LINN ENERGY, LLC
Form 10-K
February 26, 2009

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-K

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

For the fiscal year ended December 31, 2008

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

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 (I.R.S. Employer Identification No.)
600 Travis, Suite 5100 Houston, Texas (Address of principal executive offices)	77002 (Zip Code)

Registrant's telephone number, including area code
(281) 840-4000
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Units Representing Limited Liability Company Interests	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No x

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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 o Non-accelerated filer o Smaller reporting company o

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

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant was approximately $2,717,556,563 on June 30, 2008, based on $24.85 per unit, the last reported sales price of the units on The NASDAQ Global Market on such date.

As of January 30, 2009, there were 114,025,866 units outstanding.

Documents Incorporated By Reference:

Certain information called for in Items 10, 11, 12, 13 and 14 of Part III are incorporated by reference from the registrant's definitive proxy statement for the annual meeting of unitholders to be held on May 5, 2009.

TABLE OF CONTENTS

Table of Contents

GLOSSARY OF TERMS

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

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

Bcf. One billion cubic feet.

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

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

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

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

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

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

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

MBbls/d. MBbls per day.

Mcf. One thousand cubic feet.

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

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

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

MMcfe/d. MMcfe per day.

MMMBtu. One billion British thermal units.

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

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

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

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

Proved reserves. Proved oil and gas reserves are the estimated quantities of oil, gas and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based on future conditions.

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

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

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

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

Royalty interest. An interest that entitles the owner of such interest to a share of the mineral production from a property or to a share of the proceeds there from. It does not contain the rights and obligations of operating the property and normally does not bear any of the costs of exploration, development and operation of the property.

Standardized measure of discounted future net cash flows. The present value of estimated future net revenues to be generated from the production of proved reserves, determined in accordance with the rules and regulations of the Securities and Exchange Commission (using prices and costs in effect as of the date of estimation) without giving effect to non-property related expenses such as general and administrative expenses, debt service, future income tax expenses or depreciation, depletion and amortization; discounted using an annual discount rate of 10%.

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

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

Unproved resources. Resources that are considered less certain to be recovered than proved reserves. Unproved resources may be further sub-classified to denote progressively increasing uncertainty of recoverability.

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

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

Table of Contents

Part I

Item 1. Business

This Annual Report on Form 10-K contains forward-looking statements based on expectations, estimates and projections as of the date of this filing. These statements by their nature are subject to risks, uncertainties and assumptions and are influenced by various factors. As a consequence, actual results may differ materially from those expressed in the forward-looking statements. For more information see “Forward-Looking Statements” included at the end of this Item 1. “Business” and see also Item 1A. “Risk Factors.”

References

When referring to Linn Energy, LLC (“Linn Energy” or the “Company”), the intent is to refer to Linn Energy and its consolidated subsidiaries as a whole or on an individual basis, depending on the context in which the statements are made.

A reference to a “Note” herein refers to the accompanying Notes to Consolidated Financial Statements contained in Part II. Item 8. “Financial Statements and Supplementary Data.”

Overview

Linn Energy is an independent oil and gas company focused on the development and acquisition of long life properties which complement its asset profile in producing basins within the United States. Linn Energy began operations in March 2003 and completed its initial public offering (“IPO”) in January 2006. The Company’s properties are currently located in the Mid-Continent and California.

Proved reserves at December 31, 2008 were 1,660 Bcfe, of which approximately 51% were gas, 31% were oil and 18% were natural gas liquids (“NGL”). Approximately 68% were classified as proved developed, with a total standardized measure of discounted future net cash flows of $1.42 billion. At December 31, 2008, the Company operated 4,453, or 66%, of its 6,716 gross productive wells. Average proved reserves-to-production ratio, or average reserve life, is approximately 21 years.

Strategy

The Company’s primary goal is to provide stability and growth of distributions for the long-term benefit of its unitholders. The following is a summary of the key elements of the Company’s business strategy:

- efficiently operate and develop acquired properties;
- reduce cash flow volatility through commodity price and interest rate hedging; and
- grow through acquisition of long life, high quality properties.

The Company’s business strategy is discussed in more detail below.

Efficiently Operate and Develop Acquired Properties

The Company has aligned the operation of its acquired properties into defined operating regions to minimize operating costs and maximize production and capital efficiency. The Company maintains a large inventory of drilling and optimization projects within each region to achieve organic growth from its capital development program. The Company seeks to be the operator of its properties so that it can develop drilling programs and optimization projects that not only replace production, but add value through reserve and production growth and future operational synergies. The development program is focused on lower risk, repeatable drilling opportunities to maintain and/or grow cash flow. Many of the wells are completed in multiple producing zones with commingled production and long economic lives. The number, types and location of wells drilled varies depending on the Company's capital budget, the cost of each well, anticipated production and the estimated recoverable reserves attributable to each well. In addition, the Company seeks to deliver attractive financial returns by leveraging its experienced workforce and scalable infrastructure. For 2009, the Company estimates its total drilling and development capital expenditures will be approximately $150.0 million. This estimate is under continuous review and is subject to on-going adjustment. The Company expects to fund these capital expenditures with cash flow from operations.

Reduce Cash Flow Volatility Through Commodity Price and Interest Rate Hedging

An important part of the Company's business strategy includes hedging a significant portion of its forecasted production to reduce exposure to fluctuations in the prices of oil, gas and NGL. By removing a significant portion of the price volatility associated with future oil, gas and NGL production, the Company expects to mitigate, but not eliminate, the potential effects of declining commodity prices on cash flows from operations for those periods. These transactions are in the form of swap contracts, collars and put options. A put option requires the Company to pay the counterparty a premium equal to the fair value of the option at the purchase date and receive from the counterparty the excess, if any, of the fixed floor over the floating market price. The Company has derivative contracts in place through 2014 covering a significant portion of forecasted production volumes through 2012 to provide long-term cash flow predictability to pay distributions, service debt and manage its business.

