

LINN ENERGY, LLC  
Form 10-K  
March 30, 2007

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-K**

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

**For the fiscal year ended December 31, 2006**

**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 Street, Suite 7000**

**Houston, Texas**

(Address of principal executive offices)

**77002**

(Zip Code)

Registrant's telephone number, including area code

**(281) 605-4100**

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  No

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

No

## Edgar Filing: LINN ENERGY, LLC - Form 10-K

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

Indicate by check mark 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.

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check-mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes  No

The aggregate market value of our voting and non-voting common equity held by non-affiliates of the registrant was approximately \$276,160,952 million on June 30, 2006, based on \$20.95 per unit, the last reported sales price of the units on The NASDAQ Global Market on such date.

As of February 28, 2007, there were 50,303,019 units outstanding.

As of February 28, 2007, there were 7,465,946 Class C 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 June 19, 2007.

---

TABLE OF CONTENTS

	Page	
<b>Glossary of Terms</b>		
	ii	
<b><u>Part I</u></b>		
<u>Item 1.</u>	<u>Business and Properties</u>	1
<u>Item 1A.</u>	<u>Risk Factors</u>	17
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u>	28
<u>Item 2.</u>	<u>Properties</u>	29
<u>Item 3.</u>	<u>Legal Proceedings</u>	29
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>	29
<b><u>Part II</u></b>		
<u>Item 5.</u>	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	30
<u>Item 6.</u>	<u>Selected Financial Data</u>	33
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operation</u>	37
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	56
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	57
<u>Item 9.</u>	<u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	94
<u>Item 9A.</u>	<u>Controls and Procedures</u>	94
<u>Item 9B.</u>	<u>Other Information</u>	95
<b><u>Part III</u></b>		
<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	96
<u>Item 11.</u>	<u>Executive Compensation</u>	96
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	96
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	96
<u>Item 14.</u>	<u>Principal Accounting Fees and Services</u>	96
<b><u>Part IV</u></b>		
<u>Item 15.</u>	<u>Exhibits and Financial Statement Schedules</u>	97
	<b><u>Signatures</u></b>	98

**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.

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

*Developed acres.* Acres spaced or assigned to productive wells.

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

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

*FERC.* Federal Energy Regulatory Commission.

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

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

*Mcf.* One thousand cubic feet.

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

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

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

*MMBtu.* One million British thermal units.

*MMcf.* One million cubic feet.

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

*MMcfe/d.* One MMcfe per day.

*MMMBtu.* One billion British thermal units.

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

*NGLs.* Natural gas liquids, which are the hydrocarbon liquids contained within gas.

*NYMEX.* The New York Mercantile Exchange.

*Oil.* Crude oil, condensate and natural gas liquids.

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

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

ii

---

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

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

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

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

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

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

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

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

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

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

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



## Part I

### Item 1. Business and Properties

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 Properties](#) and see also Item 1A. [Risk Factors](#).

#### References to Linn

When referring to Linn Energy, LLC ( [Linn](#) or the [Company](#) ) and using phrases such as [we](#), [our](#), [us](#), or the [Company](#), our intent is to refer to Linn Energy, LLC and its consolidated subsidiaries as a whole or on a divisional basis, depending on the context in which the statements are made.

#### Overview

Linn is an independent oil and gas company focused on the development and acquisition of long-lived properties in the United States that began operations in March 2003 and was formed as a Delaware limited liability company in April 2005. Linn is a holding company that conducts its operations through, and its operating assets are owned by, its wholly-owned subsidiaries. We completed our initial public offering ( [IPO](#) ) on January 13, 2006 and our units representing limited liability company interests ( [units](#) ) are listed on The NASDAQ Global Market under the symbol [LINE](#).

Our strategy focuses on building core areas of operations in multiple regions within the United States with long-lived gas or oil reserves. Our core areas include:

- [Appalachian Basin](#), which includes [West Virginia](#), [Pennsylvania](#), [New York](#) and [Virginia](#);
- [Western](#), which includes the [Brea Olinda Field](#) in the [Los Angeles Basin](#) of [California](#);
- [Mid-Continent](#), which includes the [Sooner Trend](#) of north central [Oklahoma](#); and
- [Texas Panhandle](#), which includes the [Texas portion of the Hugoton-Panhandle Field](#) (acquired in [February 2007](#)).

During the year ended December 31, 2006, we completed five acquisitions of oil and gas properties and related gathering and pipeline assets with total proved reserves of 263.7 Bcfe, for an aggregate purchase price of approximately \$454.9 million, or an acquisition cost of approximately \$1.72 per Mcfe. From inception in March 2003 through December 31, 2006, we completed 14 acquisitions of oil and gas properties and related gathering and pipeline assets, with total proved reserves of approximately 441.5 Bcfe, for an aggregate purchase price of approximately \$656.4 million, or, including the amounts allocated to unproved leasehold, an acquisition cost of approximately \$1.49 per Mcfe. As part of our business strategy, we continually evaluate opportunities to acquire additional oil and gas properties which complement our asset profile. See [Acquisitions](#) below for details about our most recent acquisitions in [Texas](#) and [West Virginia](#), which are not included in our reserves at December 31, 2006.

Our proved reserves at December 31, 2006 were 454.1 Bcfe, of which approximately 60.3% were gas and 39.7% were oil. Approximately 69.2% were classified as proved developed, with a total proved Standardized Measure value of \$552.3 million. At December 31, 2006, we operated 2,683, or 73.3%, of our 3,659 productive wells. Our average proved reserves-to-production ratio, or average reserve life, is approximately 29.5 years, based on our December 31, 2006 reserve report and annualized production for the fourth quarter ended December 31, 2006.

**Item 1. Business and Properties - Continued**

**Acquisitions**

The following table provides a summary of the oil and gas properties we have acquired from inception through the date of this report:

<b>Year</b>	<b># of Acquisitions</b>	<b>Gross Wells</b>	<b>Location</b>	<b>Aggregate Contract Price (in millions)</b>
2003	4	498	West Virginia, Virginia, New York and Pennsylvania	\$ 52.0
2004	2	698	Pennsylvania	