ENERGY PARTNERS LTD
Form DEF 14A
April 28, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

SCHEDULE 14A

(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant x   Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

ENERGY PARTNERS, LTD.

Name of Registrant as Specified in Its Charter

(Name of Person(s) Filing Proxy Statement, if other than Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(2) Aggregate number of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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(4) Proposed maximum aggregate value of transaction:

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(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

(1) Amount previously paid:

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(2) Form, schedule or registration statement no.:

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(3) Filing party:

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(4) Date filed:

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201 St. Charles Avenue

Suite 3400

New Orleans, Louisiana 70170

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

To Be Held On May 29, 2008

Notice is hereby given that the 2008 Annual Meeting of Stockholders of Energy Partners, Ltd. (the *Company*), a Delaware corporation, will be held at the Hotel InterContinental New Orleans, Cabildo Room, 444 St. Charles Ave., New Orleans, Louisiana 70130, on May 29, 2008, at 9:00 a.m., Central Daylight Time, for the following purposes:

(1) to elect eleven (11) directors to hold office until the Annual Meeting of Stockholders in the year 2009 and until their successors are duly elected and qualified;

(2) to ratify the appointment of KPMG LLP as the Company s independent registered public accountants for the year ended December 31, 2008;

(3) to adjourn or postpone the meeting, as necessary; and

(4) to transact such other business as may properly come before the meeting.

Only stockholders of record at the close of business on March 31, 2008 (the *Record Date*) will be entitled to notice of, and to vote at, the 2008 Annual Meeting, or any adjournment thereof, notwithstanding the transfer of any stock on the books of the Company after the Record Date. A list of these stockholders will be open for examination by any stockholder for any purpose germane to the 2008 Annual Meeting for a period of ten (10) days prior to the meeting at the Company s principal executive offices at 201 St. Charles Ave., Suite 3400, New Orleans, Louisiana 70170.

By Order of the Board of Directors,

JOHN H. PEPER

Executive Vice President, General Counsel

and Corporate Secretary

New Orleans, Louisiana

April 28, 2008

PLEASE RETURN THE ENCLOSED PROXY CARD TODAY WHETHER OR NOT YOU EXPECT TO ATTEND THE MEETING IN PERSON. STOCKHOLDERS WHO ATTEND THE 2008 ANNUAL MEETING MAY REVOKE THEIR PROXIES AND VOTE IN PERSON.

ENERGY PARTNERS, LTD.

201 St. Charles Avenue

Suite 3400

New Orleans, Louisiana 70170

The 2007 Annual Report to Stockholders, including audited financial statements, is being mailed to stockholders, together with these proxy materials, on or about May 1, 2008.

PROXY STATEMENT

FOR ANNUAL MEETING OF STOCKHOLDERS

To Be Held On May 29, 2008

This Proxy Statement is furnished to the stockholders of Energy Partners, Ltd. (the *Company*) in connection with the solicitation of proxies by the Board of Directors of the Company (the *Board of Directors* or the *Board*) for use at the Annual Meeting of Stockholders of the Company to be held on May 29, 2008 at the Hotel InterContinental New Orleans, Cabildo Room, 444 St. Charles Ave., New Orleans, Louisiana 70130 at 9:00 a.m., Central Daylight Time (the *2008 Annual Meeting* or the *Meeting*), or at any adjournment or postponement thereof, for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders.

ABOUT THE 2008 ANNUAL MEETING

Voting Procedures

Stockholders of record at the close of business on March 31, 2008 (the *Record Date*) will be entitled to vote at the Meeting. On the Record Date, there were outstanding and entitled to vote 31,873,406 shares of the Company s Common Stock (the *Company Shares* or the *Common Stock*). The holders of a majority of the Company Shares issued and outstanding and entitled to vote at the Meeting, present in person or represented by proxy, will constitute a quorum. The person(s) whom the Company appoints to act as inspector(s) of election will treat all Company Shares represented by a returned, properly executed proxy as present for purposes of determining the existence of a quorum at the Meeting. The Company Shares present at the meeting, in person or by proxy, that are abstained from voting will be counted as present for determining the existence of a quorum.

Each of the Company Shares will entitle the holder to one vote. Cumulative voting is not permitted. Directors are elected by a plurality of the votes of the shares present in person or represented by proxy and entitled to vote at the meeting. Other than with respect to the election of directors, an abstention has the effect of a vote against a matter to be presented at the Meeting. A broker non-vote is not entitled to be voted and will not affect the outcome on any proposal in the Proxy Statement. A broker non-vote occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power with respect to that item and the broker has not received voting instructions from the beneficial owner. Votes cast at the meeting will be counted by the inspector(s) of election.

The Board of Directors is soliciting your proxy on the enclosed Proxy Card to provide you with an opportunity to vote on all matters to come before the meeting, whether or not you attend in person. If you execute and return the enclosed Proxy Card, your shares will be voted as you specify. If you make no specifications, your shares will be voted in accordance with the recommendations of the Board, as set forth below. If you submit a Proxy Card, you may subsequently revoke it by submitting a revised proxy or a written revocation at any time before your original proxy is voted. You may also attend the meeting in person and vote in person by ballot, which would cancel any proxy you previously gave.

