LINN ENERGY, INC.
Form 10-Q
May 11, 2017

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, 2017

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, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	81-5366183 (I.R.S. Employer Identification No.)
600 Travis Houston, Texas (Address of principal executive offices)	77002 (Zip Code)

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

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

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

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

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	¨	(Do not check if a smaller reporting company)	
		Smaller reporting company	x
		Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes x No ¨
As of April 30, 2017, there were 89,233,922 shares of Class A common stock, par value $0.001 per share, 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 the 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 the 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, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	Successor March 31, 2017	Predecessor December 31, 2016
(in thousands, except share and unit amounts)		
ASSETS		
Current assets:		
Cash and cash equivalents	$1,072	$694,857
Accounts receivable – trade, net	181,034	198,064
Derivative instruments	2,406	—
Restricted cash	81,766	1,602
Other current assets	91,005	106,011
Total current assets	357,283	1,000,534
Noncurrent assets:		
Oil and natural gas properties (successful efforts method)	2,203,893	13,232,959
Less accumulated depletion and amortization	(15,351)	(9,999,560)
	2,188,542	3,233,399
Other property and equipment	445,951	636,487
Less accumulated depreciation	(4,197)	(224,547)
	441,754	411,940
Derivative instruments	8,960	—
Deferred income taxes	624,704	—
Other noncurrent assets	23,352	14,718
	657,016	14,718
Total noncurrent assets	3,287,312	3,660,057
Total assets	$3,644,595	$4,660,591
LIABILITIES AND EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable and accrued expenses	$334,160	$295,077
Derivative instruments	18,701	82,508
Current portion of long-term debt, net	28,125	1,937,729
Other accrued liabilities	48,829	26,304
Total current liabilities	429,815	2,341,618
Derivative instruments	—	11,349
Long-term debt	805,625	—
Other noncurrent liabilities	350,981	399,607
Liabilities subject to compromise	—	4,305,005
Commitments and contingencies (Note 10)		

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LINN ENERGY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS - Continued
(Unaudited)

(in thousands, except share and unit amounts)	Successor March 31, 2017	Predecessor December 31, 2016
Temporary equity:		
Redeemable noncontrolling interests	29,350	—
Stockholders'/unitholders' equity (deficit):		
Predecessor units issued and outstanding (no units issued or outstanding at March 31, 2017; 352,792,474 units issued and outstanding at December 31, 2016)	—	5,386,885
Predecessor accumulated deficit	—	(7,783,873)
Successor preferred stock ($0.001 par value, 30,000,000 shares authorized and no shares issued at March 31, 2017; no shares authorized or issued at December 31, 2016)	—	—
Successor Class A common stock ($0.001 par value, 270,000,000 shares authorized and 89,233,922 shares issued at March 31, 2017; no shares authorized or issued at December 31, 2016)	89	—
Successor additional paid-in capital	2,035,991	—
Successor accumulated deficit	(7,256)	—
Total stockholders'/unitholders' equity (deficit)	2,028,824	(2,396,988)
Total liabilities and equity (deficit)	$3,644,595	$4,660,591