In addition, the Company enters into derivative contracts in the form of interest rate swaps to minimize the effects of fluctuations in interest rates. Currently, the Company utilizes London Interbank Offered Rate ("LIBOR") swaps to convert the borrowing rate on indebtedness under its credit facility from a floating to fixed rate. At January 30, 2009, with the new interest rate swap contracts discussed below in "Recent Developments," the Company had swapped LIBOR on approximately 88% of debt outstanding under its credit facility at an average fixed rate of 3.80% through January 2014. For additional details about the Company's interest rate swap agreements and commodity derivative contracts, see Part II. Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 7A. "Quantitative and Qualitative Disclosures About Market Risk." See also Note 9 and Note 10.

Grow Through Acquisition of Long Life, High Quality Properties

The Company's acquisition program targets oil and gas properties which offer long life, high quality production with relatively predictable decline curves, as well as lower risk development opportunities. The Company evaluates acquisitions based on decline profile, reserve life, operational efficiency, field cash flow and development costs. As part of this strategy, the Company continually seeks to optimize its asset portfolio, including divestitures of non-core assets. This allows the Company to redeploy capital into projects to develop lower risk, long life and low decline properties which are better suited to its business strategy.

From inception through the date of this report, the Company has completed 25 acquisitions of working and royalty interests in oil and gas properties and related gathering and pipeline assets. Excluding the Appalachian Basin properties sold in July 2008 (discussed in "Asset Sales" below), total acquired proved reserves were approximately 1.7 Tcfe at an acquisition cost of approximately $2.17 per Mcfe. The Company finances acquisitions with a combination of proceeds from the issuance of its units, bank borrowings and cash flow from operations. See Note 3 for additional details about the Company's recent acquisitions.

Recent Developments

Asset Sales

During the fourth quarter of 2008, the Company completed a year-long portfolio optimization project. The Company carefully analyzed its asset base to determine which properties best fit the Linn Energy business model with high quality reserves and long life production. During 2008, the Company sold approximately $1.0 billion (contract price) of properties that were non-core to its business strategy, primarily due to high capital requirements and high decline characteristics. The Company strategically capitalized on opportunities to monetize Marcellus Shale acreage in the

Appalachian Basin, high-decline acreage in the Verden area in Oklahoma and Woodford Shale acreage in Oklahoma. A summary of these transactions is as follows:

- On July 1, 2008, the Company completed the sale of its interests in oil and gas properties located in the Appalachian Basin to XTO Energy, Inc. ("XTO") for a contract price of $600.0 million. The assets include approximately 197 Bcfe of proved reserves at December 31, 2007. Net proceeds were $566.5 million and

Table of Contents

the carrying value of net assets sold was $405.8 million, resulting in a gain on the sale of $160.7 million. The results of the Company's Appalachian Basin operations are classified as discontinued operations for all periods presented (see Note 2).

- On August 15, 2008, the Company completed the sale of certain properties in the Verden area in Oklahoma to Laredo Petroleum, Inc. ("Laredo") for a contract price of $185.0 million, subject to closing adjustments. The assets include approximately 50,000 net acres and 45 Bcfe of proved reserves at December 31, 2007. Net proceeds and the carrying value of net assets sold were $169.4 million.

- On December 4, 2008, the Company completed the sale of its deep rights in certain central Oklahoma acreage, which includes the Woodford Shale interval, to Devon Energy Production Company, LP ("Devon") for a contract price of $202.3 million, subject to closing adjustments. The sale included approximately 34,000 net acres and no producing reserves. Net proceeds were $153.2 million and the carrying value of net assets sold was $54.2 million, resulting in a gain on the sale of $99.0 million. In January 2009, certain post closing matters were resolved and the Company received additional proceeds of $11.5 million, which will be reported as a gain in the first quarter of 2009. Pending resolution of title issues, the Company estimates it may receive additional proceeds ranging from $12.0 million to $18.0 million during the first quarter of 2009.

Interest Rate Swap Restructuring

In January 2009, the Company amended and extended its interest rate swap portfolio. The Company canceled, in a cashless transaction, its existing interest rate swap agreements that settled at a fixed rate of 5.06% through 2011 (see Note 9) and entered into new agreements that settle at a fixed rate of 3.80% through 2014. See Note 8 for details about the Company's credit facility and senior notes. The following presents the settlement terms of the interest rate swaps:

	Year 2009	Year 2010	Year 2011	Year 2012	Year 2013	Year 2014 (1)
			(dollars in thousands)			
Notional Amount	$ 1,250,000	$ 1,250,000	$ 1,250,000	$ 1,250,000	$ 1,250,000	$ 1,250,000
Fixed Rate	3.80%	3.80%	3.80%	3.80%	3.80%	3.80%

(1) Represents interest rate swaps that settle in January 2014.

Distributions

In January 2009, the Company's Board of Directors declared a cash distribution of $0.63 per unit with respect to the fourth quarter of 2008. The distribution totaled approximately $72.5 million and was paid on February 13, 2009 to unitholders of record as of the close of business on February 6, 2009.

Unit Repurchase Plan

In October 2008, the Board of Directors of the Company authorized the repurchase of up to $100.0 million of the Company's outstanding units. During the year ended December 31, 2008, 1,076,900 units were purchased at an average unit price of $12.09, for a total cost of approximately $13.0 million. All units were subsequently canceled. The Company may purchase units from time to time on the open market or in negotiated purchases. The timing and amounts of any such repurchases will be at the discretion of management, subject to market conditions and other factors, and will be 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 purchased at fair market value on the date of purchase.

Credit and Capital Market Disruptions

Multiple events during 2008 involving numerous financial institutions have effectively restricted current liquidity within the capital markets throughout the United States and around the world. Despite efforts by treasury and banking regulators in the United States, Europe and other nations to provide liquidity to the financial sector, capital

Table of Contents

markets currently remain constrained. To the extent the Company accesses credit or capital markets in the near term, its ability to obtain terms and pricing similar to its existing terms and pricing may be limited. During 2009, the Company plans to renegotiate its credit facility, which matures in August 2010. Entry into a new credit facility is expected to result in increased interest expense and there can be no assurance that the borrowing base will remain at the current level. In addition, the Company cannot be assured that counterparties to the Company's derivative contracts will be able to perform under these contracts. For additional information about these and other risk factors that could affect the Company, see Item 1A. "Risk Factors."