The Board of Directors urges you to vote, and solicits your proxy, as follows:

(1) FOR the election of eleven (11) nominees for membership on the Company s Board of Directors, Messrs. Bachmann, Bumgarner, Carlisle, Carter, Dawkins, Gershen, Herrin, Latimer, Patton and Pully and Dr. Francis, to serve until the Annual Meeting of Stockholders in the year 2009 and until their successors are duly elected and qualified;

(2) FOR the ratification of the appointment of KPMG LLP as the Company s independent registered public accountants for the year ending December 31, 2008;

(3) FOR the adjournment or postponement of the meeting, as necessary; and

(4) At the discretion of the designated proxies named on the enclosed Proxy Card, on any other matter that may properly come before the 2008 Annual Meeting.

Proxy Solicitation

Your proxy is being solicited by and on behalf of the Board of Directors of the Company. The expense of preparing, printing and mailing proxy solicitation materials will be borne by the Company. In addition to solicitation of proxies by mail, certain directors, officers, representatives and employees of the Company may solicit proxies by telephone and personal interview. Such individuals will not receive additional compensation from the Company for solicitation of proxies, but may be reimbursed by the Company for reasonable out-of-pocket expenses in connection with such solicitation. In addition, MacKenzie Partners, Inc. has been retained to aid in the solicitation at an estimated fee of $7,500. Banks, brokers and other custodians, nominees and fiduciaries also will be reimbursed by the Company, as necessary, for their reasonable expenses for sending proxy solicitation materials to the beneficial owners of Common Stock.

OWNERSHIP OF COMMON STOCK BY

MANAGEMENT AND CERTAIN BENEFICIAL OWNERS

The following table shows the number of shares of Common Stock beneficially owned by each director; by the Company s principal executive officer, principal financial officer, four most highly compensated other executive officers of the Company (the *Named Officers*); by all directors and executive officers as a group; and by such persons known to the Company to own beneficially more than five (5%) of the outstanding Common Stock of the Company.

The information set forth below is as of March 31, 2008, except as otherwise indicated, and is based upon information supplied or confirmed by the named individuals:

Beneficial Owner	Company Shares	Percent of Company Shares (1)
Richard A. Bachmann (2)	1,795,381	5.5
John C. Bumgarner, Jr. (3)	73,018	*
Jerry D. Carlisle (4)	40,041	*
Harold D. Carter (3)	64,578	*
Enoch L. Dawkins (5)	32,002	*
Thomas D. DeBrock (6)	73,390	*
T. Rodney Dykes (7)	98,697	*
Dr. Norman C. Francis (8)	26,123	*
Robert D. Gershen (3)	68,121	*
Phillip A. Gobe (9)	195,119	*
William R. Herrin, Jr. (8)	30,147	*
William O. Hiltz (10)	109,183	*

Beneficial Owner	**Company Shares**	**Percent of Company Shares (1)**
James R. Latimer, III		*
Joseph T. Leary	500	*
Bryant H. Patton		*
John H. Peper (11)	251,300	*
John G. Phillips (3)	57,831	*
Steven J. Pully		*
L. Keith Vincent (6)	107,188	*
All directors and executive officers as a group (19 persons)	2,924,320	8.8
Wellington Management Company, LLP (12)	3,315,400	10.4
Carlson Capital, L.P. and affiliates (13)	2,994,968	9.4
Artisan Partners Limited Partnership and affiliates (14)	2,590,266	8.1
Barclays Global Investors (Deutschland) AG and affiliates (15)	2,397,448	7.5
Farallon Capital Partners, L.P. and affiliates (16)	2,045,800	6.4
Renaissance Technologies LLC and affiliate (17)	1,902,742	6.0

* Represents beneficial ownership of less than 1%.

(1) Percentage ownership of a holder or class of holders is calculated by dividing (1) the number of shares of Common Stock, including restricted shares, outstanding attributed to such holder or class of holders, as the case may be, plus the total number of shares of Common Stock underlying options exercisable and restricted share units that vest within sixty days from March 31, 2008, by (2) the total number of shares of Common Stock outstanding plus the total number of shares of Common Stock underlying options exercisable and restricted share units that vest within sixty days from March 31, 2008 but not Common Stock underlying such securities held by any other person.

(2) Includes 45,000 shares of Common Stock pledged to support obligations incurred in two separate transactions under Forward Purchase Agreements entered into with Citigroup. Mr. Bachmann retains voting rights with respect to these shares. The number of shares to be delivered commencing in August 2009 pursuant to such agreements will be based on the market price of the Company s Common Stock and will not exceed 45,000 shares. Mr. Bachmann has the right to deliver cash instead of shares of Common Stock. Also includes (i) 510,841 shares of Common Stock underlying options granted to Mr. Bachmann under our 2006 Long Term Stock Incentive Plan, which may be exercised within 60 days from March 31, 2008, (ii) 3,751 shares of Common Stock beneficially owned by Mr. Bachmann and held in trust by the Energy Partners, Ltd. 401(k) Plan, (iii) 1,648 shares beneficially owned by Mr. Bachmann s wife, and (iv) 1,128,591 shares of Common Stock pledged in a margin account held by Mr. Bachmann. The address for Mr. Bachmann is Energy Partners, Ltd., 201 St. Charles Avenue, Suite 3400, New Orleans, Louisiana 70170.

(3) Includes 31,500 shares of Common Stock underlying options exercisable, and 6,000 restricted share units vesting, within 60 days of March 31, 2008 granted under our Amended and Restated 2000 Stock Incentive Plan for Non-Employee Directors to each of Messrs. Bumgarner, Carter, Gershen and Phillips. Also includes 19,017 and 1,993 phantom shares accrued for Messrs. Bumgarner and Gershen under our Stock and Deferral Plan for Non-Employee Directors.

