LINN ENERGY, LLC
Form 10-Q
May 01, 2014

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, 2014

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨
Indicate by check mark whether registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
As of March 31, 2014, there were 331,405,514 units outstanding.

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## GLOSSARY OF TERMS

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

Bbl. One stock tank barrel or 42 United States gallons liquid volume.
Bcf. One billion cubic feet.
Bcfe. One billion cubic feet equivalent, determined using a ratio of six Mcf of natural gas to one Bbl of oil, condensate or natural gas liquids.
Btu. One British thermal unit, which is the heat required to raise the temperature of a one-pound mass of water from 58.5 degrees to 59.5 degrees Fahrenheit.
MBbls. One thousand barrels of oil or other liquid hydrocarbons.
MBbls/d. MBbls per day.
Mcf. One thousand cubic feet.
Mcfe. One thousand cubic feet equivalent, determined using the ratio of six Mcf of natural gas to one Bbl of oil, condensate or natural gas liquids.
MMBbls. One million barrels of oil or other liquid hydrocarbons.
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.
NGL. Natural gas liquids, which are the hydrocarbon liquids contained within natural gas.

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

| | March 31, 2014 | December 31, 2013 |
|---|---|---|
| | (in thousands, except unit amounts) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $68,314 | $52,171 |
| Accounts receivable – trade, net | 522,945 | 488,202 |
| Derivative instruments | 115,171 | 176,130 |
| Other current assets | 92,075 | 99,437 |
| Total current assets | 798,505 | 815,940 |
| | | |
| Noncurrent assets: | | |
| Oil and natural gas properties (successful efforts method) | 18,291,878 | 17,888,559 |
| Less accumulated depletion and amortization | (3,796,841) | (3,546,284) |
| | 14,495,037 | 14,342,275 |
| | | |
| Other property and equipment | 659,815 | 647,882 |
| Less accumulated depreciation | (123,191) | (110,939) |
| | 536,624 | 536,943 |
| | | |
| Derivative instruments | 519,392 | 682,002 |
| Other noncurrent assets | 125,130 | 127,804 |
| | 644,522 | 809,806 |
| Total noncurrent assets | 15,676,183 | 15,689,024 |
| Total assets | $16,474,688 | $16,504,964 |
| | | |
| LIABILITIES AND UNITHOLDERS' CAPITAL | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $797,460 | $849,624 |
| Derivative instruments | 35,347 | 28,176 |
| Other accrued liabilities | 189,562 | 163,375 |
| Current portion of long-term debt | 207,502 | 211,558 |
| Total current liabilities | 1,229,871 | 1,252,733 |
| | | |
| Noncurrent liabilities: | | |
| Credit facilities | 3,033,175 | 2,733,175 |
| Term loan | 500,000 | 500,000 |
| Senior notes, net | 5,725,383 | 5,725,483 |
| Derivative instruments | 891 | 4,649 |
| Other noncurrent liabilities | 394,416 | 397,497 |
| Total noncurrent liabilities | 9,653,865 | 9,360,804 |
| | | |
| Commitments and contingencies (Note 10) | | |

| | | |
|---|---|---|
| Unitholders' capital: | | |
| 331,405,514 units and 329,661,161 units issued and outstanding at March 31, 2014, and December 31, 2013, respectively | 6,076,686 | 6,291,824 |
| Accumulated deficit | (485,734) | (400,397) |
| | 5,590,952 | 5,891,427 |
| Total liabilities and unitholders' capital | $16,474,688 | $16,504,964 |

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

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LINN ENERGY, LLC
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| | Three Months Ended March 31, 2014 | 2013 |
|---|---|---|
| | (in thousands, except per unit amounts) | |
| Revenues and other: | | |
| Oil, natural gas and natural gas liquids sales | $938,877 | $462,732 |
| Losses on oil and natural gas derivatives | (241,493) | (108,370) |
| Marketing revenues | 30,546 | 9,852 |
| Other revenues | 5,657 | 4,846 |
| | 733,587 | 369,060 |
| Expenses: | | |
| Lease operating expenses | 194,033 | 88,721 |
| Transportation expenses | 45,630 | 27,183 |
| Marketing expenses | 21,072 | 7,374 |
| General and administrative expenses | 79,228 | 58,566 |
| Exploration costs | 1,091 | 2,226 |
| Depreciation, depletion and amortization | 267,801 | 197,441 |
| Impairment of long-lived assets | — | 57,053 |
| Taxes, other than income taxes | 65,713 | 39,671 |
| Losses on sale of assets and other, net | 2,586 | 3,172 |
| | 677,154 | 481,407 |
| Other income and (expenses): | | |
| Interest expense, net of amounts capitalized | (133,813) | (100,359) |
| Other, net | (2,303) | (1,643) |
| | (136,116) | (102,002) |
| Loss before income taxes | (79,683) | (214,349) |
| Income tax expense | 5,654 | 7,536 |
| Net loss | $(85,337) | $(221,885) |
| | | |
| Net loss per unit: | | |
| Basic | $(0.27) | $(0.96) |
| Diluted | $(0.27) | $(0.96) |
| Weighted average units outstanding: | | |
| Basic | 328,329 | 233,176 |
| Diluted | 328,329 | 233,176 |
| | | |
| Distributions declared per unit | $0.725 | $0.725 |

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

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LINN ENERGY, LLC
CONDENSED CONSOLIDATED STATEMENT OF UNITHOLDERS' CAPITAL
(Unaudited)

| | Units | Unitholders' Capital | Accumulated Deficit | Total Unitholders' Capital |
|---|---|---|---|---|
| | (in thousands) | | | |
| December 31, 2013 | 329,661 | $6,291,824 | $(400,397) | $5,891,427 |
| Issuance of units | 1,745 | 1,978 | — | 1,978 |
| Distributions to unitholders | | (240,073) | — | (240,073) |
| Unit-based compensation expenses | | 21,500 | — | 21,500 |
| Excess tax benefit from unit-based compensation | | 1,457 | — | 1,457 |
| Net loss | | — | (85,337) | (85,337) |
| March 31, 2014 | 331,406 | $6,076,686 | $(485,734) | $5,590,952 |

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

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LINN ENERGY, LLC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | Three Months Ended March 31, 2014 | 2013 |
|---|---|---|
| | (in thousands) | |
| Cash flow from operating activities: | | |
| Net loss | $(85,337) | $(221,885) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation, depletion and amortization | 267,801 | 197,441 |
| Impairment of long-lived assets | — | 57,053 |
| Unit-based compensation expenses | 21,500 | 11,262 |
| Amortization and write-off of deferred financing fees | 2,313 | 5,412 |
| Losses on sale of assets and other, net | 1,327 | 15,306 |
| Deferred income taxes | 5,584 | 7,503 |
| Derivatives activities: | | |
| Total losses | 241,493 | 108,370 |
| Cash settlements | (14,511) | 85,794 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in accounts receivable – trade, net | (34,337) | 55,544 |
| Increase in other assets | (4,176) | (1,327) |
| Increase (decrease) in accounts payable and accrued expenses | 16,105 | (13,609) |
| Increase in other liabilities | 16,720 | 27,730 |
| Net cash provided by operating activities | 434,482 | 334,594 |
| | | |
| Cash flow from investing activities: | | |
| Acquisition of oil and natural gas properties and joint-venture funding | (25,345) | (15,128) |
| Development of oil and natural gas properties | (394,843) | (235,804) |
| Purchases of other property and equipment | (10,151) | (25,843) |
| Proceeds from sale of properties and equipment and other | (10,686) | (2,224) |
| Net cash used in investing activities | (441,025) | (278,999) |
| | | |
| Cash flow from financing activities: | | |
| Proceeds from borrowings | 540,000 | 300,000 |
| Repayments of debt | (241,188) | (145,000) |
| Distributions to unitholders | (240,073) | (170,954) |
| Financing fees and other, net | (37,510) | (34,850) |
| Excess tax benefit from unit-based compensation | 1,457 | — |
| Net cash provided by (used in) financing activities | 22,686 | (50,804) |
| | | |
| Net increase in cash and cash equivalents | 16,143 | 4,791 |
| Cash and cash equivalents: | | |
| Beginning | 52,171 | 1,243 |
| Ending | $68,314 | $6,034 |