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

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LINN ENERGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Successor	Predecessor	
	One Month Ended March 31, 2017	Two Months Ended February 28, 2017	Three Months Ended March 31, 2016
(in thousands, except per share and per unit amounts)			
Revenues and other:			
Oil, natural gas and natural gas liquids sales	$ 87,445	$ 203,766	$ 199,849
Gains (losses) on oil and natural gas derivatives	(11,959)	92,691	109,453
Marketing revenues	2,914	6,636	9,061
Other revenues	2,033	9,925	28,336
	80,433	313,018	346,699
Expenses:			
Lease operating expenses	27,166	53,224	88,387
Transportation expenses	13,723	25,972	41,994
Marketing expenses	2,539	4,820	7,833
General and administrative expenses	10,411	71,745	83,720
Exploration costs	55	93	2,693
Depreciation, depletion and amortization	21,362	56,484	105,215
Impairment of long-lived assets	—	—	123,316
Taxes, other than income taxes	7,502	15,747	19,754
Losses on sale of assets and other, net	445	672	1,269
	83,203	228,757	474,181
Other income and (expenses):			
Interest expense, net of amounts capitalized	(4,917)	(18,406)	(85,267)
Other, net	(388)	(149)	68
	(5,305)	(18,555)	(85,199)
Reorganization items, net	(2,565)	2,331,189	—
Income (loss) from continuing operations before income taxes	(10,640)	2,396,895	(212,681)
Income tax expense (benefit)	(3,384)	(166)	10,246
Income (loss) from continuing operations	(7,256)	2,397,061	(222,927)
Loss from discontinued operations, net of income taxes	—	—	(1,124,819)
Net income (loss)	$ (7,256)	$ 2,397,061	$ (1,347,746)
Basic and diluted income (loss) per share/unit – continuing operations	$ (0.08)	$ 6.79	$ (0.64)
Basic and diluted loss per share/unit – discontinued operations	$ —	$ —	$ (3.19)
Basic and diluted net income (loss) per share/unit	$ (0.08)	$ 6.79	$ (3.83)
Basic and diluted weighted average shares/units outstanding	89,848	352,792	352,234

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

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LINN ENERGY, INC.
CONDENSED CONSOLIDATED STATEMENT OF EQUITY (PREDECESSOR)
(Unaudited)

	Units	Unitholders' Capital	Accumulated Deficit	Total Unitholders' Capital (Deficit)
	(in thousands)			
December 31, 2016 (Predecessor)	352,792	$5,386,885	$(7,783,873)	$(2,396,988)
Net income		—	2,397,061	2,397,061
Other		(73)	—	(73)
February 28, 2017 (Predecessor)	352,792	5,386,812	(5,386,812)	—
Cancellation of predecessor equity	(352,792)	(5,386,812)	5,386,812	—
February 28, 2017 (Predecessor)	—	$—	$—	$—

CONDENSED CONSOLIDATED STATEMENT OF EQUITY (SUCCESSOR)
(Unaudited)

	Class A Common Stock Shares	Class A Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	(in thousands)				
Issuances of successor Class A common stock	89,230	$ 89	$2,021,142	$ —	$2,021,231
Share-based compensation expenses		—	13,750	—	13,750
February 28, 2017 (Successor)	89,230	89	2,034,892	—	2,034,981
Net loss		—	—	(7,256)	(7,256)
Issuances of successor Class A common stock	4	—	—	—	—
Share-based compensation expenses		—	1,135	—	1,135
Other		—	(36)	—	(36)
March 31, 2017 (Successor)	89,234	$ 89	$2,035,991	$ (7,256)	$2,028,824

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

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

	Successor	Predecessor	
	One Month Ended March 31, 2017	Two Months Ended February 28, 2017	Three Months Ended March 31, 2016
(in thousands)			
Cash flow from operating activities:			
Net income (loss)	$ (7,256)	$ 2,397,061	$ (1,347,746)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Loss from discontinued operations	—	—	1,124,819
Depreciation, depletion and amortization	21,362	56,484	105,215
Impairment of long-lived assets	—	—	123,316
Deferred income taxes	(3,384)	(166)	9,422
Noncash (gains) losses on oil and natural gas derivatives	17,741	(104,263)	225,258
Share-based compensation expenses	4,177	50,255	12,425
Amortization and write-off of deferred financing fees	3	1,338	4,676
Losses on sale of assets and other, net	345	1,069	2,226
Reorganization items, net	—	(2,359,364)	—
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable – trade, net	26,614	(7,216)	(16,082)
(Increase) decrease in other assets	(2,620)	402	(8,225)
Increase in restricted cash	—	(80,164)	—
Increase (decrease) in accounts payable and accrued expenses	(43,476)	20,949	(630)
Increase in other liabilities	4,187	2,801	35,713
Net cash provided by (used in) operating activities – continuing operations	17,693	(20,814)	270,387
Net cash provided by operating activities – discontinued operations	—	—	20,641
Net cash provided by (used in) operating activities	17,693	(20,814)	291,028
Cash flow from investing activities:			
Development of oil and natural gas properties	(20,244)	(50,739)	(70,407)
Purchases of other property and equipment	(2,466)	(7,851)	(6,404)
Proceeds from sale of properties and equipment and other	326	(166)	(280)
Net cash used in investing activities – continuing operations	(22,384)	(58,756)	(77,091)
Net cash used in investing activities – discontinued operations	—	—	(14,330)
Net cash used in investing activities	(22,384)	(58,756)	(91,421)