Operating Regions

The Company's properties are located in three regions in the United States:

- Mid-Continent Deep, which includes the Texas Panhandle Deep Granite Wash formation and deep formations in Oklahoma;
- Mid-Continent Shallow, which includes the Texas Panhandle Brown Dolomite formation and shallow formations in Oklahoma; and
- Western, which includes the Brea Olinda Field of the Los Angeles Basin in California.

Mid-Continent Deep

The Mid-Continent Deep region includes properties in the Deep Granite Wash formation in the Texas Panhandle, which produces at depths ranging from 8,900 feet to 16,000 feet, as well as properties in Oklahoma which produce at depths over 8,000 feet. Mid-Continent Deep proved reserves represented approximately 54% of total proved reserves at December 31, 2008, of which 69% were classified as proved developed reserves. This region produced 136 MMcfe/d, or 64%, of the Company's 2008 average daily production. During 2008, the Company invested approximately $218.3 million to drill in this region. During 2009, the Company anticipates spending approximately 70% of its total capital budget for development activities in the Mid-Continent Deep region.

Mid-Continent Shallow

The Mid-Continent Shallow region includes properties producing from the Brown Dolomite formation in the Texas Panhandle, which produces at depths of approximately 3,200 feet, as well as properties in Oklahoma which produce at depths under 8,000 feet. Mid-Continent Shallow proved reserves represented approximately 33% of total proved reserves at December 31, 2008, of which 60% were classified as proved developed reserves. This region produced 63 MMcfe/d, or 30%, of the Company's 2008 average daily production. During 2008, the Company invested approximately $70.7 million to drill in this region. During 2009, the Company anticipates spending approximately 25% of its total capital budget for development activities in the Mid-Continent Shallow region.

In order to more efficiently transport its gas in the Mid-Continent Deep and Mid-Continent Shallow regions to market, the Company owns and operates a network of gas gathering systems comprised of approximately 900 miles of pipeline and associated compression and metering facilities which connect to numerous sales outlets in the Texas Panhandle.

Western

The Western region consists of the Brea Olinda Field of the Los Angeles Basin in California. The Brea Olinda Field was discovered in 1880 and produces from the shallow Pliocene formation to the deeper Miocene formation. Western proved reserves represented approximately 13% of total proved reserves at December 31, 2008, of which 87% were classified as proved developed reserves. This region produced 13 MMcfe/d, or 6%, of the Company's 2008 average daily production. During 2008, the Company invested approximately $3.1 million to drill in this region. During 2009, the Company anticipates spending approximately 5% of its total capital budget for development activities in the Western region.

The Western region also includes the operation of a gas processing facility which processes produced gas from Company and third party wells. Processed gas is utilized to generate electricity which is used in the field to power equipment, resulting in reduced operating costs. Revenues are also generated from the sale of excess power.

Drilling and Acreage

The following sets forth the wells drilled in the Mid-Continent Deep, Mid-Continent Shallow and Western operating regions during the periods indicated ("gross" refers to the total wells in which the Company had a working interest and "net" refers to gross wells multiplied by its working interest):

	Year Ended December 31, 2008	2007	2006
Gross wells:			
Productive	304	136	3
Non-productive	2	2	1
Total	306	138	4
Net development wells:			
Productive	189	112	1
Non-productive	1	2	1
Total	190	114	2
Net exploratory wells:			
Productive	—	—	—
Non-productive	—	—	—
Total	—	—	—

The total wells above exclude 45, 115 and 155 gross wells (45, 105 and 150 net wells) drilled in the Appalachian Basin during the years ended December 31, 2008, 2007 and 2006, respectively. The totals above do not include 23 and 25 lateral segments added to existing vertical wellbores in the Mid-Continent Shallow region during the years ended December 31, 2008 and 2007, respectively. At December 31, 2008, the Company had 7 gross (4 net) wells in process.

The information should not be considered indicative of future performance, nor should it be assumed that there is necessarily any correlation between the number of productive wells drilled, quantities of reserves found or economic value. Productive wells are those that produce commercial quantities of oil, gas or NGL, regardless of whether they generate a reasonable rate of return.

The following sets forth information about the Company's drilling locations and net acres of leasehold interests as of December 31, 2008:

	Total (1)
Proved undeveloped	1,259
Other locations	2,810
Total drilling locations	4,069
Leasehold interests – net acres (in thousands)	737

(1) Does not include optimization projects.

As shown in the table above, as of December 31, 2008, the Company had 1,259 proved undeveloped drilling locations (specific drilling locations as to which the independent engineering firm, DeGolyer and MacNaughton, assigned proved undeveloped reserves as of such date) and the Company had identified 2,810 additional unproved drilling locations (specific drilling locations as to which DeGolyer and MacNaughton has not assigned any proved reserves) on acreage that the Company has under existing leases. As successful development wells frequently result in the reclassification of adjacent lease acreage from unproved to proved, the Company expects that a significant number of its unproved drilling locations will be reclassified as proved drilling locations prior to the actual drilling of these locations.

Table of Contents

Productive Wells

The following table sets forth information relating to the productive wells in which the Company owned a working interest as of December 31, 2008. Productive wells consist of producing wells and wells capable of production, including wells awaiting pipeline or other connections to commence deliveries. "Gross" wells refers to the total number of producing wells in which the Company has an interest, and "net" wells refers to the sum of its fractional working interests owned in gross wells. The number of wells below does not include approximately 2,200 productive wells in which the Company owns a royalty interest only.

	Gas Wells		Oil Wells		Total Wells	
	Gross	Net	Gross	Net	Gross	Net
Operated (1)	1,969	1,647	2,484	2,271	4,453	3,918
Non-operated (2)	1,313	205	950	54	2,263	259
Total	3,282	1,852	3,434	2,325	6,716	4,177

(1) 10 operated wells had multiple completions at December 31, 2008.

(2) 3 non-operated wells had multiple completions at December 31, 2008.