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

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

Note 1 – Basis of Presentation

Nature of Business

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

Principles of Consolidation and Reporting

The information reported herein reflects all normal recurring adjustments that are, in the opinion of management, necessary for the fair presentation of the results for the interim periods. Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been condensed or omitted under Securities and Exchange Commission ("SEC") rules and regulations; as such, this report should be read in conjunction with the financial statements and notes in the Company's Annual Report on Form 10 K for the year ended December 31, 2013. The results reported in these unaudited condensed consolidated financial statements should not necessarily be taken as indicative of results that may be expected for the entire year.

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

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

Use of Estimates

The preparation of the accompanying condensed consolidated financial statements in conformity with GAAP requires 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 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.

Note 2 – Acquisitions, Joint-Venture Funding and Divestiture

For the three months ended March 31, 2014, the Company paid approximately $25 million, including interest, towards the future funding commitment related to the joint-venture agreement it entered into with an affiliate of Anadarko Petroleum Corporation ("Anadarko") in April 2012. As of February 2014, the Company had fully funded the total commitment of $400 million.

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During the three months ended March 31, 2014, the Company completed small acquisitions of oil and natural gas properties located in its various operating regions. The Company, in the aggregate, paid approximately $600,000 in total consideration for these properties.

Acquisitions - 2013

Berry Acquisition

On December 16, 2013, the Company completed the transactions contemplated by the merger agreement between the Company, LinnCo, LLC ("LinnCo"), an affiliate of LINN Energy, and Berry Petroleum Company, now Berry Petroleum Company, LLC ("Berry"), under which LinnCo acquired all of the outstanding common shares of Berry and the contribution agreement between LinnCo and the Company, under which LinnCo contributed Berry to the Company in exchange for LINN Energy units. Under the merger agreement, as amended, Berry's shareholders received 1.68 LinnCo common shares for each Berry common share they owned, totaling 93,756,674 LinnCo common shares. Under the contribution agreement, LinnCo contributed Berry to LINN Energy in exchange for 93,756,674 newly issued LINN Energy units, after which Berry became an indirect wholly owned subsidiary of LINN Energy. The transaction has a value of approximately $4.6 billion, including the assumption of approximately $2.3 billion of Berry's debt and net of cash acquired of approximately $451 million.

This acquisition was 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 fair values on the acquisition date, while transaction and integration costs associated with the acquisitions were expensed as incurred. The initial accounting for the business combination 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 date. The results of operations of the acquisition have been included in the condensed consolidated financial statements since the acquisition date.

The following unaudited pro forma financial information presents a summary of the Company's consolidated results of operations for the three months ended March 31, 2013, assuming the Berry acquisition had been completed as of January 1, 2013, including adjustments to reflect the values assigned to the net assets acquired:

| | Three Months Ended March 31, 2013 (in thousands, except per unit amounts) |
|---|---|
| Total revenues and other | $645,209 |
| Total operating expenses | $669,912 |
| Net loss | $(157,320) |
| Net loss per unit: | |
| Basic | $(0.49) |
| Diluted | $(0.49) |

The pro forma condensed combined statement of operations includes adjustments to:

- Reflect the results of Berry.
- Reflect incremental depreciation, depletion and amortization expense, using the units-of-production method, related to oil and natural gas properties acquired and using an estimated useful life of 20 years for other property and equipment.
- Reflect a reduction in interest expense related to the amortization of the adjustment to fair value of Berry's debt using the effective interest method.

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

- Exclude transaction costs included in the historical statement of operations for the three months ended March 31, 2013, as they reflect nonrecurring charges not expected to have a continuing impact on the combined results.
- Reflect approximately 93.8 million LINN Energy units assumed to be issued in conjunction with the transaction on January 1, 2013.

Divestiture – 2013

On May 31, 2013, the Company, through one of its wholly owned subsidiaries, together with the Company's partners, Panther Energy, LLC and Red Willow Mid-Continent, LLC, completed the sale of its interests in certain oil and natural gas properties located in the Mid-Continent region ("Panther Operated Cleveland Properties") to Midstates Petroleum Company, Inc. At March 31, 2013, the carrying value of these properties was reduced to fair value less costs to sell, resulting in an impairment charge of approximately $57 million for the three months ended March 31, 2013. The fair value was estimated using Level 2 inputs consisting of the mutually agreed upon selling price the Company expected to receive upon the sale, and the properties were classified as "assets held for sale" at March 31, 2013. The charge is included in "impairment of long-lived assets" on the condensed consolidated statement of operations.

Note 3 – Unitholders' Capital

Distributions

Under the Company's limited liability company agreement, unitholders are entitled to receive a distribution of available cash, which includes cash on hand plus borrowings less any reserves established by the Company's Board of Directors to provide for the proper conduct of the Company's business (including reserves for future capital expenditures, including drilling, acquisitions and anticipated future credit needs) or to fund distributions over the next four quarters. Distributions paid by the Company are presented on the condensed consolidated statement of unitholders' capital and the condensed consolidated statements of cash flows. On April 1, 2014, the Company's Board of Directors declared a cash distribution of $0.725 per unit with respect to the first quarter of 2014, to be paid in three equal installments of $0.2416 per unit. The first monthly distribution with respect to the first quarter of 2014, totaling approximately $80 million, was paid on April 16, 2014, to unitholders of record as of the close of business on April 11, 2014.

Note 4 – Oil and Natural Gas Properties

Oil and Natural Gas Capitalized Costs

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

| | March 31, 2014 | December 31, 2013 |
|---|---|---|
| | (in thousands) | |
| Proved properties: | | |
| Leasehold acquisition | $12,282,858 | $12,277,089 |
| Development | 4,072,492 | 3,660,277 |
| Unproved properties | 1,936,528 | 1,951,193 |
| | 18,291,878 | 17,888,559 |
| Less accumulated depletion and amortization | (3,796,841) | (3,546,284) |
| | $14,495,037 | $14,342,275 |

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

Note 5 – Unit-Based Compensation

During the three months ended March 31, 2014, the Company granted 1,435,342 restricted units and 214,875 phantom units to employees, primarily as part of its annual review of its employees' compensation, including executives, with an aggregate fair value of approximately $55 million. The restricted units and phantom units vest over three years. The Company also granted 212,524 performance units (the maximum number of units available to be earned) to certain executive officers, with an aggregate fair value of approximately $5 million. The initial 2014 performance unit awards vest 50% in two years and 50% in three years from the award date. A summary of unit-based compensation expenses included on the condensed consolidated statements of operations is presented below:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2014 | 2013 |
| | (in thousands) | |
| General and administrative expenses | $18,223 | $9,865 |
| Lease operating expenses | 3,277 | 1,397 |
| Total unit-based compensation expenses | $21,500 | $11,262 |
| Income tax benefit | $7,944 | $4,161 |