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LINN ENERGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - Continued
(Unaudited)

	Successor	Predecessor	
	One Month Ended March 31, 2017	Two Months Ended February 28, 2017	Three Months Ended March 31, 2016
(in thousands)			
Cash flow from financing activities:			
Proceeds from rights offering, net	—	514,069	—
Proceeds from borrowings	30,000	—	978,500
Repayments of debt	(96,250)	(1,038,986)	(100,000)
Payment to holders of claims under the second lien notes	—	(30,000)	—
Other	17,658	(6,015)	(20,719)
Net cash provided by (used in) financing activities – continuing operations	(48,592)	(560,932)	857,781
Net cash from financing activities – discontinued operations	—	—	—
Net cash provided by (used in) financing activities	(48,592)	(560,932)	857,781
Net increase (decrease) in cash and cash equivalents	(53,283)	(640,502)	1,057,388
Cash and cash equivalents:			
Beginning	54,355	694,857	2,168
Ending	1,072	54,355	1,059,556
Less cash and cash equivalents of discontinued operations at end of period	—	—	(7,334)
Ending – continuing operations	$ 1,072	$ 54,355	$ 1,052,222

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

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

Note 1 – Basis of Presentation

When referring to Linn Energy, Inc. (formerly known as Linn Energy, LLC) ("Successor," "LINN Energy" or the "Company"), the intent is to refer to LINN Energy, a newly formed Delaware corporation, and its consolidated subsidiaries as a whole or on an individual basis, depending on the context in which the statements are made. Linn Energy, Inc. is a successor issuer of Linn Energy, LLC pursuant to Rule 15d 5 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). When referring to the "Predecessor" in reference to the period prior to the emergence from bankruptcy, the intent is to refer to Linn Energy, LLC, the predecessor that will be dissolved following the effective date of the Plan (as defined below) and resolution of all outstanding claims, and its consolidated subsidiaries as a whole or on an individual basis, depending on the context in which the statements are made.

The reference to "Berry" herein refers to Berry Petroleum Company, LLC, which was an indirect 100% wholly owned subsidiary of the Predecessor through February 28, 2017. Berry was deconsolidated effective December 3, 2016 (see Note 4). The reference to "LinnCo" herein refers to LinnCo, LLC, which was an affiliate of the Predecessor.

Nature of Business

LINN Energy is an independent oil and natural gas company that was formed in February 2017, in connection with the reorganization of the Predecessor. The Predecessor was publicly traded from January 2006 to February 2017. As discussed further in Note 2, on May 11, 2016 (the "Petition Date"), Linn Energy, LLC, certain of its direct and indirect subsidiaries, and LinnCo (collectively, the "LINN Debtors") and Berry (collectively with the LINN Debtors, the "Debtors"), filed voluntary petitions ("Bankruptcy Petitions") for relief under Chapter 11 of the U.S. Bankruptcy Code ("Bankruptcy Code") in the U.S. Bankruptcy Court for the Southern District of Texas ("Bankruptcy Court"). The Debtors' Chapter 11 cases were administered jointly under the caption In re Linn Energy, LLC, et al., Case No. 16-60040. During the pendency of the Chapter 11 proceedings, the Debtors operated their businesses as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code. The Company emerged from bankruptcy effective February 28, 2017.

The Company's properties are located in eight operating regions in the United States ("U.S."), in the Rockies, the Hugoton Basin, the Mid-Continent, east Texas and north Louisiana ("TexLa"), the Permian Basin, California, Michigan/Illinois and south 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, 2016. 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. Redeemable noncontrolling interests on the condensed consolidated balance sheet as of March 31, 2017, relate to the noncontrolling Class B unitholders of the Company's subsidiary, Linn Energy Holdco LLC ("Holdco"). See Note 12 and Note 17 for additional information.

