LINN ENERGY, LLC
Form 10-Q
October 27, 2011

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

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

For the Quarterly Period Ended September 30, 2011

OR

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

for the transition period from _______________ to _______________

Commission File Number: 000-51719

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

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

As of September 30, 2011, there were 176,708,225 units outstanding.

TABLE OF CONTENTS

		Page
	Glossary of Terms	ii
	Part I - Financial Information	
Item 1.	Financial Statements	
	Condensed Consolidated Balance Sheets as of September 30, 2011, and December 31, 2010	1
	Condensed Consolidated Statements of Operations for the three months and nine months ended September 30, 2011, and September 30, 2010	2
	Condensed Consolidated Statement of Unitholders' Capital for the nine months ended September 30, 2011	3
	Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2011, and September 30, 2010	4
	Notes to Condensed Consolidated Financial Statements	5
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	22
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	43
Item 4.	Controls and Procedures	44
	Part II - Other Information	
Item 1.	Legal Proceedings	45
Item 1A.	Risk Factors	45
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	45
Item 3.	Defaults Upon Senior Securities	45
Item 4.	Reserved	45
Item 5.	Other Information	45
Item 6.	Exhibits	46
	Signature	47

Table of Contents

GLOSSARY OF TERMS

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

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

Bcf. One billion cubic feet.

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

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

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

MBbls/d. MBbls per day.

Mcf. One thousand cubic feet.

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

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

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

MMBtu. One million British thermal units.

MMcf. One million cubic feet.

MMcf/d. MMcf per day.

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

MMcfe/d. MMcfe per day.

MMMBtu. One billion British thermal units.

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

LINN ENERGY, LLC

CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2011 (Unaudited)	December 31, 2010
	(in thousands, except unit amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 10,075	$ 236,001
Accounts receivable – trade, net	246,677	184,624
Derivative instruments	322,872	234,675
Other current assets	56,506	55,609
Total current assets	636,130	710,909
Noncurrent assets:		
Oil and natural gas properties (successful efforts method)	6,940,778	5,664,503
Less accumulated depletion and amortization	(939,264)	(719,035)
	6,001,514	4,945,468
Other property and equipment	178,044	139,903
Less accumulated depreciation	(44,295)	(35,151)
	133,749	104,752
Derivative instruments	453,541	56,895
Other noncurrent assets	109,295	115,124
	562,836	172,019
Total noncurrent assets	6,698,099	5,222,239
Total assets	$ 7,334,229	$ 5,933,148
LIABILITIES AND UNITHOLDERS' CAPITAL		
Current liabilities:		
Accounts payable and accrued expenses	$ 344,241	$ 219,830
Derivative instruments	3,667	12,839
Other accrued liabilities	91,823	82,439
Total current liabilities	439,731	315,108
Noncurrent liabilities:		
Credit facility	65,000	—
Senior notes, net	3,053,924	2,742,902
Derivative instruments	3,213	39,797
Other noncurrent liabilities	61,683	47,125
Total noncurrent liabilities	3,183,820	2,829,824
Commitments and contingencies (Note 10)		

Unitholders' capital:		
176,708,225 units and 159,009,795 units issued and outstanding at September 30, 2011, and December 31, 2010, respectively	2,843,507	2,549,099
Accumulated income	867,171	239,117
	3,710,678	2,788,216
Total liabilities and unitholders' capital	$ 7,334,229	$ 5,933,148

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

1

Table of Contents

LINN ENERGY, LLC

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
	(in thousands, except per unit amounts)			
Revenues and other:				
Oil, natural gas and natural gas liquids sales	$292,482	$177,306	$835,579	$479,887
Gains on oil and natural gas derivatives	824,240	43,505	660,279	263,299
Marketing revenues	1,477	635	4,159	3,252
Other revenues	1,284	915	3,564	1,363
	1,119,483	222,361	1,503,581	747,801
Expenses:				
Lease operating expenses	62,907	41,901	165,171	111,490
Transportation expenses	7,821	5,154	20,152	15,030
Marketing expenses	850	468	2,703	2,209
General and administrative expenses	29,891	23,751	91,994	71,545
Exploration costs	503	281	1,498	4,297
Bad debt expenses	79	(70)	74	(89)
Depreciation, depletion and amortization	88,328	62,482	234,039	169,614
Taxes, other than income taxes	20,875	12,011	56,920	32,602
Losses on sale of assets and other, net	279	6,073	1,870	5,699
	211,533	152,051	574,421	412,397
Other income and (expenses):				
Loss on extinguishment of debt	—	—	(94,372)	—
Interest expense, net of amounts capitalized	(65,848)	(53,497)	(191,673)	(127,119)
Losses on interest rate swaps	—	(11,501)	—	(67,908)
Other, net	(1,613)	(1,136)	(6,331)	(5,428)
	(67,461)	(66,134)	(292,376)	(200,455)
Income before income taxes	840,489	4,176	636,784	134,949
Income tax expense	(2,862)	(33)	(8,730)	(5,710)
Net income	$837,627	$4,143	$628,054	$129,239
Net income per unit:				
Basic	$4.74	$0.03	$3.63	$0.91
Diluted	$4.72	$0.03	$3.62	$0.91
Weighted average units outstanding:				
Basic	174,956	145,956	171,076	140,598
Diluted	175,644	146,458	171,825	141,006
Distributions declared per unit	$0.69	$0.63	$2.01	$1.89

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

Table of Contents

LINN ENERGY, LLC

CONDENSED CONSOLIDATED STATEMENT OF UNITHOLDERS' CAPITAL
(Unaudited)

	Units	Unitholders' Capital	Accumulated Income	Treasury Units (at Cost)	Total Unitholders' Capital
			(in thousands)		
December 31, 2010	159,010	$2,549,099	$239,117	$—	$2,788,216
Sale of units, net of underwriting discounts and expenses of $26,685	16,742	622,900	—	—	622,900
Issuance of units	1,356	7,156	—	—	7,156
Cancellation of units	(400)	(13,191)	—	13,191	—
Purchase of units		—	—	(13,191)	(13,191)
Distributions to unitholders		(344,612)	—	—	(344,612)
Unit-based compensation expenses		16,759	—	—	16,759
Excess tax benefit from unit-based compensation		5,396	—	—	5,396
Net income		—	628,054	—	628,054
September 30, 2011	176,708	$2,843,507	$867,171	$—	$3,710,678