Note 6 – Debt

The following summarizes the Company's outstanding debt:

| | March 31, 2014 | December 31, 2013 |
|---|---|---|
| | (in thousands, except percentages) | |
| Berry credit facility (1) | $1,173,175 | $1,173,175 |
| LINN credit facility (2) | 1,860,000 | 1,560,000 |
| Term loan (1) | 500,000 | 500,000 |
| 10.25% Berry senior notes due June 2014 | 204,936 | 205,257 |
| 6.50% senior notes due May 2019 | 750,000 | 750,000 |
| 6.25% senior notes due November 2019 | 1,800,000 | 1,800,000 |
| 8.625% senior notes due April 2020 | 1,300,000 | 1,300,000 |
| 6.75% Berry senior notes due November 2020 | 299,970 | 300,000 |
| 7.75% senior notes due February 2021 | 1,000,000 | 1,000,000 |
| 6.375% Berry senior notes due September 2022 | 599,163 | 600,000 |
| Net unamortized discounts and premiums | (21,184) | (18,216) |
| Total debt, net | 9,466,060 | 9,170,216 |
| Less current maturities | (207,502) | (211,558) |
| Total long-term debt, net | $9,258,558 | $8,958,658 |

(1) Variable interest rates of 2.66% and 2.67% at March 31, 2014, and December 31, 2013, respectively.
(2) Variable interest rates of 1.90% and 1.92% at March 31, 2014, and December 31, 2013, respectively.

Fair Value

The Company's debt is recorded at the carrying amount in the condensed consolidated balance sheets. The carrying amounts of the Company's Credit Facilities, as defined below, and term loan approximate fair value because the interest rates are variable and reflective of market rates. The Company uses a market approach to determine the fair value of its senior notes using estimates based on prices quoted from third-party financial institutions, which is a Level 2 fair value measurement.

| | March 31, 2014 | | December 31, 2013 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| | (in thousands) | | | |
| Credit Facilities | $3,033,175 | $3,033,175 | $2,733,175 | $2,733,175 |
| Term loan | 500,000 | 500,000 | 500,000 | 500,000 |
| Senior notes, net | 5,932,885 | 6,256,073 | 5,937,041 | 6,162,402 |
| Total debt, net | $9,466,060 | $9,789,248 | $9,170,216 | $9,395,577 |

Credit Facilities

LINN Credit Facility

The Company's Sixth Amended and Restated Credit Agreement ("LINN Credit Facility") provides for a revolving credit facility up to the lesser of: (i) the then-effective borrowing base and (ii) the maximum commitment amount of $4.0 billion. At March 31, 2014, the LINN Credit Facility had a borrowing base of $4.5 billion and the borrowing capacity was approximately $2.1 billion, which includes a $5 million reduction in availability for outstanding letters of credit.

In April 2014, the Company entered into an amendment to the LINN Credit Facility to extend the maturity from April 2018 to April 2019, among other items.

Redetermination of the borrowing base under the LINN Credit Facility, based primarily on reserve reports that reflect commodity prices at such time, occurs semi-annually, in April and October. The administrative agent, at the direction of certain of the lenders, has the right to request one interim borrowing base redetermination per year. The Company also has the right to request one interim borrowing base redetermination per year, as well as the right to an additional interim 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 LINN Credit Facility are secured by mortgages on certain of its material subsidiaries' oil and natural gas properties and other personal property as well as a pledge of all ownership interests in the Company's direct and indirect material subsidiaries. The Company is required to maintain either: 1) mortgages on properties representing at least 80% of the total value of oil and natural gas properties included on the most recent reserve report, or 2) a Collateral Coverage Ratio of at least 2.5 to 1. Collateral Coverage Ratio is defined as the ratio of the present value of future cash flows from proved reserves from the currently mortgaged properties to the lesser of: (i) the then-effective borrowing base and (ii) the maximum commitment amount. Additionally, the obligations under the LINN Credit Facility are guaranteed by all of the Company's material subsidiaries, other than Berry, and are required to be guaranteed by any future material subsidiaries. The Company is in compliance with all financial and other covenants of the LINN Credit Facility.

At the Company's election, interest on borrowings under the LINN Credit Facility is determined by reference to either the London Interbank Offered Rate ("LIBOR") plus an applicable margin between 1.5% and 2.5% per annum (depending on the then-current level of borrowings under the LINN Credit Facility) or the alternate base rate ("ABR") plus an applicable margin between 0.5% and 1.5% per annum (depending on the then-current level of borrowings under the LINN 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 LINN Credit Facility, which accrues at a rate per annum between 0.375% and 0.5% (depending on the then-current level of borrowings under the LINN Credit Facility) on the average daily unused amount of the maximum commitment amount of the lenders.

In addition, the Company has a $500 million senior secured term loan with certain participants in its lender group under the LINN Credit Facility. Upon the amendment of the LINN Credit Facility in April 2014, the term loan has a maturity date of April 2019, consistent with the maturity of the LINN Credit Facility, and incurs interest based on either the LIBOR plus a margin of 2.5% per annum or the ABR plus a margin of 1.5% per annum, at the Company’s election. 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 term loan may be repaid at the option of the Company without premium or penalty, subject to breakage costs. While the term loan is outstanding, the Company is required to maintain either: 1) mortgages on properties representing at least 80% of the total value of oil and natural gas properties included on the most recent reserve report, or 2) a Term Loan Collateral Coverage Ratio of at least 2.5 to 1. The Term Loan Collateral Coverage Ratio is defined as the ratio of the present value of future cash flows from proved reserves from the currently mortgaged properties to the lesser of: (i) the then-effective borrowing base and (ii) the maximum commitment amount and the aggregate amount of the term loan outstanding. The other terms and conditions of the LINN Credit Facility, including the financial and other restrictive covenants set forth therein, are applicable to the term loan.

Berry Credit Facility

Berry's Second Amended and Restated Credit Agreement ("Berry Credit Facility") has a borrowing base of $1.4 billion, subject to lender commitments. At March 31, 2014, lender commitments under the facility were $1.2 billion but there was less than $1 million of borrowing capacity available, including outstanding letters of credit. In February 2014, Berry entered into an amendment to the Berry Credit Facility to amend the terms of certain financial and reporting covenants, and in April 2014, Berry entered into an amendment to the Berry Credit Facility to extend the maturity from May 2016 to April 2019 and to amend the terms of certain financial covenants and definitions, among other items. Any borrowings under the Berry Credit Facility must be repaid upon the refinancing of all of Berry's outstanding senior notes.

Redetermination of the borrowing base under the Berry Credit Facility, based primarily on reserve reports that reflect commodity prices at such time, occurs semi-annually, in April and October. The lenders under the Berry Credit Facility and Berry also have the right to request interim borrowing base redeterminations once between scheduled redeterminations. Significant declines in commodity prices may result in a decrease in the borrowing base. Berry's obligations under the Berry Credit Facility are secured by mortgages on its oil and natural gas properties and other personal property. Berry is required to maintain mortgages on properties representing at least 80% of the present value of its oil and natural gas proved reserves.