Developed and Undeveloped Acreage

The following sets forth information as of December 31, 2008, relating to leasehold acreage:

	Developed Acreage		Undeveloped Acreage		Total Acreage	
	Gross	Net	Gross	Net	Gross	Net
			(in thousands)			
Leasehold acreage	1,555	664	116	73	1,671	737

Production, Price and Cost History

The results of the Company's Appalachian Basin and Mid Atlantic Well Service, Inc. ("Mid Atlantic") operations are classified as discontinued operations for all periods presented (see Note 2). Unless otherwise indicated, results of operations information presented herein relates only to Linn Energy's continuing operations.

The Company's gas production is primarily sold under market sensitive price contracts, which typically sell at differentials to The New York Mercantile Exchange ("NYMEX") or Panhandle Eastern Pipeline ("PEPL") gas prices due to the Btu content and the proximity to major consuming markets. The Company's gas production is sold to purchasers under percentage-of-proceeds contracts, percentage-of-index contracts or spot price contracts. By the terms of the percentage-of-proceeds contracts, the Company receives a percentage of the resale price received by the purchaser for sales of residual gas and NGL recovered after transportation and processing of gas. These purchasers sell the residual gas and NGL based primarily on spot market prices. Under percentage-of-index contracts, the price per MMBtu the Company receives for gas is tied to indexes published in Gas Daily or Inside FERC Gas Market Report. Although exact percentages vary daily, as of December 31, 2008, approximately 90% of the Company's gas and NGL production was sold under short-term contracts at market-sensitive or spot prices. At December 31, 2008, the Company had gas throughput delivery commitments under long-term contracts of approximately 5,797 MMcf, 2,102 MMcf, 1,045 MMcf and 784 MMcf for the years ended December 31, 2009, 2010, 2011 and 2012, respectively.

The Company’s oil production is primarily sold under market sensitive percentage-of-index contracts and percentage-of-proceeds contracts and as of December 31, 2008, approximately 80% of its oil production was sold under short-term contracts. At December 31, 2008, the Company had no delivery commitments for oil production.

As discussed in the “Strategy” section above, the Company enters into derivative contracts in the form of swap contracts, collars and put options to reduce the impact of commodity price volatility on its cash flow from

Table of Contents

operations. By removing price volatility from a significant portion of its production, the Company has mitigated, but not eliminated, potential effects of fluctuating oil, gas and NGL prices on its cash flow from operations for those periods.

The following sets forth information regarding net production of oil, gas and NGL and certain price information for each of the periods indicated:

	Year Ended December 31,					
	2008		2007		2006	
Average daily production – continuing operations:						
Gas (MMcf/d)		124		51		2
Oil (MBbls/d)		9		3		1
NGL (MBbls/d)		6		3		
Total (MMcfe/d)		212		87		8
Average daily production – discontinued operations:						
Total (MMcfe/d)		12		24		22
Weighted average prices (hedged): (1)						
Gas (Mcf)	$	8.42	$	8.36	$	
Oil (Bbl)	$	80.92	$	67.07	$	
NGL (Bbl)	$	57.86	$	55.51	$	
Weighted average prices (unhedged): (2)						
Gas (Mcf)	$	7.39	$	6.39	$	5.99
Oil (Bbl)	$	92.78	$	66.44	$	49.55
NGL (Bbl)	$	57.86	$	55.51	$	
Representative NYMEX oil and gas prices:						
Gas (MMBtu)	$	9.04	$	6.86	$	7.23
Oil (Bbl)	$	99.65	$	72.34	$	66.21
Costs per Mcfe of production:						
Lease operating expenses	$	1.49	$	1.31	$	2.36
Transportation expenses	$	0.23	$	0.17	$	0.01
General and administrative expenses (3)	$	1.00	$	1.61	$	13.61
Depreciation, depletion and amortization	$	2.50	$	2.16	$	1.56
Taxes, other than income taxes	$	0.79	$	0.70	$	0.09

(1) Includes the effect of realized gains of $9.4 million (excluding $81.4 million realized losses on canceled derivative contracts) and $37.3 million on derivatives for the years ended December 31, 2008 and 2007, respectively. During the year ended December 31, 2008, the Company canceled (before the contract settlement date) derivative contracts on estimated future gas production primarily associated with properties in the Appalachian Basin and Verden areas resulting in realized losses of $81.4 million. This information is not presented for the year ended December 31, 2006 because it is not meaningful due to the classification of Appalachian Basin results of operations in discontinued operations (see Note 2).

(2) Does not include the effect of realized gains (losses) on derivatives.

(3) General and administrative expenses for the years ended December 31, 2008, 2007 and 2006 includes approximately $14.6 million, $13.5 million and $21.6 million, respectively, of non-cash unit-based compensation and unit warrant expenses. General and administrative expenses for the year ended December 31, 2006 also includes $2.0 million of IPO bonuses paid to certain executive officers. Excluding these amounts, general and administrative expenses for the years ended December 31, 2008, 2007 and 2006 were $0.81 per Mcfe, $1.19 per Mcfe and $5.14 per Mcfe, respectively. This is a non-GAAP measure used by management to analyze the Company's performance.

Table of Contents

Reserve Data

Proved Reserves

Proved oil and gas reserves are the estimated quantities of oil, gas and NGL which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices, but not escalations based on future conditions. For additional information regarding estimates of oil, gas and NGL reserves, including estimates of proved and proved developed reserves and the standardized measure of discounted future net cash flows see Supplemental Oil and Gas Data (Unaudited) in Item 8. "Financial Statements and Supplementary Data."

The following presents estimated net proved oil, gas and NGL reserves and the standardized measure of discounted future net cash flows at December 31, 2008, 2007 and 2006, based on reserve reports prepared by independent engineers DeGolyer and MacNaughton. The standardized measure of discounted future net cash flows is not intended to represent the market value of estimated oil, gas and NGL reserves.

