an individual well the proceeds are credited to accumulated depreciation and depletion.

In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144), we assess proved oil and gas properties for possible impairment when events or circumstances indicate that the recorded carrying value of the properties may not be recoverable. We recognize an impairment loss as a result of a triggering event and when the estimated undiscounted future cash flows from a property are less than the carrying value. If impairment is indicated, the cash flows are discounted at a rate approximate to our cost of capital and compared to the carrying value for determining the amount of the impairment loss to record. Estimated future cash flows are based on management s expectations for the future and include estimates of oil and gas reserves and future commodity prices and operating costs. Downward revisions in estimates of reserve quantities or expectations of falling commodity prices or rising operating costs could result in a reduction in undiscounted future cash flows and could indicate property impairment. No impairments were recorded during the three months ended March 31, 2007 or 2006.

Unproven properties that are individually insignificant are amortized. Unproved properties that are individually significant are assessed for impairment on a property-by-property basis. If considered impaired, costs are charged to expense when such impairment is deemed to have occurred.

(h) Property, Plant and Equipment

Tangible long-lived assets are evaluated in accordance with SFAS 144, when events and circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized as the amount by which the carrying amount of the asset exceeds the fair value of the asset. No impairments were recorded during the three months ended March 31, 2007 or 2006.

Maintenance and repairs are charged to expense as incurred. Major renewals and betterments are capitalized. Upon the sale or other disposition of assets, the cost and related accumulated depreciation, depletion, and amortization are removed from the accounts, the proceeds applied thereto, and any resulting gain or loss is reflected in income for the period.

(i) Derivative Instruments and Hedging Activities

The Company uses derivative financial instruments to achieve a more predictable cash flow from its oil and gas production by reducing its exposure to price fluctuations. As of March 31, 2007, these transactions were in the form of swaps and puts. Additionally, the Company uses derivative financial instruments in the form of interest rate swaps to mitigate its interest rate exposure. The Company accounts for its derivatives at fair value as an asset or liability and the change in the fair value of derivatives is included in income. The Company accounts for these activities pursuant to SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended, (SFAS 133). This statement establishes accounting and reporting standards requiring that derivative instruments (including certain derivative instruments embedded in other contracts) be recorded at fair value and included in the balance sheets as assets or liabilities.

The accounting for changes in the fair value of a derivative instrument depends on the intended use of the derivative and the resulting designation, which is established at the inception of a derivative. SFAS 133 requires that a company formally document, at the inception of a hedge, the hedging relationship and the entity s risk management objective and strategy for undertaking the hedge, including identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged, the method that will be used to assess effectiveness and the method that will be used to measure hedge ineffectiveness of derivative instruments that receive hedge accounting treatment. None of the Company s commodity or interest rate derivatives are designated as hedges and therefore the change in the fair value of the derivatives is included in the condensed consolidated statements of operations. See Note 11 for discussion related to derivative financial instruments.

(j) Unit-Based Compensation

Under the provisions of the Linn Energy, LLC Long-Term Incentive Plan, which is administered by the Compensation Committee of the Board of Directors, the Company has granted unit grants, unit options, unit warrants, restricted units, and phantom units to employees, non-employee directors and consultants. The unit options and restricted units vest ratably over one to three years from the grant date of the award, unless other contractual arrangements are made. The contractual life of unit options is ten years. The terms of unit warrants issued to consultants are detailed in Note 13. See Note 13 also for details regarding unit-based compensation granted during the three months ended March 31, 2007.

The Company accounts for unit-based compensation under the provisions of SFAS No. 123 (revised 2004), *Share Based Payment* (SFAS 123R). SFAS 123R requires the recognition of compensation expense, over the requisite service period, in an amount equal to the fair value of unit-based payments granted.

(k) Revenue Distribution

Revenue distribution on the condensed consolidated balance sheets of $1.6 million and $1.8 million represents amounts owed to working interest and royalty interest owners as of March 31, 2007 and December 31, 2006, respectively.

(l) Offering Costs

At December 31, 2006, the line item reported as other current assets on the condensed consolidated balance sheets, includes approximately $56,000 of costs incurred in connection with a private placement in February 2007 (see Note 4). These were reclassified to unitholders capital upon receipt of the proceeds during the three months ended March 31, 2007.