Berry is currently in compliance with all financial and other covenants of the Berry Credit Facility. At December 31, 2013, Berry's Current Ratio (as defined in the Berry Credit Facility), fell short of the requirement under its covenant primarily due to factors related to the transactions between the Company, LinnCo and Berry, including a reassessment of the carrying value of items on Berry's balance sheet as of the acquisition date and updated accruals as of December 31, 2013. In February 2014, Berry received a waiver of the applicability of that covenant and any noncompliance which may have resulted as of December 31, 2013, and entered into an amendment to its credit facility to address this covenant for future periods. The shortfall and related waiver and amendment had no effect on Berry's compliance with the indentures governing its outstanding senior notes for the quarter ended December 31, 2013, and Berry was in compliance with all of the covenants under the indentures governing its senior notes at December 31, 2013.

At Berry's election, interest on borrowings under the Berry Credit Facility is determined by reference to either the LIBOR plus an applicable margin between 1.5% and 2.5% per annum (depending on the then-current level of borrowings under the Berry Credit Facility) or a Base Rate (as defined in the Berry Credit Facility) plus an applicable margin between 0.5% and 1.5% per annum (depending on the then-current level of borrowings under the Berry Credit Facility). Interest is generally payable quarterly for loans bearing interest based on the Base Rate and at the end of the applicable interest period for loans bearing interest at LIBOR. Berry is required to pay a commitment fee to the lenders under the Berry Credit Facility, which accrues at a rate per annum between 0.375% and 0.5% (depending on the then-current level of utilization under the Berry Credit Facility) on the average daily unused amount of the maximum commitment amount of the lenders.

The Company refers to the LINN Credit Facility and the Berry Credit Facility, collectively, as the "Credit Facilities."

Berry Senior Notes Due June 2014

Berry's $205 million in aggregate principal amount of 10.25% senior notes due June 2014 (the "Berry June 2014 Senior Notes") matures on June 1, 2014. Therefore, the $205 million is classified as a current obligation on the Company's condensed consolidated balance sheets at March 31, 2014, and December 31, 2013. In March 2014, Berry and LINN Energy entered into a parent support agreement under which LINN Energy agreed to provide Berry with funds in an amount sufficient to enable Berry to pay the Berry June 2014 Senior Notes in full upon maturity.

The Berry June 2014 Senior Notes were recorded at their fair value of approximately $212 million on the Berry acquisition date and the $7 million premium is being amortized to interest expense over the life of the related notes.

Senior Notes Due May 2019

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

Senior Notes Due November 2019

The Company has $1.8 billion in aggregate principal amount of 6.25% senior notes due November 2019 (the "November 2019 Senior Notes"). In connection with the issuance and sale of the November 2019 Senior Notes, the Company entered into a Registration Rights Agreement ("November 2019 Registration Rights Agreement") with the initial purchasers. Under the November 2019 Registration Rights Agreement, the Company agreed to use its reasonable efforts to file with the SEC and cause to become effective a registration statement relating to an offer to issue new notes having terms substantially identical to the November 2019 Senior Notes in exchange for outstanding November 2019 Senior Notes within 400 days after the notes were issued. On March 22, 2013, the Company filed a registration statement on Form S-4 to register exchange notes that are substantially similar to the November 2019 Senior Notes. As of May 1, 2014, that registration statement has not been declared effective. Accordingly, beginning on April 8, 2013, interest accruing on the November 2019 Senior Notes increased by 0.25% and increased by an additional 0.25% on the 90th, 180th and 270th day after such date. The increase in interest is payable until the registration statement is declared effective and the Company completes an offer to exchange the November 2019 Senior Notes for registered notes. The additional interest was approximately $11 million through March 2014.

Senior Notes Due April 2020 and Senior Notes Due February 2021

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

Berry Senior Notes Due November 2020

Berry has $300 million in aggregate principal amount of 6.75% senior notes due November 2020 (the "Berry November 2020 Senior Notes"). The Berry November 2020 Senior Notes were recorded at their fair value of approximately $310 million on the Berry acquisition date and the $10 million premium is being amortized to interest expense over the life of the related notes.

Berry Senior Notes Due September 2022

Berry has $599 million in aggregate principal amount of 6.375% senior notes due September 2022 (the "Berry September 2022 Senior Notes"). The Berry September 2022 Senior Notes were recorded at their fair value of approximately $607 million on the Berry acquisition date and the $7 million premium is being amortized to interest expense over the life of the related notes.

Repurchases of Berry Senior Notes

In February 2014, in accordance with the indentures related to Berry's senior notes, the Company repurchased through cash tender offers $321,000, $30,000 and $837,000 of Berry's June 2014 Senior Notes, November 2020 Senior Notes and September 2022 Senior Notes, respectively, for an aggregate purchase price of approximately $1 million, including accrued and unpaid interest.

The Company's senior notes contain covenants that, among other things, may limit its 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 its senior notes.

Berry's senior notes contain covenants that, among other things, may limit its ability to: (i) incur or guarantee additional indebtedness; (ii) pay distributions on Berry's equity or redeem its subordinated debt; (iii) create certain liens; (iv) enter into agreements that restrict distributions or other payments from Berry's restricted subsidiaries to Berry; (v) sell assets; (vi) engage in transactions with affiliates; and (vii) consolidate, merge or transfer all or substantially all of Berry's assets. Berry is in compliance with all financial and other covenants of its senior notes.

## Note 7 – Derivatives

### Commodity Derivatives

The Company hedges a significant portion of its forecasted production to reduce exposure to fluctuations in the prices of oil and natural gas and provide long-term cash flow predictability to manage its business, service debt and pay distributions. The current direct NGL hedging market is constrained in terms of price, volume, duration and number of counterparties, which limits the Company's ability to effectively hedge its NGL production. As a result, currently, the Company directly hedges only its oil and natural gas production.

The Company enters into commodity hedging transactions primarily in the form of swap contracts that are designed to provide a fixed price and, from time to time, put options that are designed to provide a fixed price floor with the opportunity for upside. The Company enters into these transactions with respect to a portion of its projected production to provide an economic hedge of the risk related to the future commodity prices received. The Company does not enter into derivative contracts for trading purposes. In connection with the Berry acquisition (see Note 2), the Company assumed certain derivative contracts that Berry had entered into prior to the acquisition date, including oil swaps, oil trade month roll swaps and oil collars through 2014, and oil basis swaps and oil three-way collars through 2015. The Company did not designate any of these contracts as cash flow hedges; therefore, the changes in fair value of these instruments are recorded in current earnings. See Note 8 for fair value disclosures about oil and natural gas commodity derivatives.