The condensed consolidated financial statements for previous periods include certain reclassifications that were made to conform to current presentation. In addition, the Company has classified the results of operations and cash flows of Berry as

discontinued operations on its condensed consolidated statement of operations and condensed consolidated statement of cash flows for the three months ended March 31, 2016. Such reclassifications have no impact on previously reported net income (loss), unitholders' deficit or cash flows.

Bankruptcy Accounting

The condensed consolidated financial statements have been prepared as if the Company will continue as a going concern and reflect the application of Accounting Standards Codification 852 "Reorganizations" ("ASC 852"). ASC 852 requires that the financial statements, for periods subsequent to the Chapter 11 filing, distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Accordingly, certain expenses, gains and losses that are realized or incurred in the bankruptcy proceedings are recorded in "reorganization items, net" on the Company's condensed consolidated statements of operations. In addition, prepetition unsecured and under-secured obligations that may be impacted by the bankruptcy reorganization process have been classified as "liabilities subject to compromise" on the Company's condensed consolidated balance sheet at December 31, 2016. These liabilities are reported at the amounts expected to be allowed as claims by the Bankruptcy Court, although they may be settled for less.

Upon emergence from bankruptcy on February 28, 2017, the Company adopted fresh start accounting which resulted in the Company becoming a new entity for financial reporting purposes. As a result of the application of fresh start accounting and the effects of the implementation of the plan of reorganization, the condensed consolidated financial statements on or after February 28, 2017, are not comparable with the condensed consolidated financial statements prior to that date. See Note 3 for additional information.

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. In addition, as part of fresh start accounting, the Company made estimates and assumptions related to its reorganization value, liabilities subject to compromise, the fair value of assets and liabilities recorded as a result of the adoption of fresh start accounting and income taxes.

As fair value is a market-based measurement, it is determined based on the assumptions that market participants would use. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Such estimates and assumptions are adjusted when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ from these estimates. Any changes in estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

Recently Issued Accounting Standards

In November 2016, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU") that is intended to address diversity in the classification and presentation of changes in restricted cash on the statement of cash flows. This ASU will be applied retrospectively as of the date of adoption and is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years (early adoption permitted). The Company is currently evaluating the impact of the adoption of this ASU on its financial statements and related disclosures. The adoption of this ASU is expected to result in the inclusion of restricted cash in the beginning and ending balances of cash on the statements of cash

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flows and disclosure reconciling cash and cash equivalents presented on the consolidated balance sheets to cash, cash equivalents and restricted cash on the consolidated statements of cash flows.

In March 2016, the FASB issued an ASU that is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The Company adopted this ASU on January 1, 2017. The adoption of this ASU had no impact on the Company’s historical financial statements or related disclosures. In the future, this ASU will result in excess tax benefits, which were previously recorded in equity on the balance sheets and classified as financing activities on the statements of cash flows, being recorded to the statements of operations and classified as operating activities on the statements of cash flows. Additionally, the Company elected to begin accounting for forfeitures as they occur.

In February 2016, the FASB issued an ASU that is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet. This ASU will be applied retrospectively as of the date of adoption and is effective for fiscal years beginning after December 15, 2018, and interim periods within those years (early adoption permitted). The Company is currently evaluating the impact of the adoption of this ASU on its financial statements and related disclosures. The Company expects the adoption of this ASU to impact its consolidated balance sheets resulting from an increase in both assets and liabilities related to the Company’s leasing activities.

In May 2014, the FASB issued an ASU that is intended to improve and converge the financial reporting requirements for revenue from contracts with customers. This ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within those years (early adoption permitted for fiscal years beginning after December 15, 2016, including interim periods within that year). The Company does not plan to early adopt this ASU. The Company is currently evaluating the impact of the adoption of this ASU on its financial statements and related disclosures. The Company expects to use the cumulative-effect transition method, has completed an initial review of its contracts and is developing accounting policies to address the provisions of the ASU, but has not finalized any estimates of the potential impacts.