(4) Includes 21,500 shares of Common Stock underlying options exercisable, and 6,000 restricted share units vesting, within 60 days of March 31, 2008 granted to Mr. Carlisle under our Amended and Restated 2000 Stock Incentive Plan for Non-Employee Directors. Includes 500 shares of Common Stock beneficially owned by Mr. Carlisle s wife of which Mr. Carlisle disclaims beneficial ownership.

(5) Includes 17,500 shares of Common Stock underlying options exercisable, and 6,000 restricted share units vesting, within 60 days of March 31, 2008 granted to Mr. Dawkins under our Amended and Restated 2000 Stock Incentive Plan for Non-Employee Directors.

(6) Includes 39,000 and 83,000 shares of Common Stock underlying options exercisable within 60 days of March 31, 2008 granted to Messrs. DeBrock and Vincent, respectively and 3,333 and 1,550 restricted share units vesting within 60 days of March 31, 2008 for Messrs. DeBrock and Vincent, respectively, all under

our 2006 Long Term Stock Incentive Plan. Also includes 2,412, and 2,136 shares of Common Stock beneficially owned by Messrs. DeBrock and Vincent, respectively, and held in trust by the Energy Partners, Ltd. 401(k) Plan. Also includes 28,644 shares of Common Stock pledged in a margin account held by Mr. DeBrock.

(7) Includes 89,973 shares of Common Stock underlying options exercisable within 60 days of March 31, 2008 granted under our 2006 Long Term Stock Incentive Plan. Also includes 2,623 shares of Common Stock beneficially owned by Mr. Dykes and held in trust by the Energy Partners, Ltd. 401(k) Plan.

(8) Includes 11,500 shares of Common Stock underlying options exercisable, and 6,000 restricted share units vesting, within 60 days of March 31, 2008 granted under our Amended and Restated 2000 Stock Incentive Plan for Non-Employee Directors to each of Dr. Francis and Mr. Herrin. Also includes 3,336 phantom shares accrued for Dr. Francis under our Stock and Deferral Plan for Non-Employee Directors.

(9) Includes 159,108 shares of Common Stock underlying options exercisable within 60 days of March 31, 2008 granted to Mr. Gobe under our 2006 Long Term Stock Incentive Plan.

(10) Includes 15,500 shares of Common Stock underlying options exercisable, and 6,000 restricted share units vesting, within 60 days of March 31, 2008 granted under our Amended and Restated 2000 Stock Incentive Plan for Non-Employee Directors to Mr. Hiltz, and 6,640 phantom shares accrued for Mr. Hiltz under our Stock and Deferral Plan for Non-Employee Directors.

(11) Includes 174,951 shares of Common Stock underlying options exercisable within 60 days of March 31, 2008 granted to Mr. Peper under our 2006 Long Term Stock Incentive Plan. Also includes 2,856 shares of Common Stock beneficially owned by Mr. Peper and held in trust by the Energy Partners, Ltd. 401(k) Plan. Also includes 62,600 shares of Common Stock pledged in a margin account held by Mr. Peper.

(12) Pursuant to a Schedule 13G/A filed April 10, 2008, Wellington Management Company, LLP (*Wellington*) reported that it had shared power to vote 1,817,200 Company Shares and shared power to dispose of 3,315,400 Company Shares. Wellington, in its capacity as an investment advisor may, for purposes of Rule 13d-3 under the Exchange Act, be deemed to own beneficially 3,315,400 Company Shares held of record by clients of Wellington. Wellington s principal business address is 75 State Street, Boston, MA 02109.

(13) Pursuant to a Schedule 13D/A filed April 3, 2008, Carlson Capital, L.P. (*Carlson*), Double Black Diamond Offshore LDC (*DBDO*), Asgard Investment Corp. (*Asgard*), and Mr. Clint D. Carlson reported the following: Carlson, Asgard and Mr. Carlson each have the sole power to vote and the sole power to dispose of 2,994,968 Company Shares and DBDO has the sole power to vote and the sole power to dispose of 2,028,446 Company Shares. Carlson, as DBDO s investment manager, may, for purposes of Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the *Exchange Act*), be deemed to beneficially own 2,028,446 Company Shares held by DBDO, and beneficially own Company Shares held by other private investment funds and managed accounts (the *Accounts*). As Carlson s general partner, Asgard, may, for purposes of Rule 13d-3 under the Exchange Act, be deemed to own beneficially 2,994,968 Company Shares. As the President of Asgard and the Chief Executive Officer of Carlson, Mr. Clint D. Carlson may, for purposes of Rule 13d-3 under the Exchange Act, be deemed to own beneficially 2,994,968 Company Shares. Mr. Carlson, Asgard and Carlson disclaim any beneficial ownership of Company Shares held by DBDO and the Accounts. The business address of the reporting persons is 2100 McKinney Avenue, Suite 1600, Dallas TX 75201.