The following table summarizes derivative positions for the periods indicated as of March 31, 2014:

| | April 1 - December 31, 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Natural gas positions: | | | | | |
| Fixed price swaps (NYMEX Henry Hub): | | | | | |
| Hedged volume (MMMBtu) | 73,384 | 118,041 | 121,841 | 120,122 | 36,500 |
| Average price ($/MMBtu) | $5.25 | $5.19 | $4.20 | $4.26 | $5.00 |
| Put options (NYMEX Henry Hub): (1) | | | | | |
| Hedged volume (MMMBtu) | 59,994 | 71,854 | 76,269 | 66,886 | — |
| Average price ($/MMBtu) | $5.00 | $5.00 | $5.00 | $4.88 | $— |
| Oil positions: | | | | | |
| Fixed price swaps (NYMEX WTI): (2) | | | | | |
| Hedged volume (MBbls) | 12,681 | 11,599 | 11,465 | 4,755 | — |
| Average price ($/Bbl) | $92.44 | $96.23 | $90.56 | $89.02 | $— |
| Collars (NYMEX WTI): | | | | | |
| Hedged volume (MBbls) | 550 | — | — | — | — |
| Average floor price ($/Bbl) | $90.00 | $— | $— | $— | $— |
| Average ceiling price ($/Bbl) | $102.87 | $— | $— | $— | $— |

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| | April 1 - December 31, 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Three-way collars (NYMEX WTI): | | | | | |
| Hedged volume (MBbls) | 2,338 | 1,095 | — | — | — |
| Short put ($/Bbl) | $72.11 | $70.00 | $— | $— | $— |
| Long put ($/Bbl) | $93.76 | $90.00 | $— | $— | $— |
| Short call ($/Bbl) | $109.79 | $101.62 | $— | $— | $— |
| Put options (NYMEX WTI): | | | | | |
| Hedged volume (MBbls) | 2,983 | 3,426 | 3,271 | 384 | — |
| Average price ($/Bbl) | $91.30 | $90.00 | $90.00 | $90.00 | $— |
| Three-way collars (ICE Brent): | | | | | |
| Hedged volume (MBbls) | 275 | — | — | — | — |
| Short put ($/Bbl) | $80.00 | $— | $— | $— | $— |
| Long put ($/Bbl) | $100.00 | $— | $— | $— | $— |
| Short call ($/Bbl) | $114.05 | $— | $— | $— | $— |
| Natural gas basis differential positions: (3) | | | | | |
| Panhandle basis swaps: | | | | | |
| Hedged volume (MMMBtu) | 59,813 | 87,162 | 59,954 | 59,138 | 16,425 |
| Hedged differential ($/MMBtu) | $(0.33) | $(0.33) | $(0.32) | $(0.33) | $(0.33) |
| NWPL Rockies basis swaps: | | | | | |
| Hedged volume (MMMBtu) | 30,533 | 43,292 | 46,294 | 38,880 | 10,804 |
| Hedged differential ($/MMBtu) | $(0.20) | $(0.20) | $(0.20) | $(0.19) | $(0.19) |
| MichCon basis swaps: | | | | | |
| Hedged volume (MMMBtu) | 7,150 | 9,344 | 7,768 | 7,437 | 2,044 |
| Hedged differential ($/MMBtu) | $0.08 | $0.06 | $0.05 | $0.05 | $0.05 |
| Houston Ship Channel basis swaps: | | | | | |
| Hedged volume (MMMBtu) | 3,960 | 4,891 | 4,575 | 3,604 | 986 |
| Hedged differential ($/MMBtu) | $(0.10) | $(0.10) | $(0.10) | $(0.08) | $(0.08) |
| Permian basis swaps: | | | | | |
| Hedged volume (MMMBtu) | 3,685 | 5,074 | 4,219 | 4,819 | 1,314 |
| Hedged differential ($/MMBtu) | $(0.21) | $(0.21) | $(0.20) | $(0.20) | $(0.20) |
| Oil basis differential positions: | | | | | |
| ICE Brent - NYMEX WTI basis swaps: | | | | | |
| Hedged volume (MBbls) | 2,750 | 2,920 | — | — | — |
| Hedged differential ($/Bbl) | $11.60 | $11.60 | $— | $— | $— |
| Oil timing differential positions: | | | | | |
| Trade month roll swaps (NYMEX WTI): (4) | | | | | |
| Hedged volume (MBbls) | 6,841 | 7,251 | 7,446 | 6,486 | — |
| Hedged differential ($/Bbl) | $0.24 | $0.24 | $0.25 | $0.25 | $— |

(1) Includes certain outstanding natural gas put options of approximately 7,964 MMMBtu for the period April 1, 2014, through December 31, 2014, 10,570 for the year ending December 31, 2015, and 10,599 MMMBtu for the year ending December 31, 2016, used to indirectly hedge revenues associated with NGL production.

(2) Includes certain outstanding fixed price oil swaps of approximately 5,384 MBbls which may be extended annually at a price of $100.00 per Bbl for each of the years ending December 31, 2017, and December 31, 2018, and $90.00 per Bbl for the year ending December 31,

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2019, 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) Settle on the respective pricing index to hedge basis differential to the NYMEX Henry Hub natural gas price.

(4) The Company hedges the timing risk associated with the sales price of oil in the Mid-Continent, Hugoton Basin 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 WTI price 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").

Settled derivatives on natural gas production for the three months ended March 31, 2014, included volumes of 43,651 MMMBtu at an average contract price of $5.14 per MMBtu. Settled derivatives on oil production for the three months ended March 31, 2014, included volumes of 6,161 MBbls at an average contract price of $92.39 per Bbl. Settled derivatives on natural gas production for the three months ended March 31, 2013, included volumes of 42,778 MMMBtu at an average contract price of $5.29 per MMBtu. Settled derivatives on oil production for the three months ended March 31, 2013, included volumes of 3,693 MBbls at an average contract price of $95.57 per Bbl. The natural gas derivatives are settled based on the closing price of NYMEX natural gas on the last trading day for the delivery month, which occurs on the third business day preceding the delivery month, or the relevant index prices of natural gas published in Inside FERC's Gas Market Report on the first business day of the delivery month. The oil derivatives are settled based on the average closing price of NYMEX light crude oil for each day of the delivery month.

Balance Sheet Presentation

The Company's commodity 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:

| | March 31, 2014 | December 31, 2013 |
|---|---|---|
| | (in thousands) | |
| Assets: | | |
| Commodity derivatives | $848,422 | $1,048,212 |
| Liabilities: | | |
| Commodity derivatives | $250,097 | $222,905 |

By using derivative instruments to economically hedge exposures to changes in commodity prices, the Company exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Company, which creates credit risk. The Company's counterparties are current participants or affiliates of participants in its Credit Facilities or were participants or affiliates of participants in its Credit Facilities at the time it originally entered into the derivatives. The Credit Facilities are 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 $848 million at March 31, 2014. 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 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 were net losses of approximately $241 million for the three months ended March 31, 2014, and approximately $108 million for the three months ended March 31, 2013. Gains and losses are reported on the condensed consolidated statements of operations in “losses on oil and natural gas derivatives.”

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Note 8 – Fair Value Measurements on a Recurring Basis

The Company accounts for its commodity derivatives at fair value (see Note 7) on a recurring basis. The Company determines the fair value of its oil and natural gas derivatives utilizing pricing models that use a variety of techniques, including market quotes and pricing analysis. Inputs to the pricing models include publicly available prices and forward price curves generated from a compilation of data gathered from third parties. Company management validates the data provided by third parties by understanding the pricing models used, obtaining market values from other pricing sources, analyzing pricing data in certain situations and confirming that those securities trade in active markets. 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.

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

| | March 31, 2014 | | |
|---|---|---|---|
| | Level 2 | Netting [1] | Total |
| | (in thousands) | | |
| Assets: | | | |
| Commodity derivatives | $848,422 | $(213,859) | $634,563 |
| Liabilities: | | | |
| Commodity derivatives | $250,097 | $(213,859) | $36,238 |

| | December 31, 2013 | | |
|---|---|---|---|
| | Level 2 | Netting [1] | Total |
| | (in thousands) | | |
| Assets: | | | |
| Commodity derivatives | $1,048,212 | $(190,080) | $858,132 |
| Liabilities: | | | |
| Commodity derivatives | $222,905 | $(190,080) | $32,825 |

[1] Represents counterparty netting under agreements governing such derivatives.