	December 31, 2008	2007	2006
Reserve data – continuing operations:			
Estimated net proved reserves:			
Gas (Bcf)	851	833	77
Oil (MMBbls)	84	55	30
NGL (MMBbls)	51	43	—
Total (Bcfe)	1,660	1,419	255
Proved developed (Bcfe)	1,134	1,024	195
Proved undeveloped (Bcfe)	526	395	60
Proved developed reserves as a % of total proved reserves	68%	72%	76%
Standardized measure of discounted future net cash flows (in millions)	$ 1,424	$ 3,175	$ 299
Reserve data – discontinued operations:			
Estimated net proved reserves:			
Gas (Bcf)	—	195	197
Oil (MMBbls)	—	1	1
Total (Bcfe)	—	197	199
Proved developed (Bcfe)	—	148	119
Proved undeveloped (Bcfe)	—	49	80
Proved developed reserves as a % of total proved reserves	—	75%	60%
Standardized measure of discounted future net cash flows (in millions)	$ —	$ 283	$ 254
Representative NYMEX oil and gas prices at period end:			
Gas (MMBtu)	$ 5.71	$ 6.80	$ 5.64
Oil (Bbl)	$ 39.22	$ 95.92	$ 61.05

The data in the above table are estimates. Oil and gas reserve engineering is inherently a subjective process of estimating underground accumulations of oil and gas that cannot be measured exactly. The accuracy of any reserve estimate is a function of the quality of available data and engineering and geological interpretation and judgment. Accordingly, reserve estimates may vary from the quantities of oil and gas that are ultimately recovered.

These reserve estimates are reviewed and approved by Company senior engineering staff and management, with final approval by its Chief Operating Officer. The process performed by the independent engineers to prepare reserve amounts included their estimation of reserve quantities, future producing rates, future net revenue and the present value of such future net revenue. The independent engineering firms also prepared estimates with respect to reserve categorization, using the definitions for proved reserves set forth in Regulation S-X Rule 4-10(a) and subsequent Securities and Exchange Commission ("SEC") staff interpretations and guidance. In the conduct of their preparation of the reserve estimates, the independent engineering firms did not independently verify the accuracy and completeness of information and data furnished by the Company with respect to ownership interests, oil and gas production, well test data, historical costs of operation and development, product prices, or any agreements relating to current and future operations of the properties and sales of production. However, if in the course of their work, something came to their attention which brought into question the validity or sufficiency of any such information or data, they did not rely on such information or data until they had satisfactorily resolved their questions relating thereto. Their estimates of reserves conform to the guidelines of the SEC, including the criteria of "reasonable certainty," as it pertains to expectations about the recoverability of reserves in future years, under existing economic and operating conditions. The Company has not filed reserve estimates with any federal authority or agency, with the exception of the SEC, since the last fiscal year ended.

Future prices received for production may vary, perhaps significantly, from the prices assumed for the purposes of estimating the standardized measure of discounted future net cash flows. The standardized measure of discounted future net cash flows should not be construed as the market value of the reserves at the dates shown. The 10% discount factor required to be used pursuant to Statement of Financial Accounting Standards ("SFAS") No. 69, "Disclosures about Oil and Gas Producing Activities" ("SFAS 69") may not be the most appropriate discount factor based on interest rates in effect from time to time and risks associated with the Company or the oil and gas industry. The standardized measure of discounted future net cash flows is materially affected by assumptions about the timing of future production, which may prove to be inaccurate.

Operational Overview

General

The Company seeks to be the operator of its properties so that it can control the drilling programs that not only replace production, but add value through the growth of reserves and future operational synergies. Many of the Company's wells are completed in multiple producing zones with commingled production and long economic lives.

Principal Customers

For the year ended December 31, 2008, sales of oil, gas and NGL to DCP Midstream Partners, LP, ConocoPhillips and Enbridge Energy accounted for approximately 23%, 12% and 11%, respectively, of the Company's total volumes, or 46% in the aggregate. If the Company were to lose any one of its major oil and gas purchasers, the loss could temporarily cease or delay production and sale of its oil and gas in that particular purchaser's service area. If the Company were to lose a purchaser, it believes it could identify a substitute purchaser. However, if one or more of these large gas purchasers ceased purchasing oil and gas altogether, it could have a detrimental effect on the oil and gas market in general and on the volume of oil and gas that it is able to sell.

Competition

The oil and gas industry is highly competitive. The Company encounters strong competition from other independent operators and master limited partnerships in acquiring properties, contracting for drilling and other related services and securing trained personnel. The Company is also affected by competition for drilling rigs and the availability of related equipment. In the past, the oil and gas industry has experienced shortages of drilling rigs, equipment, pipe and personnel, which has delayed development drilling and has caused significant price increases. The Company is unable to predict when, or if, such shortages may occur or how they would affect its drilling program.

Operating Hazards and Insurance

The oil and gas industry involves a variety of operating hazards and risks that could result in substantial losses from, among other things, injury or loss of life, severe damage to or destruction of property, natural resources and equipment, pollution or other environmental damage, cleanup responsibilities, regulatory investigation and penalties and suspension of operations.

Table of Contents

In addition, the Company may be liable for environmental damages caused by previous owners of property it purchases and leases. As a result, the Company may incur substantial liabilities to third parties or governmental entities, the payment of which could reduce or eliminate funds available for acquisitions, development or distributions, or result in the loss of properties.

In accordance with customary industry practices, the Company maintains insurance against some, but not all, potential losses. The Company cannot provide assurance that any insurance it obtains will be adequate to cover any losses or liabilities. The Company cannot predict the continued availability of insurance or the availability of insurance at premium levels that justify its purchase. The Company has elected to self-insure for trucks and vehicles licensed to operate on public highways and roads. The Company may elect to self-insure for additional items if it is determined that the cost of available insurance is excessive relative to the risks presented. In addition, pollution and environmental risks generally are not fully insurable. The occurrence of an event not fully covered by insurance could have a material adverse effect on the Company’s financial position and results of operations.

The Company participates in wells on a non-operated basis and therefore may be limited in its ability to control the risks associated with oil, gas and NGL operations.