(14) Pursuant to a Schedule 13G filed February 13, 2008, Artisan Partners Limited Partnership (*Artisan Partners*), Artisan Investment Corporation (*Artisan Corp.*), ZFIC, Inc. (*ZFIC*), Andrew Ziegler, and Carlene M. Ziegler reported that all reporting persons had shared power to vote 2,314,808 Company Shares and shared power to dispose of 2,590,266 Company Shares. Company Shares have been acquired on behalf of clients of Artisan Partners. Artisan Partners, Artisan Corp. as the general partner of Artisan Partners, ZFIC as the sole stockholder of Artisan Corp., and Mr. Ziegler and Ms. Ziegler, as the principal stockholders of ZFIC, may, for purposes of Rule 13d-3 under the Exchange Act, be deemed to own beneficially 2,590,266 Company Shares. The principal business address of the reporting persons is 875 East Wisconsin Avenue, Suite 800, Milwaukee, WI 53202.

(15) Pursuant to a Schedule 13G filed January 25, 2008, Barclays Global Investors, NA.; Barclays Global Fund Advisors; Barclays Global Investors, Ltd.; Barclays Global Investors Japan Trust and Banking Company Limited; Barclays Global Investors Japan Limited; Barclays Global Investors Canada Limited; Barclays Global Investors Australia Limited; and Barclays Global Investors (Deutschland) AG (*BGIDAG*) reported the following: Barclays Global Investors, NA. has the sole power to vote 1,794,038 Company Shares and the sole power to dispose of 1,914,912 Company Shares, Barclays Global Fund Advisors has the sole power to vote and the sole power to dispose of 482,536 Company Shares, and BGIDAG has the sole power to vote 2,276,574 Company Shares and the sole power to dispose of 2,397,448 Company Shares. Barclays Global Investors, NA., Barclays Global Fund Advisors and BGIDAG may, for purposes of Rule 13d-3 under the Exchange Act, be deemed to own beneficially 1,914,912 Company Shares, 482,536 Company Shares, and 2,397,448 Company Shares, respectively. All of the above mentioned entities disclaim group attribution. The principal business office of Barclays Global Investors, NA. and Barclays Global Fund Advisors is 45 Fremont Street, San Francisco, CA 94105. The principal business office of Barclays Global Investors, Ltd. is 1 Royal Mint Court, London, EC3N 4HH. The principal business office of Barclays Global Investors Japan Trust and Banking Company Limited and Barclays Global Investors Japan Limited is Ebisu Prime Square Tower 8th Floor, 1-1-39 Hiroo Shibuya-Ku, Tokyo 150-0012 Japan. The principal business office of Barclays Global Investors Canada Limited is Brookfield Place 161 Bay Street, Suite 2500, PO Box 614, Toronto, Canada Ontario M5J 2S1. The principal business office of Barclays Global Investors Australia Limited is Level 43, Grosvenor Place, 225 George Street, PO Box N43, Sydney Australia NSW 1220. The principal business office of BGIDAG is Apianstrauss 6 D-85774, Unterfohring, Germany.

(16) Pursuant to a Schedule 13G/A filed January 9, 2008 Farallon Capital Partners, L.P.; Farallon Capital Institutional Partners, L.P.; Farallon Capital Institutional Partners II, L.P.; Farallon Capital Institutional Partners III, L.P.; Tinicum Partners, L.P.; Farallon Capital Offshore Investors II, L.P. (such partnerships being the *Farallon Partnerships*); Farallon Capital Management, L.L.C. (*FPM*); Farallon Partners, L.L.C. (*FPLLC*); William F. Duhamel; Richard B. Fried; Monica R. Landry; Douglas M. MacMahon; William F. Mellin; Stephen L. Millham; Jason E. Moment; Ashish H. Pant; Rajiv A. Patel; Derek C. Schrier; Andrew J. M. Spokes; Thomas F. Steyer; and Mark C. Wehrly (together, the *Farallon Managing Members*); and Chun R. Ding reported the following:

Beneficial Owner	**Number of Company Shares over which Beneficial Owner Claims Shared Voting Power and Shared Dispositive Power**
Farallon Capital Partners, L.P.	493,353
Farallon Capital Institutional Partners, L.P.	170,803
Farallon Capital Institutional Partners II, L.P.	33,053
Farallon Capital Institutional Partners III, L.P.	13,243
Tinicum Partners, L.P.	11,425
Farallon Capital Offshore Investors II, L.P.	352,868
Farallon Capital Management, L.L.C.	1,039,055
Farallon Partners, L.L.C.	1,006,745
Farallon Managing Members	2,045,800
Farallon Senior Managing Member	2,045,800

As the general partner of the Farallon Partnerships, FPLLC may, for purposes of Rule 13d-3 under the Exchange Act, be deemed to own beneficially 1,006,745 Company Shares held by the Farallon Partnerships. As the manager of a certain account (*the Managed Account*), FCM may, for purposes of Rule 13d-3 under the Exchange Act, be deemed to own beneficially 1,039,055 Company Shares held by the Managed Account. As the managing members of FPLLC and FCM, each of William F. Duhamel, Richard B. Fried, Monica R. Landry, Douglas M. MacMahon, William F. Mellin, Stephen L. Millham, Jason E. Moment, Ashish H. Pant, Rajiv A. Patel, Derek C. Schrier, Andrew J. M. Spokes, Thomas F. Steyer, and Mark C. Wehrly (together, the *Farallon Managing Members*) and as senior managing member of FPLLC and FCM, Thomas F. Steyer (the *Farallon Senior Managing Member*) may, for purposes of Rule 13d-3 under the Exchange Act, be deemed to own beneficially 2,045,800 Company Shares held by the Farallon Partnerships and the Managed Account. Each of FPLLC, FCM, the Farallon Managing Members and the Farallon Senior Managing Member disclaim any beneficial ownership of such Company Shares. All of the above-mentioned entities and persons disclaim group attribution. The principal business office of the Farallon Partnerships, FPLLC, FCM, Farallon Managing Members, and the Farallon Senior Managing Member is One Maritime Plaza, Suite 2100, San Francisco, CA 94111.