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 accrued liabilities" and "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 three months ended March 31, 2014); and (iv) a credit-adjusted risk-free interest rate (average of 5.5% for the three months ended March 31, 2014). These inputs require significant judgments and estimates by the Company's management at the time of the valuation and are the most sensitive and subject to change.

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

| | |
|---|---|
| Asset retirement obligations at December 31, 2013 | $289,321 |
| Liabilities added from drilling | 3,024 |
| Current year accretion expense | 4,725 |
| Settlements | (4,053) |
| Revision of estimates | 3,486 |
| Asset retirement obligations at March 31, 2014 | $296,503 |

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. With respect to a certain statewide class action case, the parties in this case are currently engaged in settlement negotiations and based on the current status of those negotiations, the Company estimates a range of possible loss of $1 million to $4.5 million for which an appropriate reserve has been established. 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. Based on the 10th Circuit Court of Appeals' decision to reverse class certification orders in two unrelated certification cases, the court has permitted additional limited discovery prior to the briefing and hearing on class certification. Briefing and the hearing on class certification have not yet been set by the court. 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.

On July 9, 2013, Anthony Booth, individually and on behalf of all other persons similarly situated, filed a class action complaint in the United States District Court, Southern District of Texas, against LINN Energy, Mark E. Ellis, Kolja Rockov, and David B. Rottino (the "Booth Action"). On July 18, 2013, the Catherine A. Fisher Trust, individually and on behalf of all other persons similarly situated, filed a class action complaint in the United States District Court, Southern District of Texas, against the same defendants (the "Fisher Action"). On July 17, 2013, Don Gentry, individually and on behalf of all other persons similarly situated, filed a class action complaint in the United States District Court, Southern District of Texas, against LINN Energy, LinnCo, Mark E. Ellis, Kolja Rockov, David B. Rottino, George A. Alcorn, David D. Dunlap, Terrence S. Jacobs, Michael C. Linn, Joseph P. McCoy, Jeffrey C. Swoveland, and the various underwriters for LinnCo's initial public offering (the "Gentry Action") (the Booth Action, Fisher Action, and Gentry Action together, the "Texas Federal Actions"). The Texas Federal Actions each assert claims under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act") based on allegations that LINN Energy made false or misleading statements relating to its hedging strategy, the cash flow available for distribution to unitholders, and LINN Energy's energy production. The Gentry Action asserts additional claims under Sections 11 and 15 of the Securities Act of 1933 based on alleged misstatements relating to these issues in the prospectus and registration statement for LinnCo's initial public offering. On September 23, 2013, the Southern District of Texas entered an order transferring the Texas Federal Actions to the Southern District of New York so that they could be consolidated with the New York Federal Actions, which are described below.

On July 10, 2013, David Adrian Luciano, individually and on behalf of all other persons similarly situated, filed a class action complaint in the United States District Court, Southern District of New York, against LINN Energy, LinnCo, Mark E. Ellis, Kolja Rockov, David B. Rottino, George A. Alcorn, David D. Dunlap, Terrence S. Jacobs, Michael C. Linn, Joseph P. McCoy, Jeffrey C. Swoveland, and the various underwriters for LinnCo's initial public offering (the "Luciano Action"). The Luciano Action asserts claims under Sections 11 and 15 of the Securities Act of 1933 based on alleged misstatements relating to LINN Energy's hedging strategy, the cash flow available for distribution to unitholders, and LINN Energy's energy production in the prospectus and registration statement for LinnCo's initial public offering. On July 12, 2013, Frank Donio, individually and on behalf of all other persons similarly situated, filed a class action complaint in the United States District Court, Southern District of New York, against LINN Energy, Mark E. Ellis, Kolja Rockov, and David B. Rottino (the "Donio Action"). The Donio Action asserts claims under Sections 10(b) and 20(a) of the Exchange Act based on allegations that LINN Energy made false or misleading statements relating to its hedging strategy, the cash flow available for distribution to unitholders, and LINN Energy's energy production. Several additional class action cases substantially similar to the Luciano Action and the Donio Action were subsequently filed in the Southern District of New York and assigned to the same judge (the

Luciano Action, Donio Action, and all similar subsequently filed New York federal class actions together, the “New York Federal Actions”). The Texas Federal Actions and the New York Federal Actions have now been consolidated in the United States District Court for the Southern District of New York (the “Combined Actions”). In November 2013, LINN Energy filed a motion to dismiss the Combined Actions. The motion is currently pending before the Southern District of New York. There has not been any discovery conducted in the Combined Actions. As a result, the Company is unable to estimate a possible loss, or range of possible loss, if any.

On July 10, 2013, Judy Mesirov, derivatively on behalf of nominal defendant LINN Energy, filed a shareholder derivative petition against Mark E. Ellis, Kolja Rockov, David B. Rottino, Arden L. Walker, Jr., Charlene A. Ripley, Michael C. Linn, Joseph P. McCoy, George A. Alcorn, Terrence S. Jacobs, David D. Dunlap, Jeffrey C. Swoveland, and Linda M. Stephens in the District Court of Harris County, Texas (the "Mesirov Action"). On July 12, 2013, John Peters, derivatively on behalf of nominal defendant LINN Energy, filed a shareholder derivative petition against many of the same defendants in the District Court of Harris County, Texas (the "Peters Action"). On August 26, 2013, Joseph Abdalla, derivatively on behalf of nominal defendant LINN Energy, filed a shareholder derivative petition against many of the same defendants in the District Court of Harris County, Texas (the "Abdalla Action") (the Mesirov Action, Peters Action, and Abdalla Actions together, the "Texas State Court Derivative Actions"). On August 19, 2013, the Charlote J. Lombardo Trust of 2004, derivatively on behalf of nominal defendant LINN Energy, filed a shareholder derivative petition against many of the same defendants in the United States District Court for the Southern District of Texas (the "Lombardo Action"). On September 30, 2013, the Thelma Feldman Rev. Trust, derivatively on behalf of nominal defendant LINN Energy, filed a shareholder derivative petition against many of the same defendants (the "Feldman Rev. Trust Action"). On October 21, 2013, the Parker Family Trust of 2012, derivatively on behalf of nominal defendant LINN Energy, filed a shareholder derivative petition against many of the same defendants (the "Parker Family Trust Action") (the Lombardo Action, Feldman Rev. Trust Action, and Parker Family Trust Action together, the "Texas Federal Court Derivative Actions") (the Texas State Court Derivative Action and Texas Federal Court Derivative Actions together, the "Texas Derivative Actions"). The Texas Derivative Actions assert derivative claims on behalf of LINN Energy against the individual defendants for alleged breaches of fiduciary duty, waste of corporate assets, mismanagement, abuse of control, and unjust enrichment based on factual allegations similar to those in the Texas Federal Actions and the New York Federal Actions. The cases are in their preliminary stages and it is possible that additional similar actions could be filed in the District Court of Harris County, Texas, or in other jurisdictions. As a result, the Company is unable to estimate a possible loss, or range of possible loss, if any.

During the three months ended March 31, 2014, and March 31, 2013, the Company made no significant payments to settle any legal, environmental or tax proceedings. The Company regularly analyzes current information and accrues for probable liabilities on the disposition of certain matters as necessary. Liabilities for loss contingencies arising from claims, assessments, litigation or other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated.