(m) Deferred Financing Fees

The Company incurred legal and bank fees related to the issuance of debt (see Note 7). The financing fees incurred for the three months ended March 31, 2007 and 2006 were $1.6 million and zero, respectively. These debt issuance costs are amortized over the life of the debt agreement. For the three months ended March 31, 2007 and 2006, amortization expense of $0.2 million and $0.2 million, respectively, is included in interest expense. Deferred financing fees of approximately $0.5 million and $0.4 million were written-off in connection with refinancings during the three months ended March 31, 2007 and 2006, respectively.

(n) Fair Value of Financial Instruments

The carrying values of the Company s receivables, payables and debt are estimated to be substantially the same as their fair values at March 31, 2007 and December 31, 2006.

(o) Operating Fee

The Company is paid a monthly operating fee for each well it operates for outside owners. The fee covers monthly operating and accounting costs, insurance, and other recurring costs. As the operating fee is a reimbursement for costs incurred on behalf of third parties, the portion of the fee that exceeds the reimbursement of operating costs has been netted against general and administrative expenses. For the three months ended March 31, 2007 and 2006, the operating fees netted against general and administrative expenses were approximately $0.1 million and $0.3 million, respectively.

(p) 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 Company s unitholders. As such, no recognition of federal or state income taxes for the Company or its subsidiaries that are organized as limited liability companies have been provided for in the accompanying financial statements except as described below.

Certain of the Company s subsidiaries are Subchapter C-corporations subject to corporate income taxes, which are accounted for under the provisions of SFAS No. 109 *Accounting for Income Taxes* (SFAS 109), which uses the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. At March 31, 2007, deferred tax liabilities of approximately $0.7 million are recorded on the condensed consolidated balance sheets and deferred tax assets of $2.5 million, net of a valuation allowance of $1.9 million are also recorded. At December 31, 2006, deferred tax liabilities of approximately $0.7 million are recorded on the condensed consolidated balance sheets and deferred tax assets of $6.3 million, net of a valuation allowance of $2.3 million are also recorded.

The Company adopted Financial Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (FIN 48) on January 1, 2007. FIN 48 requires that the Company recognize only the impact of income tax positions that, based on their merits, are more likely than not to be sustained upon audit by a taxing authority. It also requires expanded financial statement disclosure of such positions.

In evaluating its current tax positions in order to identify any material uncertain tax positions, the Company developed a policy in identifying uncertain tax positions that considers support for each tax position, industry standards, tax return disclosures and schedules and the significance of each position.

As of January 1, 2007, the date of adoption of FIN 48, the Company had no material uncertain tax positions. The Company does not currently anticipate that any significant uncertain tax positions will be recorded during the next 12 months.

(q) Revenue Recognition

Sales of oil, gas and NGL are recognized when produced quantities have been delivered to a custody transfer point, persuasive evidence of a sales arrangement exists, the rights and responsibility of ownership pass to the purchaser upon delivery, collection of revenue from the sale is reasonably assured, and the sales price is fixed or determinable. Oil, gas and NGL are sold by the Company on a monthly basis. Virtually all of the Company s contracts pricing provisions are tied to a market index, with certain adjustments based on, among other factors, whether a well delivers to a gathering or transmission line, quality of produced commodity and prevailing supply and demand conditions, so that the price of the oil, gas and NGL fluctuate to remain competitive with other available suppliers.

Gas imbalances occur when the Company sells more or less than its entitled ownership percentage of total gas production. Any amount received in excess of the Company s share is treated as a liability. If the Company receives less than its entitled share, the underproduction is recorded as a receivable. The Company did not have any significant gas imbalance positions at March 31, 2007 or December 31, 2006.

Natural gas marketing is recorded on the gross accounting method because the Company takes title to the gas it purchases from the various producers and bears the risks and enjoys the benefits of that ownership. Natural gas marketing revenues and natural gas marketing expenses, titled as such, are reported on the condensed consolidated statements of operations for the three months ended March 31, 2007 and 2006.