Note 2 – Emergence From Voluntary Reorganization Under Chapter 11

On the Petition Date, the Debtors filed Bankruptcy Petitions for relief under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court. The Debtors’ Chapter 11 cases were administered jointly under the caption In re Linn Energy, LLC, et al., Case No. 16 60040.

On December 3, 2016, the LINN Debtors filed the Amended Joint Chapter 11 Plan of Reorganization of Linn Energy, LLC and Its Debtor Affiliates Other Than Linn Acquisition Company, LLC (“LAC”) and Berry Petroleum Company, LLC (the “Plan”). The LINN Debtors subsequently filed amended versions of the Plan with the Bankruptcy Court.

On December 13, 2016, LAC and Berry filed the Amended Joint Chapter 11 Plan of Reorganization of Linn Acquisition Company, LLC and Berry Petroleum Company, LLC (the “Berry Plan” and together with the Plan, the “Plans”). LAC and Berry subsequently filed amended versions of the Berry Plan with the Bankruptcy Court.

On January 27, 2017, the Bankruptcy Court entered an order approving and confirming the Plans (the “Confirmation Order”). On February 28, 2017 (the “Effective Date”), the Debtors satisfied the conditions to effectiveness of the respective Plans, the Plans became effective in accordance with their respective terms and LINN Energy and Berry emerged from bankruptcy as stand-alone, unaffiliated entities.

Plan of Reorganization

In accordance with the Plan, on the Effective Date:

- The Predecessor transferred all of its assets, including equity interests in its subsidiaries, other than LAC and Berry, to Linn Energy Holdco II LLC (“Holdco II”), a newly formed subsidiary of the Predecessor and the borrower under the Credit Agreement (“Successor Credit Facility”) entered into in connection with the reorganization, in exchange for

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

100% of the equity of Holdco II and the issuance of interests in the Successor Credit Facility to certain of the Predecessor's creditors in partial satisfaction of their claims (the "Contribution"). Immediately following the Contribution, the Predecessor transferred 100% of the equity interests in Holdco II to the Successor in exchange for approximately $530 million in cash and an amount of equity securities in the Successor not to exceed 49.90% of the outstanding equity interests of the Successor (the "Disposition"), which the Predecessor distributed to certain of its creditors in satisfaction of their claims. Contemporaneously with the reorganization transactions and pursuant to the Plan, (i) LAC assigned all of its rights, title and interest in the membership interests of Berry to Berry Petroleum Corporation, (ii) all of the equity interests in LAC and the Predecessor were canceled and (iii) LAC and the Predecessor commenced liquidation, which is expected to be completed following the resolution of the respective companies' outstanding claims.