## 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.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2014 | 2013 |
| | (in thousands, except per unit data) | |
| Net loss | $(85,337) | $(221,885) |
| Allocated to participating securities | (2,199) | (1,301) |
| | $(87,536) | $(223,186) |
| Basic net loss per unit | $(0.27) | $(0.96) |
| Diluted net loss per unit | $(0.27) | $(0.96) |
| Basic weighted average units outstanding | 328,329 | 233,176 |
| Dilutive effect of unit equivalents | — | — |
| Diluted weighted average units outstanding | 328,329 | 233,176 |

Basic units outstanding excludes the effect of weighted average anti-dilutive unit equivalents related to approximately 6 million and 5 million unit options and warrants for the three months ended March 31, 2014, and March 31, 2013, respectively. All equivalent units were antidilutive for the three months ended March 31, 2014, and March 31, 2013.

## 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 state of Texas, in which income tax liabilities and/or benefits of the Company are passed through to its unitholders. Limited liability companies are subject to Texas margin tax. In addition, certain of the Company's subsidiaries are Subchapter C-corporations subject to federal and state income taxes. As such, with the exception of the state of Texas 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 income 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:

| | March 31, 2014 | December 31, 2013 |
|---|---|---|
| | (in thousands) | |
| Accrued compensation | $25,270 | $55,257 |
| Accrued interest | 147,907 | 93,998 |
| Asset retirement obligations | 12,616 | 6,270 |
| Other | 3,769 | 7,850 |
| | $189,562 | $163,375 |

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2014 | 2013 |
| | (in thousands) | |
| Cash payments for interest, net of amounts capitalized | $77,512 | $44,209 |
| Cash payments for income taxes | $— | $— |
| Noncash investing activities: | | |
| In connection with the acquisition of oil and natural gas properties and joint-venture funding, assets were acquired and liabilities were assumed as follows: | | |
| Fair value of assets acquired | $593 | $8,101 |
| Cash paid | (593) | (35) |
| Receivables from sellers | — | (1,212) |
| Payables to sellers | — | (6,854) |
| Liabilities assumed | $— | $— |

Included in "acquisition of oil and natural gas properties and joint-venture funding" on the condensed consolidated statements of cash flows for the three months ended March 31, 2014, and March 31, 2013, is approximately $25 million and $15 million, respectively, paid by the Company towards the future funding commitment related to the joint-venture agreement entered into with Anadarko in April 2012 (see Note 2).

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 $6 million is included in "other noncurrent assets" on the condensed consolidated balance sheets at March 31, 2014, and December 31, 2013, and primarily represents cash deposited by the Company into a separate account and designated for asset retirement obligations in accordance with contractual agreements.

The Company manages its working capital and cash requirements to borrow only as needed from its Credit Facilities. At March 31, 2014, and December 31, 2013, net outstanding checks of approximately $11 million and $48 million, respectively, were reclassified and included in "accounts payable and accrued expenses" on the condensed consolidated balance sheets. The Company presents net outstanding checks as cash flows from financing activities on the condensed consolidated statements of cash flows.

## Note 14 – Related Party Transactions

### LinnCo

LinnCo, an affiliate of LINN Energy, was formed on April 30, 2012. LinnCo's initial sole purpose was to own units in LINN Energy. In connection with the acquisition of Berry, LinnCo amended its limited liability company agreement to permit, among other things, the acquisition and subsequent contribution of assets to LINN Energy. All of LinnCo's common shares are held by the public. As of March 31, 2014, LinnCo had no significant assets or operations other than those related to its interest in LINN Energy and owned approximately 39% of LINN Energy's outstanding units.

LINN Energy has agreed to provide to LinnCo, or to pay on LinnCo's behalf, any legal, accounting, tax advisory, financial advisory and engineering fees, printing costs or other administrative and out-of-pocket expenses incurred by LinnCo, along with any other expenses incurred in connection with any public offering of shares in LinnCo or incurred as a result of being a publicly traded entity. These expenses include costs associated with annual, quarterly and other reports to holders of LinnCo shares, tax return and Form 1099 preparation and distribution, NASDAQ listing fees, printing costs, independent auditor fees and expenses, legal counsel fees and expenses, limited liability company governance and compliance expenses and registrar and transfer agent fees. In addition, the Company has agreed to indemnify LinnCo and its officers and directors for damages suffered or costs incurred (other than income taxes payable by LinnCo) in connection with carrying out LinnCo's activities. All expenses and costs paid by LINN Energy on LinnCo's behalf are accounted for as investment at cost.

For the three months ended March 31, 2014, LinnCo incurred total general and administrative expenses of approximately $734,000, of which approximately $83,000 had been paid by LINN Energy on LinnCo's behalf as of March 31, 2014. The expenses for the three months ended March 31, 2014, include approximately $470,000 related to services provided by LINN Energy necessary for the conduct of LinnCo's business, such as accounting, legal, tax, information technology and other expenses. In addition, during the three months ended March 31, 2014, LINN Energy paid approximately $11 million on LinnCo's behalf for general and administrative expenses incurred by LinnCo in 2013.

For the three months ended March 31, 2013, LinnCo incurred total general and administrative expenses and certain offering costs of approximately $12 million, of which approximately $2 million had been paid by LINN Energy on LinnCo's behalf as of March 31, 2013. The expenses included approximately $11 million of transaction costs related to professional services rendered by third parties in connection with the Berry acquisition. The expenses also included approximately $462,000 related to services provided by LINN Energy necessary for the conduct of LinnCo's business, such as accounting, legal, tax, information technology and other expenses.

During the three months ended March 31, 2014, and March 31, 2013, the Company paid approximately $93 million and $25 million, respectively, in distributions to LinnCo attributable to LinnCo's interest in LINN Energy.

Other

One of the Company's directors is the President and Chief Executive Officer of Superior Energy Services, Inc. ("Superior"), which provides oilfield services to the Company. For the three months ended March 31, 2014, and March 31, 2013, the Company paid approximately $4 million and $6 million, respectively, to Superior and its subsidiaries for services rendered to the Company. The transactions associated with these payments were consummated on terms equivalent to those that prevail in arm's-length transactions.

Note 15 – Subsidiary Guarantors

LINN Energy, LLC's November 2019 Senior Notes, May 2019 Senior Notes and 2010 Issued Senior Notes are guaranteed by all of the Company's material subsidiaries, other than Berry which is an indirect wholly owned, unrestricted subsidiary of the Company. Additionally, in March 2014, LINN Energy, LLC agreed to contribute funds to Berry in an amount sufficient to enable Berry to pay its Senior Notes due June 2014 in full. No other subsidiary of the Company has guaranteed any of Berry's outstanding senior notes.

The following condensed consolidating financial information presents the financial information of LINN Energy, LLC, the guarantor subsidiaries and the non-guarantor subsidiary in accordance with SEC Regulation S-X Rule 3-10. The condensed consolidating financial information for the co-issuer, Linn Energy Finance Corp., is not presented as it has no assets, operations or cash flows. The financial information may not necessarily be indicative of the financial position or results of operations had the guarantor subsidiaries or non-guarantor subsidiary operated as independent entities. There are no restrictions on the Company's ability to obtain cash dividends or other distributions of funds from the guarantor subsidiaries.