The Company currently uses the Net-Back method of accounting for transportation arrangements of its gas sales. The Company sells gas at the wellhead and collects a price and recognizes revenues based on the wellhead sales price since transportation costs downstream of the wellhead are incurred by its customers and reflected in the wellhead price.

The Company generates electricity with excess gas, which it uses to serve certain of its operating facilities in California. Any excess electricity is sold to the wholesale power market and the revenue is recorded on the accrual basis. This revenue is included in other revenues on the condensed consolidated statements of operations.

(r) Production Taxes

Oil, gas and NGL revenues are presented on a gross basis on the condensed consolidated statements of operations. Production taxes are included in operating expenses on the condensed consolidated statements of operations and were approximately $1.5 million and $0.9 million for the three months ended March 31, 2007 and 2006, respectively.

(3) Acquisitions and Dispositions

On February 1, 2007, effective January 1, 2007, the Company completed the acquisition of certain oil and gas properties and related assets in the Texas Panhandle from Stallion Energy LLC, acting as general partner for Cavallo Energy, LP, for a contract price of $415.0 million, subject to customary closing adjustments. The Texas Panhandle acquisition was financed with a combination of a private placement of our units (see Note 4) and borrowings under the Company s senior secured revolving credit facility.

The following table presents the preliminary purchase price for the acquisition based on preliminary estimates of fair value:

	Texas Panhandle	
	(in thousands)	
Cash	$	407,762
Estimated transaction costs	3,006	
Estimated closing adjustments	3,508	
	414,276	
Fair value of liabilities assumed	1,706	
Total purchase price	$	415,982

The following table presents the preliminary allocation of the purchase price based on preliminary estimates of fair value:

	Texas Panhandle	
	(in thousands)	
Oil and gas properties	$	415,244
Vehicles and buildings	738	
	$	415,982

The preliminary purchase price allocation is based on independent appraisals, discounted cash flows, quoted market prices and estimates by management. The most significant assumptions related to the estimated fair values assigned to proved oil and gas properties. To estimate the fair values of these properties, we prepared estimates of oil, gas and NGL reserves. We 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. For estimated proved reserves, the future net revenues were discounted using a market-based weighted average cost of capital rate determined appropriate at the time of the acquisition. The market-based weighted average cost of capital rate was subjected to additional project-specific risking factors. There were no unproved properties identified with the Texas Panhandle acquisition. As noted, the purchase price allocation is preliminary; it is subject to final closing adjustments and will be finalized within one year of the acquisition date.

The following unaudited pro forma financial information presents a summary of Linn s consolidated results of operations for the three months ended March 31, 2007 and 2006, assuming the acquisition of our Texas Panhandle properties had been completed as of January 1, 2006, including adjustments to reflect the allocation of the purchase price to the acquired net assets. The pro forma financial information also assumes the Company s February 2007 private placement of units (see Note 4) was completed on January 1, 2006, since the private placement was contingent on the Texas Panhandle acquisition. In addition, the pro forma financial information assumes that our California acquisitions of certain affiliated entities of Blacksand Energy, LLC and certain Mid-Continent assets of the Kaiser-Francis Oil Company were completed as of January 1, 2006. The California and Mid-Continent acquisitions were completed in 2006 and the revenues and expenses are included in the consolidated results of the Company effective August 1, 2006 and September 1, 2006, respectively. The revenues and expenses of the Texas Panhandle assets are included in the consolidated results of the Company effective February 1, 2007. The pro forma financial information is not necessarily indicative of the results of operations if the acquisitions had been effective as of these dates.

	Three Months Ended March 31,					
	2007			**2006**		
Total revenues	$	(13,348	)	$	97,691	
Total operating expenses	$	39,004		$	31,417	
Net income (loss)	$	(66,777	)	$	53,678	
Net income (loss) per unit:						
Units basic	$	(1.33	)	$	1.33	
Units diluted	$	(1.33	)	$	1.33	
Class C units basic	$	(1.33	)	$	1.33	
Class C units diluted	$	(1.33	)	$	1.33	

The pro forma results of operations present net income per unit allocated to the units and Class C units. In April 2007, unitholders approved the one-for-one conversion of each of the Class C units into units (see Note 4). Therefore, pro forma net income per unit assumes that the units and Class C units share equally in the pro forma net income of the Company.