(17) Pursuant to a Schedule 13G filed February 13, 2008, Renaissance Technologies LLC (*RTC*) and James H. Simons reported the following: RTC has the sole power to vote 1,699,721 Company Shares and the sole power to dispose of 1,902,742 Company Shares, and Dr. Simons as the control person of RTC may, for purposes of Rule 13d-3 under the Exchange Act, be deemed to own beneficially 1,902,742 Company Shares and has the sole power to vote 1,699,721 Company Shares and the sole power to dispose of 1,902,742 Company Shares. The principal business address of the reporting persons is 800 Third Avenue, New York, NY 10022.

MATTERS TO BE PRESENTED TO THE STOCKHOLDERS

AT THE 2008 ANNUAL MEETING

Item 1 *Election of Directors*

At the 2008 Annual Meeting, eleven (11) directors are to be elected, each of whom will serve until the Annual Meeting of Stockholders in the year 2009 and until their respective successors are duly elected and qualified. The persons named as proxies on the enclosed Proxy Card intend to vote FOR the election of each of the eleven (11) nominees listed below, unless otherwise directed.

The Board has nominated, and the proxies will vote to elect, the following individuals as members of the Board of Directors to serve for a period of one (1) year and until their respective successors are duly elected and qualified: Richard A. Bachmann, John C. Bumgarner, Jerry D. Carlisle, Harold D. Carter, Enoch L. Dawkins, Dr. Norman C. Francis, Robert D. Gershen, William R. Herrin, James R. Latimer, III, Bryant H. Patton, and Steven J. Pully. Each nominee has consented to be nominated and to serve, if elected.

Under the Company s Corporate Governance Guidelines, a majority of the Board must be comprised of directors who are independent under the rules of the New York Stock Exchange (NYSE). No director will be deemed to be independent unless the Board affirmatively determines that the director has no material relationship with the Company, either directly or as an officer, stockholder or partner of an organization that has a relationship with the Company. The Board observes all criteria established by the NYSE and other governing laws and regulations. In its review of director independence, the Board of Directors considers all relevant facts and circumstances, including without limitation, all commercial, banking, consulting, legal, accounting, charitable or other business relationships any director may have with the Company. The Board has adopted categorical standards to assist it in making determinations of independence for directors, a copy of which is attached as Annex I to this Proxy Statement.

The Board has determined that each of Messrs. Bumgarner, Carlisle, Carter, Gershen, Herrin, Latimer, Patton and Pully and Dr. Francis is independent. Mr. Bachmann was determined to be not independent because he is the Company s chief executive officer. Mr. Dawkins was determined to be not independent because one of his immediate family members (as defined in the NYSE rules) is a consulting principal of KPMG LLP, the Company s independent registered public accountant.

Carlson Capital, L.P. and its affiliates have agreed to vote all of their shares in favor of the nominees. Please see Certain Relationships and Related Transactions .

The Board of Directors recommends that you vote FOR the election of the eleven (11) nominees: Messrs. Bachmann, Bumgarner, Carlisle, Carter, Dawkins, Gershen, Herrin, Latimer, Patton and Pully and Dr. Francis.

Information About the Nominees

Richard A. Bachmann, age 63, has been chief executive officer of the Company and chairman of its Board of Directors since the Company s incorporation in January 1998. Mr. Bachmann began organizing the Company in February 1997 and served as the Company s president until November 2005. From 1995 to January 1997, he served as director, president and chief operating officer of The Louisiana Land and Exploration Company *(LL&E)*, an independent oil and gas exploration company. From 1982 to 1995, Mr. Bachmann held various positions with LL&E, including director, executive vice president, chief financial officer and senior vice president of finance and administration. From 1978 to 1981, Mr. Bachmann was the treasurer of Itel Corporation. Prior to 1978, Mr. Bachmann served with Exxon International, Esso Central America, Esso InterAmerica and Standard Oil of New Jersey. He is also a director of Trico Marine Services, Inc.

John C. Bumgarner, Jr., age 65, has been a director since January 2000. Mr. Bumgarner is currently serving as managing member of Utica Plaza Management Company, a family-owned real estate company. Mr. Bumgarner was chief operating officer and president of strategic investments for Williams Communications Group, Inc., a high technology company, from May 2001 to November 2002. Williams Communications Group, Inc. filed a Plan of Reorganization with the U.S. Bankruptcy Court for the Southern District of New York in August 2002. Mr. Bumgarner joined The Williams Companies, Inc. in 1977 and served as senior vice president of Williams Corporate Development and Planning and then also served as president of Williams International Company prior to joining Williams Communications Group, Inc. Mr. Bumgarner is also a director of Management Planning Systems, Inc. Mr. Bumgarner is a former treasurer of Skelly Oil.