Title to Properties

Prior to the commencement of drilling operations, the Company conducts a thorough title examination and performs curative work with respect to significant defects. To the extent title opinions or other investigations reflect title defects on those properties, the Company is typically responsible for curing any title defects at its expense prior to commencing drilling operations. Prior to completing an acquisition of producing gas leases, the Company performs title reviews on the most significant leases and, depending on the materiality of properties, the Company may obtain a title opinion or review previously obtained title opinions. As a result, the Company has obtained title opinions on a significant portion of its oil and gas properties and believes that it has satisfactory title to its producing properties in accordance with standards generally accepted in the oil and gas industry. Oil and gas properties are subject to customary royalty and other interests, liens for current taxes and other burdens which do not materially interfere with the use of or affect the carrying value of the properties.

Seasonal Nature of Business

Seasonal weather conditions and lease stipulations can limit the drilling and producing activities and other operations in regions of the United States that the Company operates in. These seasonal conditions can pose challenges for meeting the well drilling objectives and increase competition for equipment, supplies and personnel, which could lead to shortages and increase costs or delay operations. For example, Company operations in all regions may be impacted by ice and snow in the winter and by electrical storms and high temperatures in the spring and summer, as well as by wild fires in the fall.

The demand for gas typically decreases during the summer months and increases during the winter months. Seasonal anomalies such as mild winters or hot summers sometimes lessen this fluctuation. In addition, certain gas users utilize gas storage facilities and purchase some of their anticipated winter requirements during the summer, which can also lessen seasonal demand fluctuations. The demand for crude oil is generally determined at a global level, based on supply shortage concerns driven primarily by natural disasters such as hurricanes and by political instability in certain oil producing regions of the world.

Environmental Matters and Regulation

The Company’s operations are subject to stringent federal, state and local laws and regulations governing the discharge of materials into the environment or otherwise relating to environmental protection. The Company’s operations are subject to the same environmental laws and regulations as other companies in the oil and gas industry. These laws and regulations may:

- require the acquisition of various permits before drilling commences;
- require the installation of expensive pollution control equipment;

- restrict the types, quantities and concentration of various substances that can be released into the environment in connection with drilling and production activities;
- limit or prohibit drilling activities on lands lying within wilderness, wetlands and other protected areas;
- require remedial measures to prevent pollution from former operations, such as pit closure and plugging of abandoned wells;
- impose substantial liabilities for pollution resulting from operations; and
- with respect to operations affecting federal lands or leases, require preparation of a Resource Management Plan, an Environmental Assessment, and/or an Environmental Impact Statement.

These laws, rules and regulations may also restrict the rate of oil and gas production below the rate that would otherwise be possible. The regulatory burden on the oil and gas industry increases the cost of doing business and consequently affects profitability. Additionally, Congress and federal and state agencies frequently revise environmental laws and regulations, and any changes that result in more stringent and costly waste handling, disposal and clean-up requirements for the oil and gas industry could have a significant impact on operating costs.

The environmental laws and regulations applicable to the Company and its operations include, among others, the following United States federal laws and regulations:

- Clean Air Act, and its amendments, which governs air emissions;
- Clean Water Act, which governs discharges to waters of the United States;
- Comprehensive Environmental Response, Compensation and Liability Act, which imposes liability where hazardous releases have occurred or are threatened to occur (commonly known as "Superfund");
- Energy Independence and Security Act of 2007, which prescribes new fuel economy standards and other energy saving measures;
- National Environmental Policy Act, which governs oil and gas production activities on federal lands;
- Resource Conservation and Recovery Act, which governs the management of solid waste;
- Safe Drinking Water Act, which governs the underground injection and disposal of wastewater; and
- U.S. Department of Interior regulations, which impose liability for pollution cleanup and damages.

Various states regulate the drilling for, and the production, gathering and sale of, oil and gas, including imposing production taxes and requirements for obtaining drilling permits. States also regulate the method of developing new fields, the spacing and operation of wells and the prevention of waste of oil and gas resources. States may regulate rates of production and may establish maximum daily production allowables from gas wells based on market demand or resource conservation, or both. States do not regulate wellhead prices or engage in other similar direct economic regulation, but there can be no assurance that they will not do so in the future. The effect of these regulations may be to limit the amounts of oil, gas and NGL that may be produced from the Company's wells and to limit the number of wells or locations it can drill. The oil and gas industry is also subject to compliance with various other federal, state and local regulations and laws. Some of those laws relate to occupational safety, resource conservation and equal opportunity employment.

The Company believes that it substantially complies with all current applicable environmental laws and regulations and that continued compliance with existing requirements will not have a material adverse impact on its financial condition or results of operations. Future regulations that could impact the Company include the Environmental Protection Agency's proposed rule entitled Regulating Greenhouse Gas Emissions Under the Clean Air Act as well as a proposed "cap-and-trade" scheme for greenhouse gas emissions. The Company cannot predict how future environmental laws and regulations may impact its properties or operations. For the year ended December 31, 2008, the Company did not incur any material capital expenditures for installation of remediation or pollution control equipment at any of the Company's facilities. The Company is not aware of any environmental issues or claims that will require material capital expenditures during 2009 or that will otherwise have a material impact on its financial position or results of operations.

Table of Contents

Executive Officers of the Company

Name	Age	Position with the Company
Michael C. Linn	57	Chairman and Chief Executive Officer
Mark E. Ellis	53	President and Chief Operating Officer
Kolja Rockov	38	Executive Vice President and Chief Financial Officer
David B. Rottino	43	Senior Vice President and Chief Accounting Officer
Charlene A. Ripley	45	Senior Vice President, General Counsel and Corporate Secretary
Arden L. Walker, Jr.	49	Senior Vice President - Operations and Chief Engineer