In January 2007, the Company completed the acquisitions of certain gas properties located in the Appalachian Basin of West Virginia for an aggregate contract price of $39.0 million, subject to customary closing adjustments. In connection with these acquisitions and the Texas Panhandle acquisition, the Company amended its credit facility to increase the borrowing base from $480.0 million to $725.0 million (see Note 7).

In February 2007, the Company paid, to a third-party, fees of $10.0 million and a term net-profits interest in conjunction with the Company s purchase of a net profits interest in certain oil and gas properties in California from Aera Energy LLC. The $10.0 million is recorded in oil and gas properties on the Company s condensed consolidated balance sheets and is depleted based on units of production. Effective April 1, 2007, the Company assumed operatorship of the properties and began distributing revenue based on formulas set forth in the respective agreements.

In March 2007, the Company sold certain of its oil and gas properties located in New York for cash of approximately $2.5 million and recorded a gain of approximately $0.9 million. The gain is included in other revenues on the condensed consolidated statements of operations.

(4) Unitholders Capital

Private Placements

In February 2007, the Company entered into a Class C Unit and Unit Purchase Agreement with a group of institutional investors whereby it privately placed 7,465,946 Class C units at a price of $25.06 per unit, and 6,650,144 units at a price of $26.00 per unit, for aggregate gross proceeds of $360.0 million (the Class C Private Placement). Proceeds, net of expenses, were $353.1 million. The proceeds from the Class C Private Placement were used to finance the Texas Panhandle acquisition and the acquisitions of certain gas properties in West Virginia (see Note 3).

In April 2007, at a special meeting of Linn unitholders, unitholders approved the one-for-one conversion of the Class C units into units. In connection with the Class C Private Placement, the Company agreed to file a registration statement with the SEC covering the units and the units underlying the Class C units. In accordance with the agreement, the registration statement must be declared effective by the SEC no later than 165 days following the closing.

In connection with its October 2006 private placement of Class B units, the Company also agreed to file a registration statement with the SEC covering the units and the units underlying the Class B units and that the registration statement would be declared effective by the SEC no later than 165 days following the Class B private placement closing. The effective date deadline was extended under a separate agreement to 210 days.

The Company could be required to pay purchasers, as liquidated damages, certain amounts as defined in the agreements in the event the registration effectiveness deadlines are not met. The potential payments would be approximately $0.8 million and $0.9 million for the October 2006 and February 2007 placements, respectively, for each 30 day period that the registration deadlines are not met, up through 90 days. Subsequent to 90 days, the potential payments would increase for each 30 day period, up to a maximum of 1.0% of the gross proceeds of each offering. If an accounting change resulted in units being reclassified as a liability, any payment would be further limited to the units remaining under equity treatment on the financial statements of the Company.

The Company evaluated its liability exposure related to the liquidated damages and determined its probable payments to be approximately $0.3 million. As such, the Company recorded a liability for this amount on its condensed consolidated balance sheets at March 31, 2007. Subsequent changes in the amount of the liability will be recorded in other income and (expenses) on the condensed consolidated statements of operations. The Company will continue to monitor and assess its exposure in this matter; however, the Company does not currently expect payments under these agreements, if any, to be material to the Company s financial position or results of operations.

Cancellation of Units

In January 2007, the Company purchased 226,561 restricted units from an employee for $7.4 million (market price on the day of purchase) in conjunction with the vesting of restricted unit awards. The proceeds were used to fund the employee s payroll taxes on the award and the Company cancelled the units.

Initial Public Offering

In the first quarter of 2006, the Company completed its initial public offering (IPO) of 12,450,000 units representing limited liability interests in the Company at $21.00 per unit, for net proceeds, after underwriting discounts of $18.3 million and offering expenses of $4.3 million, of $238.8 million, of which $122.0 million was used to reduce indebtedness, $114.4 million was used to redeem a portion of the membership interests in the Company and units held by certain affiliated and non-affiliated holders and approximately $2.0 million was used to pay bonuses to certain executive officers of the Company.