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

Table of Contents

LINN ENERGY, LLC

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30,	
	2011	2010
	(in thousands)	
Cash flow from operating activities:		
Net income	$628,054	$129,239
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	234,039	169,614
Unit-based compensation expenses	16,759	10,546
Loss on extinguishment of debt	94,372	
Amortization and write-off of deferred financing fees and other	17,910	20,729
Gains on sale of assets and other, net	(135)	(619)
Bad debt expenses	74	(89)
Deferred income tax	4,832	2,956
Mark-to-market on derivatives:		
Total gains	(660,279)	(195,391)
Cash settlements	162,876	218,559
Cash settlements on canceled derivatives	26,752	(123,865)
Premiums paid for derivatives	(59,948)	(91,027)
Changes in assets and liabilities:		
Increase in accounts receivable – trade, net	(70,476)	(43,173)
Decrease in other assets	4,968	15,894
Increase in accounts payable and accrued expenses	78,870	15,483
Increase in other liabilities	7,761	54,563
Net cash provided by operating activities	486,429	183,419
Cash flow from investing activities:		
Acquisition of oil and natural gas properties	(846,976)	(894,521)
Development of oil and natural gas properties	(383,655)	(104,694)
Purchases of other property and equipment	(37,419)	(15,030)
Proceeds from sale of properties and equipment and other	10,776	696
Net cash used in investing activities	(1,257,274)	(1,013,549)
Cash flow from financing activities:		
Proceeds from sale of units	649,586	431,250
Proceeds from borrowings	1,514,240	3,170,816
Repayments of debt	(1,154,679)	(2,020,000)
Distributions to unitholders	(344,612)	(268,343)
Financing fees, offering expenses and other, net	(109,751)	(77,751)
Excess tax benefit from unit-based compensation	3,326	1,819
Purchase of units	(13,191)	(11,832)
Net cash provided by financing activities	544,919	1,225,959
Net increase (decrease) in cash and cash equivalents	(225,926)	395,829
Cash and cash equivalents:		

Beginning	236,001	22,231
Ending	$10,075	$418,060

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

Table of Contents

LINN ENERGY, LLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 – Basis of Presentation

Nature of Business

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

Principles of Consolidation and Reporting

The condensed consolidated financial statements at September 30, 2011, and for the three months and nine months ended September 30, 2011, and September 30, 2010, are unaudited, but in the opinion of management include all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the results for the interim periods. Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been condensed or omitted under Securities and Exchange Commission ("SEC") rules and regulations, 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, 2010. The results reported in these unaudited condensed consolidated financial statements should not necessarily be taken as indicative of results that may be expected for the entire year.

The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated upon consolidation. Investments in noncontrolled entities over which the Company exercises significant influence are accounted for under the equity method.

Use of Estimates

The preparation of the accompanying condensed consolidated financial statements in conformity with GAAP requires management of the Company to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amount of assets and liabilities reported, disclosures about contingent assets and liabilities, and reported amounts of revenues and expenses. The estimates that are particularly significant to the financial statements include estimates of the Company's reserves of oil, natural gas and natural gas liquids ("NGL"), future cash flows from oil and natural gas properties, depreciation, depletion and amortization, asset retirement obligations, certain revenues and operating expenses, fair values of commodity derivatives and, when applicable, interest rate derivatives, and fair values of assets acquired and liabilities assumed. As fair value is a market-based measurement, it is determined based on the assumptions that market participants would use. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Such estimates and assumptions are adjusted when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ from these estimates. Any changes in estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

Recently Issued Accounting Standards Not Yet Adopted

The Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU") that further addresses fair value measurement accounting and related disclosure requirements. The ASU clarifies the FASB's intent regarding the application of existing fair value measurement and disclosure requirements, changes the fair value measurement requirements for certain financial instruments, and sets forth additional disclosure requirements for other fair value measurements. The ASU will be applied prospectively and is effective for periods beginning

---

after December 15, 2011. The Company is currently evaluating the impact, if any, of the adoption of this ASU on its consolidated financial statements and related disclosures.

Note 2 – Acquisitions and Divestitures

Acquisitions – 2011

On June 1, 2011, the Company completed the acquisition of certain oil and natural gas properties in the Cleveland play, located in the Texas Panhandle, from Panther Energy Company, LLC and Red Willow Mid-Continent, LLC (collectively referred to as "Panther"). The results of operations of these properties have been included in the condensed consolidated financial statements since the acquisition date. The Company paid approximately $222 million in total consideration for these properties. The transaction was financed primarily with proceeds from the Company's May 2011 debt offering, as described below.

On May 2, 2011, and May 11, 2011, the Company completed two acquisitions of certain oil and natural gas properties located in the Williston Basin. The results of operations of these properties have been included in the condensed consolidated financial statements since the acquisition dates. The Company paid $154 million in cash and recorded a payable of $2 million, resulting in total consideration for the acquisitions of approximately $156 million. The transactions were financed initially with borrowings under the Company's Credit Facility, as defined in Note 6.

On April 1, 2011, and April 5, 2011, the Company completed two acquisitions of certain oil and natural gas properties located in the Permian Basin, including properties from SandRidge Exploration and Production, LLC ("SandRidge"). The results of operations of these properties have been included in the condensed consolidated financial statements since the acquisition dates. The Company paid $239 million in cash and recorded a payable of $1 million, resulting in total consideration for the acquisitions of approximately $240 million. The transactions were financed initially with borrowings under the Company's Credit Facility.

On March 31, 2011, the Company completed the acquisition of certain oil and natural gas properties in the Williston Basin from an affiliate of Concho Resources Inc. ("Concho"). The results of operations of these properties have been included in the condensed consolidated financial statements since the acquisition date. The Company paid $196 million in cash and recorded a receivable from Concho of $2 million, resulting in total consideration for the acquisition of approximately $194 million. The transaction was financed primarily with proceeds from the Company's March 2011 public offering of units, as described below.

During the nine months ended September 30, 2011, the Company completed other smaller acquisitions of oil and natural gas properties located in its various operating regions. The results of operations of these properties have been included in the condensed consolidated financial statements since the acquisition dates. The Company, in the aggregate, paid approximately $39 million in total consideration for these properties.