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

CONDENSED CONSOLIDATING BALANCE SHEETS
March 31, 2014

| | LINN Energy, LLC (in thousands) | Guarantor Subsidiaries | Non-Guarantor Subsidiary | Eliminations | Consolidated |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $33 | $62,762 | $5,519 | $— | $68,314 |
| Accounts receivable – trade, net | — | 384,717 | 138,228 | — | 522,945 |
| Accounts receivable – affiliates | 4,224,068 | — | — | (4,224,068) | — |
| Derivative instruments | — | 111,545 | 3,626 | — | 115,171 |
| Other current assets | 330 | 59,631 | 32,114 | — | 92,075 |
| Total current assets | 4,224,431 | 618,655 | 179,487 | (4,224,068) | 798,505 |
| Noncurrent assets: | | | | | |
| Oil and natural gas properties (successful efforts method) | — | 13,334,488 | 4,957,390 | — | 18,291,878 |
| Less accumulated depletion and amortization | — | (3,720,758) | (76,083) | — | (3,796,841) |
| | — | 9,613,730 | 4,881,307 | — | 14,495,037 |
| Other property and equipment | — | 574,858 | 84,957 | — | 659,815 |
| Less accumulated depreciation | — | (121,219) | (1,972) | — | (123,191) |
| | — | 453,639 | 82,985 | — | 536,624 |
| Derivative instruments | — | 516,732 | 2,660 | — | 519,392 |
| Notes receivable – affiliates | 95,400 | — | — | (95,400) | — |
| Investments in consolidated subsidiaries | 8,458,183 | — | — | (8,458,183) | — |
| Other noncurrent assets, net | 104,211 | 11,220 | 9,699 | — | 125,130 |
| | 8,657,794 | 527,952 | 12,359 | (8,553,583) | 644,522 |
| Total noncurrent assets | 8,657,794 | 10,595,321 | 4,976,651 | (8,553,583) | 15,676,183 |
| Total assets | $12,882,225 | $11,213,976 | $5,156,138 | $(12,777,651) | $16,474,688 |
| LIABILITIES AND UNITHOLDERS' CAPITAL | | | | | |
| Current liabilities: | | | | | |
| Accounts payable and accrued expenses | $2,776 | $544,000 | $250,684 | $— | $797,460 |
| Accounts payable – affiliates | — | 4,224,068 | — | (4,224,068) | — |
| Derivative instruments | — | 19,138 | 16,209 | — | 35,347 |
| Other accrued liabilities | 128,769 | 31,906 | 28,887 | — | 189,562 |
| Current portion of long-term debt | — | — | 207,502 | — | 207,502 |
| Total current liabilities | 131,545 | 4,819,112 | 503,282 | (4,224,068) | 1,229,871 |
| Noncurrent liabilities: | | | | | |
| Credit facilities | 1,860,000 | — | 1,173,175 | — | 3,033,175 |

| | | | | | |
|---|---|---|---|---|---|
| Term loan | 500,000 | — | — | — | 500,000 |
| Senior notes, net | 4,810,262 | — | 915,121 | — | 5,725,383 |
| Notes payable – affiliates | — | 95,400 | — | (95,400) | — |
| Derivative instruments | — | — | 891 | — | 891 |
| Other noncurrent liabilities | — | 205,932 | 188,484 | — | 394,416 |
| Total noncurrent liabilities | 7,170,262 | 301,332 | 2,277,671 | (95,400) | 9,653,865 |
| | | | | | |
| Unitholders' capital: | | | | | |
| Units issued and outstanding | 6,066,152 | 4,834,811 | 2,315,460 | (7,139,737) | 6,076,686 |
| Accumulated income (deficit) | (485,734) | 1,258,721 | 59,725 | (1,318,446) | (485,734) |
| | 5,580,418 | 6,093,532 | 2,375,185 | (8,458,183) | 5,590,952 |
| Total liabilities and unitholders' capital | $12,882,225 | $11,213,976 | $5,156,138 | $(12,777,651) | $16,474,688 |

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

CONDENSED CONSOLIDATING BALANCE SHEETS
December 31, 2013

| | LINN Energy, LLC | Guarantor Subsidiaries | Non-Guarantor Subsidiary | Eliminations | Consolidated |
|---|---|---|---|---|---|
| | (in thousands) | | | | |
| ASSETS | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $52 | $1,078 | $51,041 | $— | $52,171 |
| Accounts receivable – trade, net | — | 365,347 | 122,855 | — | 488,202 |
| Accounts receivable – affiliates | 4,212,348 | 16,950 | — | (4,229,298) | — |
| Derivative instruments | — | 170,534 | 5,596 | — | 176,130 |
| Other current assets | 330 | 68,274 | 30,833 | — | 99,437 |
| Total current assets | 4,212,730 | 622,183 | 210,325 | (4,229,298) | 815,940 |
| Noncurrent assets: | | | | | |
| Oil and natural gas properties (successful efforts method) | — | 13,074,900 | 4,813,659 | — | 17,888,559 |
| Less accumulated depletion and amortization | — | (3,535,890) | (10,394) | — | (3,546,284) |
| | — | 9,539,010 | 4,803,265 | — | 14,342,275 |
| Other property and equipment | — | 564,756 | 83,126 | — | 647,882 |
| Less accumulated depreciation | — | (110,706) | (233) | — | (110,939) |
| | — | 454,050 | 82,893 | — | 536,943 |
| Derivative instruments | — | 679,491 | 2,511 | — | 682,002 |
| Notes receivable – affiliates | 86,200 | — | — | (86,200) | — |
| Investments in consolidated subsidiaries | 8,433,290 | — | — | (8,433,290) | — |
| Other noncurrent assets, net | 108,785 | 10,968 | 8,051 | — | 127,804 |
| | 8,628,275 | 690,459 | 10,562 | (8,519,490) | 809,806 |
| Total noncurrent assets | 8,628,275 | 10,683,519 | 4,896,720 | (8,519,490) | 15,689,024 |
| Total assets | $12,841,005 | $11,305,702 | $5,107,045 | $(12,748,788) | $16,504,964 |
| LIABILITIES AND UNITHOLDERS' CAPITAL | | | | | |
| Current liabilities: | | | | | |
| Accounts payable and accrued expenses | $14,529 | $587,774 | $247,321 | $— | $849,624 |
| Accounts payable – affiliates | — | 4,212,348 | 16,950 | (4,229,298) | — |
| Derivative instruments | — | 7,783 | 20,393 | — | 28,176 |
| Other accrued liabilities | 75,071 | 59,311 | 28,993 | — | 163,375 |
| Current portion of long-term debt | — | — | 211,558 | — | 211,558 |
| Total current liabilities | 89,600 | 4,867,216 | 525,215 | (4,229,298) | 1,252,733 |
| Noncurrent liabilities: | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Credit facilities | 1,560,000 | — | 1,173,175 | — | 2,733,175 |
| Term loan | 500,000 | — | — | — | 500,000 |
| Senior notes, net | 4,809,055 | — | 916,428 | — | 5,725,483 |
| Notes payable – affiliates | — | 86,200 | — | (86,200) | — |
| Derivative instruments | — | — | 4,649 | — | 4,649 |
| Other noncurrent liabilities | — | 205,406 | 192,091 | — | 397,497 |
| Total noncurrent liabilities | 6,869,055 | 291,606 | 2,286,343 | (86,200) | 9,360,804 |
| | | | | | |
| Unitholders' capital: | | | | | |
| Units issued and outstanding | 6,282,747 | 4,833,354 | 2,315,460 | (7,139,737) | 6,291,824 |
| Accumulated income (deficit) | (400,397) | 1,313,526 | (19,973) | (1,293,553) | (400,397) |
| | 5,882,350 | 6,146,880 | 2,295,487 | (8,433,290) | 5,891,427 |
| Total liabilities and unitholders' capital | $12,841,005 | $11,305,702 | $5,107,045 | $(12,748,788) | $16,504,964 |