(5) 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:

	March 31, 2007 (in thousands)	December 31, 2006
Unproved properties	$ 8,438	$ 8,624
Proved properties:		
Leasehold, equipment and drilling	1,164,226	737,202
Gas compression plant and pipelines	80,699	20,812
Less accumulated depletion, depreciation and amortization	1,253,363	766,638
	(44,188)	(33,349)
Net capitalized costs	$ 1,209,175	$ 733,289

(6) Property and Equipment

Property and equipment consists of the following:

	March 31, 2007 (in thousands)	December 31, 2006
Land	$ 320	$ 308
Buildings and leasehold improvements	3,190	2,759
Vehicles	4,144	3,097
Aircraft	5,890	5,890
Drilling equipment	10,773	8,611
Furniture and equipment	2,333	1,966
	26,650	22,631
Less accumulated depreciation	(2,583)	(1,877)
	$ 24,067	$ 20,754

Depreciation expense for the three months ended March 31, 2007 and 2006, was approximately $0.7 and $0.2 million, respectively.

(7) Credit Facility

At March 31, 2007, the Company had an $800.0 million senior secured revolving credit facility with a maturity of August 2010, and a borrowing base of $725.0 million (Credit Facility). In February 2007, in conjunction with the Texas Panhandle acquisition and two acquisitions in West Virginia (see Note 3), the Company amended its Credit Facility, increasing the borrowing base from $480.0 million to $725.0 million. In connection with this amendment, in the first quarter of 2007, the Company paid fees of approximately $1.6 million, which will be amortized over the remaining term of the Credit Facility, and wrote-off deferred financing fees of approximately $0.5 million.

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. Our obligations under the Credit Facility are secured by mortgages on our oil and gas properties as well as a pledge of all ownership interests in our operating subsidiaries. We are required to maintain the mortgages on properties representing at least 80% of our oil and gas properties. Additionally, the obligations under the Credit Facility are guaranteed by all of our operating subsidiaries and may be guaranteed by any future subsidiaries.

At our election, interest on the Credit Facility is determined by reference to LIBOR plus an applicable margin between 1.00% and 1.75% per annum; or a domestic bank rate plus an applicable margin between 0.00% and 0.25% per annum. Interest is payable quarterly for domestic bank rate loans and at the applicable maturity date for LIBOR loans.

The Credit Facility contains various covenants that limit the Company s ability to incur additional indebtedness, make acquisitions or certain capital expenditures; make distributions other than from available cash; merge or consolidate; and engage in certain asset dispositions. The Credit Facility also contains covenants that, among other things, require us to maintain certain financial ratios. The Company is in compliance with all financial and other covenants of its Credit Facility.

As of March 31, 2007 and December 31, 2006, the Credit Facility consisted of the following:

	March 31, 2007	**December 31, 2006**
	(in thousands)	
Total (1)	$ 596,750	$ 425,750
Less current maturities		
	$ 596,750	$ 425,750

(1) Variable rate of 6.875% and 7.125% at March 31, 2007 and December 31, 2006, respectively.

At March 31, 2007, the Company also had $5.0 million outstanding letters of credit, which reduce its borrowing availability under the Credit Facility. At March 31, 2007, available borrowing under the Credit Facility was $123.2 million.

Total accrued interest on the Credit Facility was approximately $2.4 million and $2.1 million at March 31, 2007 and December 31, 2006, respectively.

(8) Long-term Notes Payable

The Company has the following long-term notes payable outstanding:

	March 31, 2007	December 31, 2006
	(in thousands)	
Note payable to a bank with an interest rate of 6.14%, payable in monthly installments of approximately \$3, including interest, through September 2024. The note is secured by an office building.	\$ 369	\$ 372
Various notes for the purchase of vehicles and equipment, payable in monthly installments totaling approximately \$88 and \$88, as of March 31, 2007 and December 31, 2006, respectively, including interest. The interest rates range from 3.9%-9.11%. The notes are secured by the vehicles and equipment purchased and expire at various dates from 2007 through 2011. (1)	2,752	2,989
	3,121	3,361
Less current maturities	(871)	(874)
	\$ 2,250	