These acquisitions were accounted for under the acquisition method of accounting. Accordingly, the Company conducted assessments of net assets acquired and recognized amounts for identifiable assets acquired and liabilities assumed at their estimated acquisition date fair values, while transaction and integration costs associated with the acquisitions were expensed as incurred. The initial accounting for the business combinations is not complete and adjustments to provisional amounts, or recognition of additional assets acquired or liabilities assumed, may occur as more detailed analyses are completed and additional information is obtained about the facts and circumstances that existed as of the acquisition dates.

Table of Contents

LINN ENERGY, LLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Continued
(Unaudited)

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

Assets:		
Current	$	(665)
Noncurrent		54
Oil and natural gas properties		854,835
Total assets acquired	$	854,224
Liabilities:		
Current	$	(3,718)
Asset retirement obligations		6,966
Total liabilities assumed	$	3,248
Net assets acquired	$	850,976

Current assets include receivables, prepaids and inventory and noncurrent assets include other property and equipment. Current liabilities include payables, ad valorem taxes payable and other liabilities.

The fair values of oil and natural gas properties and asset retirement obligations were measured using valuation techniques that convert future cash flows to a single discounted amount. Significant inputs to the valuation of oil and natural gas properties include estimates of: (i) reserves; (ii) future operating and development costs; (iii) future commodity prices; (iv) estimated future cash flows; and (v) a market-based weighted average cost of capital rate.

The revenues and expenses related to the properties acquired from Panther, SandRidge and Concho are included in the condensed consolidated results of operations of the Company as of June 1, 2011, April 1, 2011, and March 31, 2011, respectively. The following unaudited pro forma financial information presents a summary of the Company's condensed consolidated results of operations for the nine months ended September 30, 2011, and three months and nine months ended September 30, 2010, assuming the acquisitions of Panther, SandRidge and Concho had been completed as of January 1, 2010, including adjustments to reflect the values assigned to the net assets acquired. The pro forma financial information is not necessarily indicative of the results of operations if the acquisitions had been effective as of this date.

	Three Months Ended September 30,	Nine Months Ended September 30,	
	2010	2011	2010
	(in thousands, except per unit amounts)		
Total revenues and other	$ 249,211	$ 1,542,797	$ 823,718
Total operating expenses	$ 168,114	$ 594,942	$ 460,805
Net income	$ 10,803	$ 639,871	$ 144,367
Net income per unit:			
Basic	$ 0.07	$ 3.65	$ 0.95
Diluted	$ 0.07	$ 3.64	$ 0.94

Other

In July 2010, the Company entered into a definitive purchase and sale agreement (“PSA”) to acquire certain oil and natural gas properties for a contract price of $95 million. Upon the execution of the PSA, the Company paid a

7

deposit of approximately $9 million. In September 2010, in accordance with the terms of the PSA, the Company terminated the PSA as a result of certain conditions to closing not being met. On March 28, 2011, an arbitration panel granted a favorable final ruling to the Company with regard to the termination of the PSA and the return of the deposit. On April 27, 2011, the deposit plus interest was received by the Company.

Acquisitions – Pending

On September 20, 2011, the Company entered into a definitive purchase and sale agreement to acquire certain oil and natural gas properties located in the Permian Basin for a contract price of approximately $17 million. The Company anticipates the acquisition will close in November 2011, subject to closing conditions, and will be financed with borrowings under its Credit Facility.

On September 8, 2011, the Company entered into a definitive purchase and sale agreement to acquire certain oil and natural gas properties located in the Permian Basin for a contract price of approximately $88 million. The Company anticipates the acquisition will close November 1, 2011, subject to closing conditions, and will be financed with borrowings under its Credit Facility.

Acquisitions – 2010

On August 16, 2010, the Company completed the acquisition of certain oil and natural gas properties located in the Permian Basin from Crownrock, LP and Element Petroleum, LP (collectively referred to as "CrownQuest/Element"). The results of operations of these properties have been included in the consolidated financial statements since the acquisition date. The Company paid $95 million in cash. The transaction was financed with borrowings under the Company's Credit Facility.

On May 27, 2010, the Company completed the acquisition of interests in Henry Savings LP and Henry Savings Management LLC (collectively referred to as "Henry") that primarily hold oil and natural gas properties located in the Permian Basin. The results of operations of these properties have been included in the condensed consolidated financial statements since the acquisition date. The Company paid $330 million in cash and recorded a receivable from Henry of $7 million, resulting in total consideration for the acquisition of approximately $323 million. The transaction was financed with borrowings under the Company's Credit Facility.

On April 30, 2010, the Company completed the acquisition of interests in two wholly owned subsidiaries of HighMount Exploration & Production LLC ("HighMount") that hold oil and natural gas properties in the Antrim Shale located in northern Michigan. The results of operations of these properties have been included in the condensed consolidated financial statements since the acquisition date. The Company paid $327 million in cash. The transaction was financed with a portion of the net proceeds from the Company's March 2010 public offering of units.

On January 29, 2010, the Company completed the acquisition of certain oil and natural gas properties located in the Anadarko Basin in Oklahoma and Kansas and the Permian Basin in Texas and New Mexico from certain affiliates of Merit Energy Company ("Merit"). The results of operations of these properties have been included in the condensed consolidated financial statements since the acquisition date. The Company paid $152 million in cash and recorded a receivable from Merit of $1 million, resulting in total consideration for the acquisition of approximately $151 million. The transaction was financed with borrowings under the Company's Credit Facility.

8

LINN ENERGY, LLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Continued
(Unaudited)

Note 3 – Unitholders' Capital

Equity Distribution Agreement

On August 23, 2011, the Company entered into an equity distribution agreement, pursuant to which it may from time to time issue and sell units representing limited liability company interests having an aggregate offering price of up to $500 million. In connection with entering into the agreement, the Company incurred expenses of approximately $400,000. Sales of units, if any, will be made through a sales agent by means of ordinary brokers' transactions, in block transactions, or as otherwise agreed with the agent. The Company expects to use the net proceeds from any sale of the units for general corporate purposes, which may include, among other things, capital expenditures, acquisitions and the repayment of debt. In September 2011, the Company issued and sold 16,060 units representing limited liability company interests at an average unit price of $38.25 for proceeds of approximately $602,000 (net of approximately $12,000 in commissions). The net proceeds were used for general corporate purposes. At September 30, 2011, units equaling approximately $499 million in aggregate offering price remained available to be issued and sold under the agreement.