- The holders of claims under the Predecessor's Sixth Amended and Restated Credit Agreement ("Predecessor Credit Facility") received a full recovery, consisting of a cash paydown and their pro rata share of the $1.7 billion Successor Credit Facility. As a result, all outstanding obligations under the Predecessor Credit Facility were canceled.
- Holdco II, as borrower, entered into the Successor Credit Facility with the holders of claims under the Predecessor Credit Facility, as lenders, and Wells Fargo Bank, National Association, as administrative agent, providing for a new reserve-based revolving loan with up to $1.4 billion in borrowing commitments and a new term loan in an original principal amount of $300 million. For additional information about the Successor Credit Facility, see Note 6.
- The holders of the Company's 12.00% senior secured second lien notes due December 2020 (the "Second Lien Notes") received their pro rata share of (i) 17,678,889 shares of Class A common stock; (ii) certain rights to purchase shares of Class A common stock in the rights offering, as described below; and (iii) $30 million in cash. The holders of the Company's 6.50% senior notes due May 2019, 6.25% senior notes due November 2019, 8.625% senior notes due 2020, 7.75% senior notes due February 2021 and 6.50% senior notes due September 2021 (collectively, the "Unsecured Notes") received their pro rata share of (i) 26,724,396 shares of Class A common stock; and (ii) certain rights to purchase shares of Class A common stock in the rights offering (as described below). As a result, all outstanding obligations under the Second Lien Notes and the Unsecured Notes and the indentures governing such obligations were canceled.
- The holders of general unsecured claims (other than claims relating to the Second Lien Notes and the Unsecured Notes) against the LINN Debtors (the "LINN Unsecured Claims") received their pro rata share of cash from two cash distribution pools totaling $40 million, as divided between a $2.3 million cash distribution pool for the payment in full of allowed LINN Unsecured Claims in an amount equal to $2,500 or less (and larger claims for which the holders irrevocably agreed to reduce such claims to $2,500), and a $37.7 million cash distribution pool for pro rata distributions to all remaining allowed general LINN Unsecured Claims. As a result, all outstanding LINN Unsecured Claims were fully satisfied, settled, released and discharged as of the Effective Date.
- All units of the Predecessor that were issued and outstanding immediately prior to the Effective Date were extinguished without recovery. On the Effective Date, the Successor issued in the aggregate 89,229,892 shares of Class A common stock. No cash was raised from the issuance of the Class A common stock on account of claims held by the Predecessor's creditors.
- The Successor entered into a registration rights agreement with certain parties, pursuant to which the Company agreed to, among other things, file a registration statement with the Securities and Exchange Commission within 60 days of the Effective Date covering the offer and resale of "Registrable Securities" (as defined therein).
- By operation of the Plan and the Confirmation Order, the terms of the Predecessor's board of directors expired as of the Effective Date. The Successor formed a new board of directors, consisting of the Chief Executive Officer of the Predecessor, one director selected by the Successor and five directors selected by a six-person selection committee.

Liabilities Subject to Compromise

The Predecessor's condensed consolidated balance sheet as of December 31, 2016, includes amounts classified as "liabilities subject to compromise," which represent prepetition liabilities that were allowed, or that the Company estimated would be allowed, as claims in its Chapter 11 cases. The following table summarizes the components of liabilities subject to compromise included on the condensed consolidated balance sheet:

	Predecessor December 31, 2016 (in thousands)
Accounts payable and accrued expenses	$ 137,692
Accrued interest payable	144,184
Debt	4,023,129
Liabilities subject to compromise	$ 4,305,005

Reorganization Items, Net

The Company incurred significant costs associated with the reorganization. Reorganization items represent costs and income directly associated with the Chapter 11 proceedings since the Petition Date, and also include adjustments to reflect the carrying value of certain liabilities subject to compromise at their estimated allowed claim amounts, as such adjustments were determined. The following table summarizes the components of reorganization items included on the condensed consolidated statements of operations:

	Successor	Predecessor
(in thousands)	One Month Ended March 31, 2017	Two Months Ended February 28, 2017
Gain on settlement of liabilities subject to compromise	$ —	$ 3,724,750
Recognition of an additional claim for the Predecessor's Second Lien Notes settlement	—	(1,000,000)
Fresh start valuation adjustments	—	(591,525)
Income tax benefit related to implementation of the Plan	—	264,889
Legal and other professional advisory fees	(2,570)	(46,961)
Terminated contracts	—	(6,915)
Other	5	(13,049)
Reorganization items, net	$ (2,565)	$ 2,331,189

Note 3 – Fresh Start Accounting

Upon the Company's emergence from Chapter 11 bankruptcy, it adopted fresh start accounting in accordance with the provisions of ASC 852 which resulted in the Company becoming a new entity for financial reporting purposes. In accordance with ASC 852, the Company was required to adopt fresh start accounting upon its emergence from Chapter 11 because (i) the holders of existing voting ownership interests of the Predecessor received less than 50% of the voting shares of the Successor and (ii) the reorganization value of the Company's assets immediately prior to confirmation of the Plan was less than the total of all post-petition liabilities and allowed claims.