Jerry D. Carlisle, age 62, has been a director since March 2003. Mr. Carlisle has been vice president and director of DarC Marketing, Inc., a family-owned marketing company, since 1997. From 1983 to 1997, Mr. Carlisle was vice president, controller and chief accounting officer of LL&E and, from 1979 to 1983, he held various management positions at LL&E. Mr. Carlisle has a masters of business administration from Loyola University, is a certified public accountant, and serves as a trustee of the Mississippi State University Business School.

Harold D. Carter, age 69, has been a director since May 1998. Since 1995, Mr. Carter has been an independent oil and natural gas consultant and investment advisor. Mr. Carter is a director of Brigham Exploration Company and Abraxas Petroleum Corp., public oil and gas companies, a director of Longview Energy Company, a privately held oil and gas company, and former president of Sabine Corporation, an independent oil and gas exploration company.

Enoch L. Dawkins, age 70, has been a director since January 2004. Mr. Dawkins retired from Murphy Exploration and Production Co., where he served as president from 1991 until 2003. From 1964 until 1991, Mr. Dawkins held various operational, marketing and managerial positions at Ocean Drilling and Exploration Company, including president from 1989 until its acquisition by Murphy Oil Corporation in 1991. He is also a director of Superior Energy Services, Inc.

Dr. Norman C. Francis, age 77, has been a director since May 2005. Dr. Francis has served as the President of Xavier University of Louisiana since 1968. Dr. Francis is the chairman of the board for the Southern Education Foundation and for Liberty Bank and Trust, a member of the board of directors of the American Council on Education and a Fellow of The American Academy of Arts and Sciences (inducted 1993).

Robert D. Gershen, age 54, has been a director since May 1998. Mr. Gershen is president of Associated Energy Managers, LLC, an investment management firm specializing in private equity investments in the energy sector. In addition, Mr. Gershen serves as the President of Longview Energy Company, a privately held oil and gas company. Since 1989, Mr. Gershen has managed, through Associated Energy Managers, LLC, three funds that invest in energy companies in the United States.

William R. Herrin, Jr., age 73, has been a director since May 2005. Mr. Herrin served in a number of capacities for Chevron Corporation, most recently as Vice President and General Manager, Gulf of Mexico Production Business Unit, Chevron U.S.A. Production Co. from July 1992 until his retirement in 1998.

James R. Latimer, III, age 62, is standing for election to the Board for the first time at the 2008 Annual Meeting. Mr. Latimer is head of The Latimer Companies, a private oil and gas exploration and development company. He is also partner of Blackhill Partners/Blackhill Advisors, a financial advisory and merchant banking firm, primarily in energy and technology industries, which he founded in 2000. Mr. Latimer currently serves as a director of NGP Capital Resources Company.

Bryant H. Patton, age 49, is standing for election to the Board for the first time at the 2008 Annual Meeting. Mr. Patton is the president of BRYCAP Investments, Inc., a merchant banking firm specializing in energy related companies that he founded in 1989. In 2000, he also co-founded Camden Resources, Inc., a private oil and gas exploration and production company, and served as executive vice president until the company was acquired at the end of 2007. Mr. Patton also served as senior vice president of Associated Energy Managers, LLC, an investment management firm specializing in private equity investments in the energy sector, from 1991 to 1998. Mr. Patton also is a director of the general partner of Abraxas Energy Partners, L.P.

Steven J. Pully, age 48, is standing for election to the Board for the first time at the 2008 Annual Meeting. Mr. Pully is a consultant in the asset management industry and acts as a consultant to Carlson Capital, L.P. From December 2001 to October 2007, Mr. Pully worked for Newcastle Capital Management, L.P., an investment partnership, where he served as president from January 2003 through October 2007. He served as chief executive officer of New Century Equity Holdings Corp. from June 2004 through October 2007. Prior to joining Newcastle Capital Management, he was an investment banker with a primary focus on the energy sector. Mr. Pully is also a director of Peerless Systems Corporation and New Century Equity Holdings Corp.

Director Emeritus

Mr. John G. Phillips, age 85, has been a director since May 1998 and will step down at the 2008 Annual Meeting. Thereafter, he will serve as Director Emeritus. Since 1995, Mr. Phillips has been an independent financial consultant. Mr. Phillips is former chairman, president and chief executive officer of LL&E and, since 1972, continues to serve as a director of the Whitney National Bank and Whitney Holding Corporation. Mr. Phillips retired from LL&E in 1985.

As a Director Emeritus, Mr. Phillips is entitled to attend Board meetings and committee meetings and participate in discussion of matters that come before the Board or its committees, although he is not entitled to vote upon any such matters.

Item 2 ***Ratification of Appointment of Independent Registered Public Accountants***

The Audit Committee of the Board of Directors is required by law and applicable NYSE rules to be directly responsible for the appointment, compensation and retention of the Company s independent registered public accountants. The Audit Committee has appointed KPMG LLP as the independent registered public accountants for the year ending December 31, 2008. While stockholder ratification is not required by the Company s Amended and Restated Bylaws or otherwise, the Board of Directors is submitting the selection of KPMG LLP to the stockholders for ratification as part of good corporate governance practices. If the stockholders fail to ratify the selection, the Audit Committee may, but is not required to, reconsider whether to retain KPMG LLP. Even if the selection is ratified, the Audit Committee in its discretion may direct the appointment of different independent registered public accountants at any time during the year if it determines that such a change would be in the best interest of the Company and its stockholders.