Public Offering of Units

In March 2011, the Company sold 16,726,067 units representing limited liability company interests at $38.80 per unit ($37.248 per unit, net of underwriting discount) for net proceeds of approximately $623 million (after underwriting discount and offering expenses of approximately $26 million). The Company used the net proceeds from the sale of these units to fund the March 2011 redemptions of a portion of the outstanding 2017 Senior Notes and 2018 Senior Notes and to fund the cash tender offers and related expenses for a portion of the remaining 2017 Senior Notes and 2018 Senior Notes (see Note 6). The Company used the remaining net proceeds from the sale of units to finance a portion of the March 31, 2011, acquisition in the Williston Basin.

Unit Repurchase Plan

In October 2008, the Board of Directors of the Company authorized the repurchase of up to $100 million of the Company's outstanding units from time to time on the open market or in negotiated purchases. In August 2011, the Company repurchased 400,000 units at an average unit price of $32.98 for a total cost of approximately $13 million. All units were subsequently canceled. At September 30, 2011, approximately $61 million was available for unit repurchase under the program. The timing and amounts of any such repurchases will be at the discretion of management, subject to market conditions and other factors, and in accordance with applicable securities laws and other legal requirements. The repurchase plan does not obligate the Company to acquire any specific number of units and may be discontinued at any time. Units are acquired at fair market value on the date of repurchase.

In October 2011, the Company repurchased 129,734 units at an average unit price of $32.08 for a total cost of approximately $4 million.

Distributions

Under the Company's limited liability company agreement, the Company's unitholders are entitled to receive a quarterly distribution of available cash to the extent there is sufficient cash from operations after establishment of cash reserves and payment of fees and expenses. Distributions paid by the Company during the nine months ended

September 30, 2011, are presented on the condensed consolidated statement of unitholders' capital. On October 24, 2011, the Company's Board of Directors declared a cash distribution of $0.69 per unit with respect to the third quarter of 2011. The distribution, totaling approximately $122 million, will be paid on November 14, 2011, to unitholders of record as of the close of business on November 4, 2011.

Table of Contents

LINN ENERGY, LLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Continued
(Unaudited)

Note 4 – Oil and Natural Gas Capitalized Costs

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

	September 30, 2011	December 31, 2010
	(in thousands)	
Proved properties:		
Leasehold acquisition	$ 5,483,984	$ 4,695,704
Development	1,262,251	840,175
Unproved properties	194,543	128,624
	6,940,778	5,664,503
Less accumulated depletion and amortization	(939,264)	(719,035)
	$ 6,001,514	$ 4,945,468

Note 5 – Unit-Based Compensation

During the nine months ended September 30, 2011, the Company granted an aggregate 1,089,502 restricted units to employees, primarily in January 2011 as part of its annual review of employee compensation, with an aggregate fair value of approximately $42 million. The restricted units vest over three years. A summary of unit-based compensation expenses included on the condensed consolidated statements of operations is presented below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(in thousands)			
General and administrative expenses	$ 5,320	$ 3,070	$ 16,014	$ 10,280
Lease operating expenses	258	76	745	266
Total unit-based compensation expenses	$ 5,578	$ 3,146	$ 16,759	$ 10,546
Income tax benefit	$ 2,061	$ 1,162	$ 6,192	$ 3,897

10

Table of Contents

Note 6 – Debt

The following summarizes debt outstanding:

	September 30, 2011			December 31, 2010		
	Carrying Value	Fair Value (1)	Interest Rate (2)	Carrying Value	Fair Value (1)	Interest Rate (2)
	(in millions, except percentages)					
Credit facility	$ 65	$ 65	2.92 %	$	$	
11.75% senior notes due 2017	41	47	12.73 %	250	288	12.73 %
9.875% senior notes due 2018	16	18	10.25 %	256	279	10.25 %
6.50% senior notes due 2019	750	687	6.62 %			
8.625% senior notes due 2020	1,300	1,334	9.00 %	1,300	1,396	9.00 %
7.75% senior notes due 2021	1,000	996	8.00 %	1,000	1,021	8.00 %
Less current maturities						
	3,172	$ 3,147		2,806	$ 2,984	
Unamortized discount	(53)			(63)		
Total debt, net of discount	$ 3,119			$ 2,743		

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

(2) Represents variable interest rate for the Credit Facility and effective interest rates for the senior notes.

Credit Facility

On May 2, 2011, the Company entered into a Fifth Amended and Restated Credit Agreement ("Credit Facility"), which provides for a revolving credit facility up to the lesser of: (i) the then-effective borrowing base and (ii) the maximum commitment amount of $1.5 billion. In October 2011, as part of the semi-annual redetermination, a borrowing base of $3.0 billion was approved by the lenders with the maximum commitment amount remaining unchanged at $1.5 billion. The maturity date is April 2016.

During 2011, in connection with amendments to its Credit Facility, the Company incurred financing fees and expenses of approximately $4 million, which will be amortized over the life of the Credit Facility. Such amortized expenses are recorded in "interest expense, net of amounts capitalized" on the condensed consolidated statements of operations. At September 30, 2011, available borrowing capacity under the Credit Facility was $1.43 billion, which includes a $4 million reduction in availability for outstanding letters of credit.

Redetermination of the borrowing base under the Credit Facility, based primarily on reserve reports that reflect commodity prices at such time, occurs semi-annually, in April and October, as well as upon requested interim redeterminations, by the lenders at their sole discretion. The Company also has the right to request one additional borrowing base redetermination per year at its discretion, as well as the right to an additional redetermination each year in connection with certain acquisitions. Significant declines in commodity prices may result in a decrease in the borrowing base. The Company's obligations under the Credit Facility are secured by mortgages on its and certain of its material subsidiaries' oil and natural gas properties and other personal property as well as a pledge of all ownership interests in its direct and indirect material subsidiaries. The Company and its subsidiaries are required to maintain the mortgages on properties representing at least 80% of the total value of its and its subsidiaries' oil and natural gas properties. Additionally, the obligations under the Credit Facility are guaranteed by all of the Company's material subsidiaries and are required to be guaranteed by any future material subsidiaries.

At the Company's election, interest on borrowings under the Credit Facility is determined by reference to either the London Interbank Offered Rate ("LIBOR") plus an applicable margin between 1.75% and 2.75% per annum (depending on the then-current level of borrowings under the Credit Facility) or the alternate base rate ("ABR") plus an applicable margin between 0.75% and 1.75% per annum (depending on the then-current level of borrowings under the Credit Facility). Interest is generally payable quarterly for loans bearing interest based on the ABR and at the end of the applicable interest period for loans bearing interest at LIBOR. The Company is required to pay a commitment fee to the lenders under the Credit Facility, which accrues at a rate per annum equal to 0.5% on the average daily unused amount of the lesser of: (i) the maximum commitment amount of the lenders and (ii) the then-effective borrowing base. The Company is in compliance with all financial and other covenants of the Credit Facility.