Michael C. Linn is the Chairman and Chief Executive Officer of the Company and has served in such capacity since December 2007. Prior to that, from June 2006 to December 2007, Mr. Linn served as Chairman, President and Chief Executive Officer and from March 2003 to June 2006, he was the President, Chief Executive Officer and Director. From 2000 to 2003 Mr. Linn was President of Allegheny Interests, Inc., a private oil and gas investment company. From 1980 to 1999, Mr. Linn served as General Counsel (1980-1982), Vice President (1982-1987), President (1987-1990) and Chief Executive Officer (1990-1999) of Meridian Exploration, a private Appalachian Basin oil and gas company that was sold to Columbia Natural Resources in 1999. Both Allegheny Interests and Meridian Exploration were wholly owned by Mr. Linn and his family. Mr. Linn is the immediate past Chairman of the Independent Petroleum Association of America, the largest national trade association of independent oil and gas producers. He currently sits on the Boards of the National Petroleum Council, the American Exploration and Production Council and the National Association of Manufacturers and is a member of the oil and gas industry’s 25 Year Club. He was recently appointed as a Texas representative to the Legal and Regulatory Affairs Committee of the Interstate Oil and Gas Compact Commission. He is also Chairman of the Houston Wildcatters Committee of the Texas Alliance of Energy Producers. Mr. Linn regularly appears on behalf of the industry before state and federal agencies, such as the Department of Energy, Department of the Treasury, Federal Energy Regulatory Commission and the Environmental Protection Agency. In addition, he has testified on behalf of the industry before various committees and subcommittees of the U.S. House of Representatives and the U.S. Senate and is regularly quoted and has published various articles for trade publications and newspapers. He is also a frequent guest on radio and television programs representing the industry. Mr. Linn’s civic affiliations include memberships on the board of the Museum of Fine Arts Houston, as well as the board of Texas Heart Institute and Small Steps Nurturing Center. In addition, he is the Chairman of the Corporate Committee for Capital Campaign of Texas Children’s Hospital and serves on the Board of Trustees for Texas Children’s Hospital. He also serves on the Committee for the Bush-Clinton Coastal Recovery Fund.

Mark E. Ellis is the President and Chief Operating Officer and has served in such capacity since December 2007. From December 2006 to December 2007, Mr. Ellis was the Executive Vice President and Chief Operating Officer of the Company. Mr. Ellis has over 30 years of experience in the oil and gas industry, most recently serving as President, Lower 48 for ConocoPhillips from April 2006 to November 2006. Prior to joining ConocoPhillips, Mr. Ellis served as Senior Vice President of North American Production for Burlington Resources from September 2004 to April 2006. He served as President of Burlington Resources Canada Ltd. in Calgary from October 2000 to September 2004. Mr. Ellis joined Burlington Resources in 1985 and also held the positions of Vice President of the San Juan Division, Vice President and Chief Engineer and Manager of Acquisitions. He began his career at The Superior Oil Company, where he served in several engineering positions in the Onshore and Offshore divisions. Mr. Ellis is a member of the Society of Petroleum Engineers and a past board member of the New Mexico Oil & Gas Association, the Board of Governors of the Canadian Association of Petroleum Producers and served on the Foundation Board of the Alberta Children’s Hospital. Mr. Ellis currently serves on the Board of The Center for Hearing and Speech in Houston, Industry Board of Petroleum Engineering at Texas A&M University, the Visiting Committee of Petroleum Engineering at the Colorado School of Mines and the Houston Museum of Natural Science.

Kolja Rockov is the Executive Vice President and Chief Financial Officer. Mr. Rockov has over 15 years of experience in the oil and gas finance industry. From October 2004 until he joined Linn Energy in March 2005, Mr. Rockov served as a Managing Director in the Energy Group at RBC Capital Markets, where he was primarily responsible for investment banking coverage of the U.S. exploration and production sector. From September 2000 until October 2004, Mr. Rockov was a Director at RBC Capital Markets. Prior to September 2000, Mr. Rockov held

Table of Contents

various senior positions with Dain Rauscher Wessels and Rauscher Pierce Refsnes, Inc., predecessors of RBC Capital Markets.

David B. Rottino is the Senior Vice President and Chief Accounting Officer and has served in that position since June 2008. Mr. Rottino’s career includes over 15 years of oil and gas accounting experience, most recently serving as Vice President and E&P Controller for El Paso Corporation from June 2006 to May 2008. Prior to joining El Paso Corporation, Mr. Rottino served as Assistant Controller for ConocoPhillips from April 2006 to June 2006. He was Vice President and Chief Financial Officer for the Canadian division of Burlington Resources from July 2005 to April 2006 and served as Burlington Resources’ Director of Financial Analysis and Corporate Accounting from August 2000 to July 2005. Mr. Rottino joined Burlington Resources in 1996 and has served in a broad range of accounting and audit positions. Mr. Rottino is a Certified Public Accountant and a member of the American Institute of Certified Public Accountants and Texas Society of Certified Public Accountants. In addition, he currently serves on the Board of the June Rusche Hamrah Camp For All.

Charlene A. Ripley is the Senior Vice President, General Counsel and Corporate Secretary and has served in that position since April 2007. Prior to joining the Company, Ms. Ripley held the position of Vice President, General Counsel, Corporate Secretary and Chief Compliance Officer at Anadarko Petroleum Corporation from 2006 until April 2007 and served as Vice President, General Counsel and Corporate Secretary from 2004 until 2006, Vice President and General Counsel from 2003 to 2004 and Vice President, General Counsel and Secretary of Anadarko Canada Corporation and its predecessor companies since 1998.

Arden L. Walker, Jr. is the Senior Vice President - Operations and Chief Engineer of the Company. Mr. Walker joined the Company in February 2007 to oversee its Western operations, which, at that time, included California, Oklahoma and Texas, and he is currently responsible for oversight of the Company’s operations in all regions. In addition, Mr. Walker serves in the capacity of chief engineer for the Company and is responsible for the Company’s reserve review and booking processes. From April 2006 until he joined the Company in February 2007, Mr. Walker served as Asset Development Manager, San Juan Business Unit for ConocoPhillips Company. From June 2004 to April 2006, Mr. Walker served as General Manager, Asset Development in San Juan Division for Burlington Resources. From January 2002 until June 2004, Mr. Walker served as Business Development Manager in San Juan Division for Burlington Resources. Mr. Walker began his career with El Paso Exploration Company in 1982 and has served in a broad range of engineering, business development and management positions with Burlington Resources since that time. Mr. Walker is a member of the Society of Petroleum Engineers, Independent Petroleum Association of America and California Independent Petroleum Association.