Upon adoption of fresh start accounting, the reorganization value derived from the enterprise value as disclosed in the Plan was allocated to the Company's assets and liabilities based on their fair values (except for deferred income taxes) in accordance with

ASC 805 “Business Combinations” (“ASC 805”). The amount of deferred income taxes recorded was determined in accordance with ASC 740 “Income Taxes” (“ASC 740”). The Effective Date fair values of the Company’s assets and liabilities differed materially from their recorded values as reflected on the historical balance sheet. The effects of the Plan and the application of fresh start accounting were reflected in the condensed consolidated financial statements as of February 28, 2017, and the related adjustments thereto were recorded on the statement of operations for the two months ended February 28, 2017.

As a result of the adoption of fresh start accounting and the effects of the implementation of the Plan, the Company’s condensed consolidated financial statements subsequent to February 28, 2017, are not comparable to its condensed consolidated financial statements prior to February 28, 2017. References to “Successor” relate to the financial position and results of operations of the reorganized Company as of and subsequent to February 28, 2017. References to “Predecessor” relate to the financial position of the Company prior to, and results of operations through and including, February 28, 2017.

The Company’s condensed consolidated financial statements and related footnotes are presented with a black line division, which delineates the lack of comparability between amounts presented after February 28, 2017, and amounts presented on or prior to February 28, 2017. The Company’s financial results for future periods following the application of fresh start accounting will be different from historical trends and the differences may be material.

Reorganization Value

Under ASC 852, the Successor determined a value to be assigned to the equity of the emerging entity as of the date of adoption of fresh start accounting. The Plan confirmed by the Bankruptcy Court estimated an enterprise value of $2.35 billion. The Plan enterprise value was prepared using an asset based methodology, as discussed further below. The enterprise value was then adjusted to determine the equity value of the Successor of approximately $2.03 billion. Adjustments to determine the equity value are presented below (in thousands):

Plan confirmed enterprise value	$2,350,000
Fair value of debt	(900,000)
Fair value of subsequently determined tax attributes	621,486
Fair value of vested Class B units	(36,505)
Value of Successor’s stockholders’ equity	$2,034,981

The subsequently determined tax attributes were primarily the result of the conversion from a limited liability company to a C corporation and differences in the accounting basis and tax basis of the Company’s oil and natural gas properties as of the Effective Date. The Class B units are incentive interest awards that were granted on the Effective Date by Holdco to certain members of its management (see Note 12), and the associated fair value was recorded as a liability of approximately $7 million in “other accrued liabilities” and temporary equity of approximately $29 million in “redeemable noncontrolling interests” on the condensed consolidated balance sheet at February 28, 2017.

The Company's principal assets are its oil and natural gas properties. The fair values of oil and natural gas properties were estimated using valuation techniques consistent with the income approach, converting future cash flows to a single discounted amount. Significant inputs used to determine the fair values of properties include estimates of: (i) reserves; (ii) future operating and development costs; (iii) future commodity prices; and (iv) a market-based weighted average cost of capital rate. 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 underlying commodity prices embedded in the Company’s estimated cash flows are the product of a process that begins with New York Mercantile Exchange (“NYMEX”) forward curve pricing, adjusted for estimated location and quality differentials, as well as other factors that Company management believes will impact realizable prices.

See below under “Fresh Start Adjustments” for additional information regarding assumptions used in the valuation of the Company's various other significant assets and liabilities.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Continued
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Condensed Consolidated Balance Sheet
The adjustments included in the following fresh start condensed consolidated balance sheet reflect the effects of the transactions contemplated by the Plan and executed by the Company on the Effective Date (reflected in the column “Reorganization Adjustments”) as well as fair value and other required accounting adjustments resulting from the adoption of fresh start accounting (reflected in the column “Fresh Start Adjustments”). The explanatory notes provide additional information with regard to the adjustments recorded, the methods used to determine the fair values and significant assumptions.