Senior Notes Due 2019

On May 13, 2011, the Company issued $750 million in aggregate principal amount of 6.50% senior notes due 2019 ("2019 Senior Notes") at a price of 99.232%. The 2019 Senior Notes were sold to a group of initial purchasers and then resold to qualified institutional buyers, each in transactions exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"). The Company received net proceeds of approximately $729 million (after deducting the initial purchasers' discount and offering expenses). The Company used a portion of the net proceeds to repay all of the outstanding indebtedness under its Credit Facility and to fund the Panther acquisition (see Note 2). The remaining proceeds were used for general corporate purposes. In connection with the 2019 Senior Notes, the Company incurred financing fees and expenses of approximately $15 million, which will be amortized over the life of the 2019 Senior Notes. The discount on the 2019 Senior Notes, which totaled approximately $6 million, will also be amortized over the life of the 2019 Senior Notes. Such amortized expenses are recorded in "interest expense, net of amounts capitalized" on the condensed consolidated statements of operations.

The 2019 Senior Notes were issued under an indenture dated May 13, 2011 ("2019 Indenture"), mature May 15, 2019, and bear interest at 6.50%. Interest is payable semi-annually on May 15 and November 15, beginning November 15, 2011. The 2019 Senior Notes are general unsecured senior obligations of the Company and are effectively junior in right of payment to any secured indebtedness of the Company to the extent of the collateral securing such indebtedness. Each of the Company's material subsidiaries has guaranteed the 2019 Senior Notes on a senior unsecured basis. The 2019 Indenture provides that the Company may redeem: (i) on or prior to May 15, 2014, up to 35% of the aggregate principal amount of the 2019 Senior Notes at a redemption price of 106.50% of the principal amount redeemed, plus accrued and unpaid interest, with the net cash proceeds of one or more equity offerings; (ii) prior to May 15, 2015, all or part of the 2019 Senior Notes at a redemption price equal to the principal amount redeemed, plus a make-whole premium (as defined in the 2019 Indenture) and accrued and unpaid interest; and (iii) on or after May 15, 2015, all or part of the 2019 Senior Notes at a redemption price equal to 103.250%, and decreasing percentages thereafter, of the principal amount redeemed, plus accrued and unpaid interest. The 2019 Indenture also provides that, if a change of control (as defined in the 2019 Indenture) occurs, the holders have a right to require the Company to repurchase all or part of the 2019 Senior Notes at a redemption price equal to 101%, plus accrued and unpaid interest.

The 2019 Indenture contains covenants substantially similar to those under the Company's 2010 Issued Senior Notes and Original Senior Notes, as defined below, that, among other things, limit the Company's ability to: (i) pay distributions on, purchase or redeem the Company's units or redeem its subordinated debt; (ii) make investments; (iii) incur or guarantee additional indebtedness or issue certain types of equity securities; (iv) create certain liens; (v) sell assets; (vi) consolidate, merge or transfer all or substantially all of the Company's assets; (vii) enter into agreements that restrict distributions or other payments from the Company's restricted subsidiaries to the Company; (viii) engage in transactions with affiliates; and (ix) create unrestricted subsidiaries. The Company is in compliance with all financial and other covenants of the 2019 Senior Notes.

Table of Contents

In connection with the issuance and sale of the 2019 Senior Notes, the Company entered into a Registration Rights Agreement (“2019 Registration Rights Agreement”) with the initial purchasers. Under the 2019 Registration Rights Agreement, the Company agreed to use its reasonable efforts to file with the SEC and cause to become effective a registration statement relating to an offer to issue new notes having terms substantially identical to the 2019 Senior Notes in exchange for outstanding 2019 Senior Notes within 400 days after the notes were issued. In certain circumstances, the Company may be required to file a shelf registration statement to cover resales of the 2019 Senior Notes. If the Company fails to satisfy these obligations, the Company may be required to pay additional interest to holders of the 2019 Senior Notes under certain circumstances.

Senior Notes Due 2020 and Senior Notes Due 2021

On April 6, 2010, the Company issued $1.30 billion in aggregate principal amount of 8.625% senior notes due 2020 (the “2020 Senior Notes”). On September 13, 2010, the Company issued $1.0 billion in aggregate principal amount of 7.75% senior notes due 2021 (the “2021 Senior Notes,” and together with the 2020 Senior Notes, the “2010 Issued Senior Notes”). The indentures related to the 2010 Issued Senior Notes contain redemption provisions and covenants that are substantially similar to those of the 2019 Senior Notes.

Senior Notes Due 2017 and Senior Notes Due 2018

The Company also has $41 million (originally $250 million) in aggregate principal amount of 11.75% senior notes due 2017 (the “2017 Senior Notes”) and $16 million (originally $256 million) in aggregate principal amount of 9.875% senior notes due 2018 (the “2018 Senior Notes” and together with the 2017 Senior Notes, the “Original Senior Notes”). The indentures related to the Original Senior Notes originally contained redemption provisions and covenants that were substantially similar to those of the 2010 Issued Senior Notes; however, in connection with the tender offers described below, the indentures were amended and most of the covenants and certain default provisions were eliminated.

Redemptions of Original Senior Notes

In March 2011, in accordance with the provisions of the indentures related to the 2017 Senior Notes and the 2018 Senior Notes, the Company redeemed 35%, or $87 million and $90 million, respectively, of each of the original aggregate principal amount of the 2017 Senior Notes and 2018 Senior Notes. After the redemptions, $163 million and $166 million, respectively, of the 2017 Senior Notes and 2018 Senior Notes remained outstanding.

Tender Offers for and Repurchase of Original Senior Notes

On February 28, 2011, the Company commenced cash tender offers (“Offers”) and related consent solicitations to purchase any and all of its outstanding 2017 Senior Notes and 2018 Senior Notes. The Offers expired on March 25, 2011. Holders who validly tendered 2017 Senior Notes and 2018 Senior Notes on or before March 14, 2011, received the total consideration of $1,212.50 and $1,172.50, respectively, for each $1,000 principal amount of such notes accepted for purchase. Total consideration included a consent payment of $30.00 per $1,000 principal amount of notes accepted for purchase. Holders who validly tendered 2017 Senior Notes and 2018 Senior Notes after March 14, 2011, but before March 25, 2011, received $1,182.50 and $1,142.50, respectively, for each $1,000 principal amount of such notes accepted for purchase.