The Board of Directors recommends a vote FOR the proposal to ratify the selection of KPMG LLP as the Company s independent registered public accountants to audit the Company s consolidated financial statements for the year ending December 31, 2008. The persons designated as proxies will vote FOR the ratification of KPMG LLP as the Company s independent registered public accountants, unless otherwise directed. Representatives of KPMG LLP are expected to be present at the 2008 Annual Meeting, with the opportunity to make a statement should they choose to do so, and to be available to respond to questions, as appropriate.

Item 3 ***Adjournment or Postponement of the 2008 Annual Meeting, as Necessary***

An adjournment or postponement of the 2008 Annual Meeting may be necessary for the Company to conduct the business of the Company that is before the meeting or may properly come before the meeting.

The Board of Directors recommends a vote FOR the proposal to adjourn or postpone the 2008 Annual Meeting, as necessary. The persons designated as proxies will vote FOR the adjournment or postponement of the 2008 Annual Meeting, as necessary, unless otherwise directed.

CORPORATE GOVERNANCE

The Board of Directors

The directors hold regular meetings, attend special meetings as required and spend such time on the affairs of the Company as their duties require. The Company s Corporate Governance Guidelines provide that directors are expected to attend regular Board meetings and the Annual Meeting of Stockholders in person and to spend the time needed and meet as frequently as necessary to properly discharge their responsibilities. During calendar year 2007, the Board of Directors held a total of 13 meetings, regular and special. All directors of the Company attended at least seventy-five percent (75%) of the meetings of the Board of Directors and of the committees on which they served during the period. All of the Company s then current directors who were standing for reelection at the meeting attended the annual meeting of stockholders in 2007, except Messrs. Bumgarner and Dawkins.

The non-management directors meet in executive sessions at least semi-annually and our independent directors meet at least annually, to discuss such matters as they deem appropriate. At least once a year, our non-management directors meet to review the Compensation Committee s annual review of the chief executive officer. These executive sessions are chaired by the Chairman of the Nominating & Governance Committee. Stockholders may communicate with the non-management directors, or the chair of our executive sessions, by following the procedures under Communications with Board of Directors .

Committees of the Board

The Audit Committee

The Board of Directors has a standing Audit Committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, the current members of which are Messrs. Bumgarner, Carlisle (Chairman), Carter and Phillips. The Board of Directors has determined that each of the members of the Audit Committee is independent as defined by NYSE listing standards and the rules of the SEC applicable to audit committee members, and that Mr. Carlisle qualifies as an audit committee financial expert as described in Item 401(h) of Regulation S-K. The Audit Committee has a charter under which its primary purpose is to assist the Board in overseeing (1) the integrity of the Company s financial statements, (2) the independent registered public accountants qualifications and independence, (3) the performance of the Company s internal audit function and independent registered public accountants and (4) the compliance by the Company with legal and regulatory requirements. The Audit Committee is directly responsible for the appointment and compensation of the independent registered public accountants. During fiscal year 2007, the Audit Committee held eight (8) meetings.

The Compensation Committee

The Board of Directors has a standing Compensation Committee, the current members of which are Messrs. Bumgarner (Chairman), Gershen, Herrin and Phillips. The Compensation Committee has a charter under which its responsibilities and authorities include reviewing the Company s compensation strategy, reviewing the performance of and approving the compensation for the senior management (other than the chief executive officer), evaluating the chief executive officer s performance and, either as a committee or together with the other independent directors, determining and approving the chief executive officer s compensation level. In addition, the committee approves and administers employee benefit plans and takes such other action as may be appropriate or as directed by the Board of Directors to ensure that the compensation policies of the Company are reasonable and fair. The Board of Directors has determined that each member of the Compensation Committee is independent as defined by NYSE listing standards. During fiscal year 2007, the Compensation Committee held six (6) meetings.

The Nominating & Governance Committee

The Board of Directors also has a standing Nominating & Governance Committee, the current members of which are Dr. Francis (Chairman) and Messrs. Carter and Herrin. The Nominating & Governance Committee has a charter under which its responsibilities and authorities include identifying director candidates and recommending director nominees for the next annual meeting of stockholders or for any vacancy on the Board of Directors and recommending members of the Board of Directors to serve on the various committees. In addition, the Nominating & Governance Committee develops and recommends to the Board of Directors the Corporate Governance Guidelines of the Company and is responsible for the oversight of the evaluation of the Board of Directors and management. The Board of Directors has determined that each member of the Nominating & Governance Committee is independent as defined by NYSE listing standards. During fiscal year 2007, the Nominating & Governance Committee held two (2) meetings.

Nominee Qualifications

When seeking candidates for director, the Nominating & Governance Committee may solicit suggestions from incumbent directors, management, stockholders or others. While the Nominating & Governance Committee has authority under its charter to retain a search firm for this purpose, no such firm was utilized in 2007. After conducting an initial evaluation of a potential candidate, the Nominating & Governance Committee will interview that candidate if it believes such candidate might be suitable to be a director. The Nominating & Governance Committee may also ask the candidate to meet with management. If the Nominating & Governance Committee believes a candidate would be a valuable addition to the Board, it will recommend to the full Board that candidate s election.

The Nominating & Governance Committee selects each nominee based on the nominee s skills, achievements and experience. The Nominating & Governance Committee considers a variety of factors in selecting candidates, including, but not limited to the following: independence, wisdom, integrity, an understanding and general acceptance of the Company s corporate philosophy, valid business or professional knowledge and experience, a proven record of accomplishment with excellent organizations, an inquiring mind, a willingness to speak one s mind, an ability to challenge and stimulate management and a willingness to commit time and energy.