Table of Contents

Employees

As of December 31, 2008, the Company employed approximately 505 personnel. None of the employees are represented by labor unions or covered by any collective bargaining agreement. The Company believes that its relationship with its employees is satisfactory.

Principal Executive Offices

The Company is a Delaware limited liability company with headquarters in Texas. The principal executive offices are located at 600 Travis, Suite 5100, Houston, Texas 77002. The main telephone number is (281) 840-4000.

Company Website

The Company's internet website is www.linnenergy.com. The Company makes available free of charge on or through its website Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after the Company electronically files such material with, or furnishes it to, the SEC. Information on the Company's website should not be considered a part of, or incorporated by reference into, this Annual Report on Form 10-K.

The SEC maintains an internet website that contains these reports at www.sec.gov. Any materials that the Company files with the SEC may be read or copied at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information concerning the operation of the Public Reference Room may be obtained by calling the SEC at (800) 732-0330.

Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements that are subject to a number of risks and uncertainties, many of which are beyond the Company's control. These statements may include statements about the Company's:

- business strategy;
- acquisition strategy;
- financial strategy;
- drilling locations;
- oil, gas and NGL reserves;
- realized oil, gas and NGL prices;
- production volumes;
- lease operating expenses, general and administrative expenses and development costs;
- future operating results; and
- plans, objectives, expectations and intentions.

All of these types of statements, other than statements of historical fact included in this Annual Report on Form 10-K, are forward-looking statements. These forward-looking statements may be found in Part I. Item 1. "Business;" Part I. Item 1A. "Risk Factors;" Part II. Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other items within this Annual Report on Form 10-K. In some cases, forward-looking statements can be identified by terminology such as "may," "will," "could," "should," "expect," "plan," "project," "intend," "anticipate," "beli "estimate," "predict," "potential," "pursue," "target," "continue," the negative of such terms or other comparable terminology.

The forward-looking statements contained in this Annual Report on Form 10-K are largely based on Company expectations, which reflect estimates and assumptions made by Company management. These estimates and assumptions reflect management's best judgment based on currently known market conditions and other factors. Although the Company believes such estimates and assumptions to be reasonable, they are inherently uncertain and involve a number of risks and uncertainties beyond its control. In addition, management's assumptions may prove to be inaccurate. The Company cautions that the forward-looking statements contained in this Annual Report on

Table of Contents

Form 10-K are not guarantees of future performance, and it cannot assure any reader that such statements will be realized or the forward-looking statements or events will occur. Actual results may differ materially from those anticipated or implied in forward-looking statements due to factors listed in the “Risk Factors” section and elsewhere in this Annual Report on Form 10-K. The forward-looking statements speak only as of the date made, and other than as required by law, the Company undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Securities Act Disclaimer

This Form 10-K does not constitute an offer to sell or the solicitation of an offer to buy any securities.

Table of Contents
Item 1A. Risk Factors

Our business has many risks. Factors that could materially adversely affect our business, financial position, operating results or liquidity and the trading price of our units are described below. This information should be considered carefully, together with other information in this report and other reports and materials we file with the SEC.

We may not have sufficient cash flow from operations to pay the quarterly distribution at the current distribution level and future distributions to our unitholders may fluctuate from quarter to quarter.

We may not have sufficient cash flow from operations each quarter to pay the quarterly distribution at the current distribution level. Under the terms of our limited liability company agreement, the amount of cash otherwise available for distribution will be reduced by our operating expenses and any cash reserve amounts that our Board of Directors establishes to provide for future operations, future capital expenditures, future debt service requirements and future cash distributions to our unitholders. The amount of cash we can distribute on our units principally depends upon the amount of cash we generate from our operations, which will fluctuate from quarter to quarter based on, among other things:

- produced volumes of oil, gas and NGL;
- prices at which oil, gas and NGL production is sold;
- level of our operating costs;
- payment of interest, which depends on the amount of our indebtedness and the interest payable thereon; and
- level of our capital expenditures.

In addition, the actual amount of cash we will have available for distribution will depend on other factors, some of which are beyond our control, including:

- availability of borrowings under our credit facility to pay distributions;
- the costs of acquisitions, if any;
- fluctuations in our working capital needs;
- timing and collectibility of receivables;
- restrictions on distributions contained in our credit facility;
- prevailing economic conditions; and
- the amount of cash reserves established by our Board of Directors for the proper conduct of our business.

As a result of these factors, the amount of cash we distribute to our unitholders in any quarter may fluctuate significantly from quarter to quarter and may be significantly less than the current distribution level.

We actively seek to acquire oil and gas properties. Acquisitions involve potential risks that could adversely impact our future growth and our ability to increase or pay distributions.

Any acquisition involves potential risks, including, among other things:

- the risk that reserves expected to support the acquired assets may not be of the anticipated magnitude or may not be developed as anticipated;
- the risk of title defects discovered after closing;
- inaccurate assumptions about revenues and costs, including synergies;
- significant increases in our indebtedness and working capital requirements;
- an inability to transition and integrate successfully or timely the businesses we acquire;
- the cost of transition and integration of data systems and processes;
- the potential environmental problems and costs;

- the assumption of unknown liabilities;
- limitations on rights to indemnity from the seller;
- the diversion of management's attention from other business concerns;
- increased demands on existing personnel and on our corporate structure;

Table of Contents

- customer or key employee losses of the acquired businesses; and
- the failure to realize expected growth or profitability.

The scope and cost of these risks may ultimately be materially greater than estimated at the time of the acquisition. Further, our future acquisition costs may be higher than those we have achieved historically. Any of these factors could adversely impact our future growth and our ability to increase or pay distributions.

If we do not make future acquisitions on economically acceptable terms, then our growth and ability to increase distributions will be limited.

Our ability to grow and to increase distributions to our unitholders is partially dependent on our ability to make acquisitions that result in an increase in available cash flow per unit. We may be unable to make such acquisitions because we are:

- unable to identify attractive acquisition candidates or negotiate acceptable purchase contracts with them;