13

During March 2011, the Company accepted and purchased: 1) $105 million of the aggregate principal amount of the outstanding 2017 Senior Notes (or 65% of the remaining outstanding principal amount of the 2017 Senior Notes), and 2) $126 million of the aggregate principal amount of the outstanding 2018 Senior Notes (or 76% of the remaining outstanding principal amount of the 2018 Senior Notes).

In conjunction with each tender offer, the Company received consents to amendments to the indentures of the 2017 Senior Notes and 2018 Senior Notes, which eliminated most of the covenants and certain default provisions applicable to the series of notes issued under such indentures. The amendments became effective upon the execution of the supplemental indentures to the indentures governing each of the 2017 Senior Notes and the 2018 Senior Notes.

In June 2011, the Company repurchased an additional portion of its remaining outstanding 2017 Senior Notes and 2018 Senior Notes for $17 million (or 29% of the remaining outstanding principal amount of the 2017 Senior Notes) and $24 million (or 61% of the remaining outstanding principal amount of the 2018 Senior Notes), respectively. After giving effect to the tender offers and subsequent repurchases of the 2017 Senior Notes and the 2018 Senior Notes, aggregate principal amounts of $41 million and $16 million, respectively, remain outstanding at September 30, 2011.

In connection with the redemptions, cash tender offers and additional repurchases of a portion of the Original Senior Notes, the Company recorded a loss on extinguishment of debt of approximately $94 million for the nine months ended September 30, 2011.

Note 7 – Derivatives

Commodity Derivatives

The Company utilizes derivative instruments to minimize the variability in cash flow due to commodity price movements. The Company enters into derivative instruments such as swap contracts, put options and collars to economically hedge its forecasted oil, natural gas and NGL sales. The Company did not designate any of these contracts as cash flow hedges; therefore, the changes in fair value of these instruments are recorded in current earnings. See Note 8 for fair value disclosures about oil and natural gas commodity derivatives.

Table of Contents

LINN ENERGY, LLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Continued
(Unaudited)

The following table summarizes open positions as of September 30, 2011, and represents, as of such date, derivatives in place through December 31, 2015, on annual production volumes:

	October 1 – December 31, 2011	2012	2013	2014	2015
Natural gas positions:					
Fixed price swaps:					
Hedged volume (MMMBtu)	7,975	49,410	57,067	66,156	75,190
Average price ($/MMBtu)	$ 9.50	$ 6.10	$ 5.88	$ 5.86	$ 5.90
Puts:					
Hedged volume (MMMBtu)	4,850	25,364	25,295	23,178	23,178
Average price ($/MMBtu)	$ 5.97	$ 6.25	$ 6.25	$ 5.00	$ 5.00
PEPL puts: (1)					
Hedged volume (MMMBtu)	3,315				
Average price ($/MMBtu)	$ 8.50	$	$	$	$
Total:					
Hedged volume (MMMBtu)	16,140	74,774	82,362	89,334	98,368
Average price ($/MMBtu)	$ 8.24	$ 6.15	$ 6.00	$ 5.64	$ 5.69
Oil positions:					
Fixed price swaps: (2)					
Hedged volume (MBbls)	1,466	7,741	8,413	9,034	9,581
Average price ($/Bbl)	$ 91.82	$ 97.34	$ 98.27	$ 95.39	$ 98.25
Puts:					
Hedged volume (MBbls)	588	2,196	2,190		
Average price ($/Bbl)	$ 75.00	$ 90.00	$ 90.00	$	$
Collars:					
Hedged volume (MBbls)	69				
Average floor price ($/Bbl)	$ 90.00	$	$	$	$
Average ceiling price ($/Bbl)	$ 112.25	$	$	$	$
Total:					
Hedged volume (MBbls)	2,123	9,937	10,603	9,034	9,581
Average price ($/Bbl)	$ 87.10	$ 95.72	$ 96.56	$ 95.39	$ 98.25
Natural gas basis differential positions:					
PEPL basis swaps: (1)					
Hedged volume (MMMBtu)	8,885	37,735	38,854	42,194	42,194
Hedged differential ($/MMBtu)	$ (0.96)	$ (0.89)	$ (0.89)	$ (0.39)	$ (0.39)
Oil timing differential positions:					

Trade month roll swaps: (3)									
Hedged volume (MBbls)		1,380		5,490		5,475		5,475	
Hedged differential ($/Bbl)	$	0.22	$	0.22	$	0.22	$	0.22	$

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

Table of Contents

(2) As presented in the table above, the Company has certain outstanding fixed price oil swaps on 14,750 Bbls of daily production which may be extended annually at a price of $100.00 per Bbl for each of the years ending December 31, 2016, December 31, 2017, and December 31, 2018, if the counterparties determine that the strike prices are in-the-money on a designated date in each respective preceding year. The extension for each year is exercisable without respect to the other years.

(3) The Company hedges the timing risk associated with the sales price of oil in the Mid-Continent Deep, Mid-Continent Shallow and Permian Basin regions. In these regions, the Company generally sells oil for the delivery month at a sales price based on the average NYMEX price of light oil during that month, plus an adjustment calculated as a spread between the weighted average prices of the delivery month, the next month and the following month during the period when the delivery month is prompt (the "trade month roll").

During the nine months ended September 30, 2011, the Company entered into commodity derivative contracts consisting of oil and natural gas swaps for certain years through 2016 and oil trade month roll swaps for October 2011 through December 2014. In September 2011, the Company canceled its oil and natural gas swaps for the year 2016 and used the realized gains of approximately $27 million to increase prices on its existing oil and natural gas swaps for the year 2012. In addition, in September 2011, the Company paid premiums of approximately $33 million to increase prices on its existing oil puts for the years 2012 and 2013.