	As of February 28, 2017			
	Predecessor	Reorganization Adjustments [1]	Fresh Start Adjustments	Successor
	(in thousands)			
ASSETS				
Current assets:				
Cash and cash equivalents	$734,166	$ (679,811) [2]	$ —	$54,355
Accounts receivable – trade, net	212,099	—	(7,808) [16]	204,291
Derivative instruments	15,391	—	—	15,391
Restricted cash	1,602	80,164 [3]	—	81,766
Other current assets	106,426	(15,983) [4]	1,780 [17]	92,223
Total current assets	1,069,684	(615,630)	(6,028)	448,026
Noncurrent assets:				
Oil and natural gas properties (successful efforts method)	13,269,035	—	(11,082,258) [18]	2,186,777
Less accumulated depletion and amortization	(10,044,240)	—	10,044,240 [18]	—
	3,224,795	—	(1,038,018)	2,186,777
Other property and equipment	641,586	—	(197,653) [19]	443,933
Less accumulated depreciation	(230,952)	—	230,952 [19]	—
	410,634	—	33,299	443,933
Derivative instruments	4,492	—	—	4,492
Deferred income taxes	—	264,889 [5]	356,597 [5]	621,486
Other noncurrent assets	15,003	151 [6]	8,139 [20]	23,293
	19,495	265,040	364,736	649,271
Total noncurrent assets	3,654,924	265,040	(639,983)	3,279,981
Total assets	$4,724,608	$ (350,590)	$ (646,011)	$3,728,007
LIABILITIES AND EQUITY (DEFICIT)				
Current liabilities:				
Accounts payable and accrued expenses	$324,585	$ 41,266 [7]	$ (2,351) [21]	$363,500
Derivative instruments	7,361	—	—	7,361
Current portion of long-term debt, net	1,937,822	(1,912,822) [8]	—	25,000
Other accrued liabilities	41,251	(1,026) [9]	1,104 [22]	41,329
Total current liabilities	2,311,019	(1,872,582)	(1,247)	437,190

Derivative instruments	2,116	—	—	2,116
Long-term debt	—	875,000 (10)	—	875,000
Other noncurrent liabilities	402,776	(167) (11)	(53,239) (23)	349,370
Liabilities subject to compromise	4,301,912	(4,301,912) (12)	—	—

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS – Continued
(Unaudited)

	As of February 28, 2017						
	Predecessor	Reorganization Adjustments (1)		Fresh Start Adjustments		Successor
Temporary equity:						
Redeemable noncontrolling interests	—	29,350	(13)	—		29,350
Stockholders'/unitholders' equity (deficit):						
Predecessor units issued and outstanding	5,386,812	(5,386,812)	(14)	—		—
Predecessor accumulated deficit	(7,680,027)	2,884,740	(15)	4,795,287	(24)	—
Successor Class A common stock	—	89	(14)	—		89
Successor additional paid-in capital	—	7,421,704	(14)	(5,386,812)	(24)	2,034,892
Successor retained earnings	—	—		—		—
Total stockholders'/unitholders' equity (deficit)	(2,293,215)	4,919,721		(591,525)		2,034,981
Total liabilities and equity (deficit)	$4,724,608	$ (350,590)		$ (646,011)		$3,728,007

Reorganization Adjustments:

1) Represent amounts recorded as of the Effective Date for the implementation of the Plan, including, among other items, settlement of the Predecessor's liabilities subject to compromise, repayment of certain of the Predecessor's debt, cancellation of the Predecessor's equity, issuances of the Successor's Class A common stock, proceeds received from the Successor's rights offering and issuance of the Successor's debt.

2) Changes in cash and cash equivalents included the following:

(in thousands)	
Borrowings under the Successor's revolving loan	$600,000
Borrowings under the Successor's term loan	300,000
Proceeds from rights offering	530,019
Removal of restriction on cash balance	1,602
Payment to holders of claims under the Predecessor Credit Facility	(1,947,357)
Payment to holders of claims under the Second Lien Notes	(30,000)
Payment of Berry's ad valorem taxes	(23,366)
Payment of the rights offering backstop commitment premium	(15,900)
Payment of professional fees	(13,043)
Funding of the professional fees escrow account	(41,766)
Funding of the general unsecured claims cash distribution pool	(40,000)
Changes in cash and cash equivalents	$(679,811)

3) Primarily reflects the transfer to restricted cash to fund the Predecessor's professional fees escrow account and general unsecured claims cash distribution pool.

4) Primarily reflects the write-off of the Predecessor's deferred financing fees.