Settled derivatives on natural gas production for the three months and nine months ended September 30, 2011, included volumes of 16,140 MMMBtu and 48,317 MMMBtu, respectively, at an average contract price of $8.24 per MMBtu. Settled derivatives on oil production for the three months and nine months ended September 30, 2011, included volumes of 2,123 MBbls and 5,794 MBbls, respectively, at average contract prices of $87.10 per Bbl and $85.19 per Bbl. The natural gas derivatives are settled based on the closing NYMEX future price of natural gas or the published PEPL spot price of natural gas on the settlement date, which occurs on the third day preceding the production month. The oil derivatives are settled based on the month's average daily NYMEX price of light oil and settlement occurs on the final day of the production month.

Interest Rate Swaps

The Company may from time to time enter 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 counterparty the difference, and conversely, the counterparty is required to pay the Company if LIBOR is higher than the fixed rate in the contract. The Company does not designate interest rate swap agreements as cash flow hedges; therefore, the changes in fair value of these instruments are recorded in current earnings. At September 30, 2011, the Company had no outstanding interest rate swap agreements.

Table of Contents

LINN ENERGY, LLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Continued
(Unaudited)

Balance Sheet Presentation

The Company's commodity derivatives and, when applicable, its 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:

	September 30, 2011	December 31, 2010
	(in thousands)	
Assets:		
Commodity derivatives	$ 980,187	$ 637,836
Liabilities:		
Commodity derivatives	$ 210,654	$ 398,902

By using derivative instruments to economically hedge exposures to changes in commodity prices and interest rates, when applicable, the Company exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Company, which creates credit risk. The Company's counterparties are current participants or affiliates of participants in its Credit Facility or were participants or affiliates of participants in its Credit Facility at the time it originally entered into the derivatives. The Credit Facility is secured by the Company's oil and natural gas reserves; therefore, the Company is not required to post any collateral. The Company does not receive collateral from its counterparties. The maximum amount of loss due to credit risk that the Company would incur if its counterparties failed completely to perform according to the terms of the contracts, based on the gross fair value of financial instruments, was approximately $980 million at September 30, 2011. The Company minimizes the credit risk in derivative instruments by: (i) limiting its exposure to any single counterparty; (ii) entering into derivative instruments only with counterparties that meet the Company's minimum credit quality standard, or have a guarantee from an affiliate that meets the Company's minimum credit quality standard; and (iii) monitoring the creditworthiness of the Company's counterparties on an ongoing basis. In accordance with the Company's standard practice, its commodity derivatives and, when applicable, its interest rate derivatives are subject to counterparty netting under agreements governing such derivatives and therefore the risk of loss is somewhat mitigated.

Gains (Losses) on Derivatives

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

Table of Contents

LINN ENERGY, LLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Continued
(Unaudited)

The following presents the Company's reported gains and losses on derivative instruments:

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
	(in thousands)			
Realized gains (losses):				
Commodity derivatives	$ 65,036	$ 82,910	$ 162,926	$ 228,573
Interest rate swaps				(8,021)
Canceled derivatives	26,752	(49,590)	26,752	(123,865)
	$ 91,788	$ 33,320	$ 189,678	$ 96,687
Unrealized gains (losses):				
Commodity derivatives	$ 732,452	$ (39,405)	$ 470,601	$ 34,726
Interest rate swaps		38,089		63,978
	$ 732,452	$ (1,316)	$ 470,601	$ 98,704
Total gains (losses):				
Commodity derivatives	$ 824,240	$ 43,505	$ 660,279	$ 263,299
Interest rate swaps		(11,501)		(67,908)
	$ 824,240	$ 32,004	$ 660,279	$ 195,391

In September 2011, the Company canceled (before the contract settlement date) its oil and natural gas swaps for the year 2016 and used the realized gains of approximately $27 million to increase prices on its existing oil and natural gas swaps for the year 2012. During the three months and nine months ended September 30, 2010, the Company canceled (before the contract settlement date) all of its interest rate swap agreements resulting in realized losses of approximately $50 million and $124 million, respectively.

Note 8 – Fair Value Measurements on a Recurring Basis

The Company accounts for its commodity derivatives and, when applicable, its interest rate derivatives at fair value (see Note 7) on a recurring basis. The fair value of derivative instruments is determined utilizing pricing models for significantly similar instruments. Inputs to the pricing models include publicly available prices and forward price curves generated from a compilation of data gathered from third parties. Assumed credit risk adjustments, based on published credit ratings, public bond yield spreads and credit default swap spreads, are applied to the Company's commodity derivatives and, when applicable, its interest rate derivatives.

The following presents the fair value hierarchy for assets and liabilities measured at fair value on a recurring basis:

	September 30, 2011 Level 2	September 30, 2011 Netting (1)	September 30, 2011 Total
	(in thousands)		
Assets:			
Commodity derivatives	$ 980,187	$ (203,774)	$ 776,413
Liabilities:			
Commodity derivatives	$ 210,654	$ (203,774)	$ 6,880

(1) Represents counterparty netting under agreements governing such derivatives.

Table of Contents

LINN ENERGY, LLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Continued
(Unaudited)

Note 9 – Asset Retirement Obligations

Asset retirement obligations associated with retiring tangible long-lived assets are recognized as a liability in the period in which a legal obligation is incurred and becomes determinable and are included in "other noncurrent liabilities" on the condensed consolidated balance sheets. Accretion expense is included in "depreciation, depletion and amortization" on the condensed consolidated statements of operations. The fair value of additions to the asset retirement obligations is estimated using valuation techniques that convert future cash flows to a single discounted amount. Significant inputs to the valuation include estimates of: (i) plug and abandon costs per well based on existing regulatory requirements; (ii) remaining life per well; (iii) future inflation factors (2.0% for the nine months ended September 30, 2011); and (iv) a credit-adjusted risk-free interest rate (average of 7.5% for the nine months ended September 30, 2011).

The following presents a reconciliation of the asset retirement obligations (in thousands):

Asset retirement obligations at December 31, 2010	$42,945
Liabilities added from acquisitions	6,966
Liabilities added from drilling	917
Current year accretion expense	2,816
Settlements	(1,214)
Revision of estimate	787
Asset retirement obligations at September 30, 2011	$53,217

Note 10 – Commitments and Contingencies

The Company has been named as a defendant in a number of lawsuits, including claims from royalty owners related to disputed royalty payments and royalty valuations. The Company has established reserves that management currently believes are adequate to provide for potential liabilities based upon its evaluation of these matters. For a certain statewide class action royalty payment dispute where a reserve has not yet been established, the Company has denied that it has any liability on the claims and has raised arguments and defenses that, if accepted by the court, will result in no loss to the Company. Discovery in this dispute is ongoing and is not complete. As a result, the Company is unable to estimate a possible loss, or range of possible loss, if any. In addition, the Company is involved in various other disputes arising 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 overall business, financial position, results of operations or liquidity; however, cash flow could be significantly impacted in the reporting periods in which such matters are resolved.

Note 11 – Earnings Per Unit

Basic earnings per unit is computed by dividing net earnings attributable to unitholders by the weighted average number of units outstanding during each period. Diluted earnings per unit is computed by adjusting the average number of units outstanding for the dilutive effect, if any, of unit equivalents. The Company uses the treasury stock method to determine the dilutive effect.

19

Table of Contents

LINN ENERGY, LLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Continued
(Unaudited)

The following table provides a reconciliation of the numerators and denominators of the basic and diluted per unit computations for net income:

	Net Income (Numerator) (in thousands)	Units (Denominator)	Per Unit Amount
Three months ended September 30, 2011:			
Net income:			
Allocated to units	$ 837,627		
Allocated to unvested restricted units	(8,774)		
	$ 828,853		
Net income per unit:			
Basic net income per unit		174,956	$ 4.74
Dilutive effect of unit equivalents		688	(0.02)
Diluted net income per unit		175,644	$ 4.72
Three months ended September 30, 2010:			
Net income:			
Allocated to units	$ 4,143		
Allocated to unvested restricted units	(46)		
	$ 4,097		
Net income per unit:			
Basic net income per unit		145,956	$ 0.03
Dilutive effect of unit equivalents		502	
Diluted net income per unit		146,458	$ 0.03
Nine months ended September 30, 2011:			
Net income:			
Allocated to units	$ 628,054		
Allocated to unvested restricted units	(6,662)		
	$ 621,392		
Net income per unit:			
Basic net income per unit		171,076	$ 3.63
Dilutive effect of unit equivalents		749	(0.01)
Diluted net income per unit		171,825	$ 3.62
Nine months ended September 30, 2010:			
Net income:			
Allocated to units	$ 129,239		
Allocated to unvested restricted units	(1,361)		
	$ 127,878		

Net income per unit:			
Basic net income per unit	140,598	$	0.91
Dilutive effect of unit equivalents	408		
Diluted net income per unit	141,006	$	0.91

There were no anti-dilutive unit equivalents for the three months or nine months ended September 30, 2011. Basic units outstanding excludes the effect of weighted average anti-dilutive unit equivalents related to approximately 300,000 and 600,000 unit options and warrants for the three months and nine months ended September 30, 2010, respectively.

Table of Contents

LINN ENERGY, LLC

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Continued
(Unaudited)

Note 12 – Income Taxes

The Company is a limited liability company treated as a partnership for federal and state income tax purposes, with the exception of the states of Texas and Michigan, with income tax liabilities and/or benefits of the Company passed through to unitholders. Limited liability companies are subject to state income taxes in Texas and Michigan and certain of the Company's subsidiaries are Subchapter C-corporations subject to federal and state income taxes. As such, with the exception of the states of Texas and Michigan and certain subsidiaries, the Company is not a taxable entity, it does not directly pay federal and state income taxes and recognition has not been given to federal and state income taxes for the operations of the Company. Amounts recognized for these taxes are reported in "income tax expense" on the condensed consolidated statements of operations.

Note 13 – Supplemental Disclosures to the Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Cash Flows

"Other accrued liabilities" reported on the condensed consolidated balance sheets include the following:

	September 30, 2011	December 31, 2010
	(in thousands)	
Accrued compensation	$ 14,651	$ 18,931
Accrued interest	76,032	62,999
Other	1,140	509
	$ 91,823	$ 82,439

Supplemental disclosures to the condensed consolidated statements of cash flows are presented below:

	Nine Months Ended September 30,	
	2011	2010
	(in thousands)	
Cash payments for interest, net of amounts capitalized	$ 163,345	$ 55,404
Cash payments for income taxes	$ 487	$ 1,785
Noncash investing activities:		
In connection with the acquisition of oil and natural gas properties, liabilities were assumed as follows:		
Fair value of assets acquired	$ 854,224	$ 896,999
Cash paid, net of cash acquired	(846,976)	(872,621)
Receivables from sellers	2,662	12,620
Payables to sellers	(6,662)	—
Liabilities assumed	$ 3,248	$ 36,998

For purposes of the condensed consolidated statements 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 approximately $4 million and $3 million is included in “other noncurrent assets” on the condensed consolidated balance sheets at September 30, 2011, and December 31, 2010, respectively, and represents cash deposited by the Company into a separate account and designated for asset retirement obligations in accordance with contractual agreements.

Table of Contents

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

The following discussion contains forward-looking statements that reflect the Company's future plans, estimates, beliefs and expected performance. The forward-looking statements are dependent upon events, risks and uncertainties that may be outside the Company's control. The Company's actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, market prices for oil, natural gas and NGL, production volumes, estimates of proved reserves, capital expenditures, economic and competitive conditions, credit and capital market conditions, regulatory changes and other uncertainties, as well as those factors set forth in "Cautionary Statement" below and in Item 1A. "Risk Factors" in this Quarterly Report on Form 10-Q and in the Annual Report on Form 10-K for the year ended December 31, 2010, and elsewhere in the Annual Report. In light of these risks, uncertainties and assumptions, the forward-looking events discussed may not occur.

The following discussion and analysis should be read in conjunction with the financial statements and related notes included in this Quarterly Report on Form 10-Q and in the Company's Annual Report on Form 10-K for the year ended December 31, 2010. A reference to a "Note" herein refers to the accompanying Notes to Condensed Consolidated Financial Statements contained in Item 1. "Financial Statements."

Executive Overview

LINN Energy's mission is to acquire, develop and maximize cash flow from a growing portfolio of long-life oil and natural gas assets. LINN Energy is an independent oil and natural gas company that began operations in March 2003 and completed its IPO in January 2006. The Company's properties are located in six operating regions in the United States ("U.S."):

- Mid-Continent Deep, which includes the Texas Panhandle Deep Granite Wash formation and deep formations in Oklahoma and Kansas;
- Mid-Continent Shallow, which includes the Texas Panhandle Brown Dolomite formation and shallow formations in Oklahoma, Louisiana and Illinois;
- Permian Basin, which includes areas in West Texas and Southeast New Mexico;
- Williston Basin, which includes the Bakken formation in North Dakota;