This year, Messrs. Latimer, Patton and Pully are standing for election by the stockholders for the first time. Messrs. Latimer, Patton and Pully were recommended to the Board by Carlson Capital, L.P., a 9.4% holder of the Company s Common Stock. Please see Certain Relationships and Related Transactions .

Communications with Board of Directors

The Nominating & Governance Committee, on behalf of the Board, reviews letters from stockholders concerning the Company s annual general meeting and governance process and makes recommendations to the Board based on such communications. Stockholders can send communications to the Board and to the non-management directors by mail in care of the Corporate Secretary at 201 St. Charles Avenue, Suite 3400, New Orleans, Louisiana 70170, and should specify the intended recipient or recipients. All such communications, other than unsolicited commercial solicitations or communications, will be forwarded to the appropriate director or directors for review. Any such unsolicited commercial solicitation or communication not forwarded to the appropriate director or directors will be available to any non-management director who wishes to review it.

Website Access to Corporate Governance Documents

Copies of the charters for the Audit Committee, the Compensation Committee and the Nominating & Governance Committee, as well as the Company s Corporate Governance Guidelines and Code of Business

Conduct and Ethics (the Code) that applies, among others, to the Company s principal executive officer, principal financial officer and controller, are available free of charge on the Company s website at www.eplweb.com or by writing to Investor Relations, Energy Partners, Ltd., 201 St. Charles Avenue, Suite 3400, New Orleans, Louisiana 70170. The Company will also post on its website any amendment to the Code and any waiver of the Code granted to any of its directors or executive officers to the extent required by applicable rules.

Compensation of Directors

Fiscal 2007 Director Compensation

The table below sets forth cash and equity compensation paid to our non-employee directors in Fiscal 2007.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)(1)	Option Awards ($)(2)	Total ($)
John C. Bumgarner, Jr.	45,000	147,267	21,272	213,538
Jerry D. Carlisle	65,500	121,433	21,272	208,205
Harold D. Carter	63,500	116,433	21,272	201,205
Enoch L. Dawkins	46,000	113,933	21,272	181,205
Dr. Norman C. Francis	49,000	123,600	21,272	193,871
Robert D. Gershen	39,000	132,267	21,272	192,538
William R. Herrin, Jr.	42,000	132,267	21,272	195,538
William O. Hiltz	28,000	132,267	21,272	181,538
John G. Phillips	67,500	116,433	21,272	205,205

(1) Amounts reflect compensation cost recorded in the 2007 consolidated financial statements for each named individual and include grants made in previous years for which compensation expense is required to be recognized in accordance with Statement of Financial Standards No. 123 (R) Share-Based Payment (*Statement 123R*). As of December 31, 2007 outstanding stock awards were 6,000 restricted share units for each director granted under our Amended and Restated 2000 Stock Incentive Plan for Non-Employee Directors. Messrs. Bumgarner, Gershen and Hiltz and Dr. Francis, respectively, also have 19,017, 1,993, 6,640 and 3,336 phantom shares accrued for under our Stock and Deferral Plan for Non-Employee Directors. The grant date fair value of restricted share unit awards made to all directors in 2007 was $17.20 per share as computed in accordance with Statement 123R. Please refer to footnotes 2(j) and 14 in the Company s consolidated financial statements filed on Form 10-K for the year ended December 31, 2007 for a discussion of the assumptions used in computing the grant date fair value of stock based compensation awards. These amounts reflect the Company s accounting expense for these awards and do not correspond to the actual value that might be realized by the named individuals.

(2) Amounts reflect compensation cost recorded in the 2007 consolidated financial statements for each named individual and include grants made in previous years for which compensation expense is required to be recognized in accordance with Statement 123R. As of December 31, 2007 there were 31,500 shares of Common Stock underlying options granted under our Amended and Restated 2000 Stock Incentive Plan for Non-Employee Directors to each of Messrs. Bumgarner, Carter, Gershen and Phillips, respectively, 21,500 to Mr. Carlisle, 11,500 to each of Dr. Francis and Mr. Herrin, 15,500 to Mr. Hiltz and 17,500 to Mr. Dawkins. There were no grants of stock option awards to directors in 2007. The amounts reflected in the table represent the 2007 expense related to the 2006 option awards. Please refer to footnotes 2(j) and 14 in our consolidated financial statements filed on Form 10-K for the year ended December 31, 2007 for a discussion of the assumptions used in computing the grant date fair value of stock based compensation awards. These amounts reflect the Company s accounting expense for these awards and do not correspond to the actual value that might be realized by the named individuals.

Non-employee directors receive an annual retainer of $40,000 (which will be reduced to $20,000 commencing with the 2008 Annual Meeting) and meeting fees of $2,000 for each Board meeting, and $1,500 for each committee meeting, attended (even if held on the same date). The Board determined that a larger portion of non-employee director compensation should be at risk and reduced the annual retainer by $20,000 and increased the value of stock options by an equal amount. Commencing with the 2008 Annual Meeting, Mr. John G. Phillips will be a Director Emeritus of the Company and will be paid $146,000 for his services. The Chairman of the Audit Committee receives an additional $15,000 per year, each other Audit Committee member receives an additional $5,000 per year and the Chairman of each of the Compensation Committee and the Nominating & Governance Committee receives an additional $10,000 per year. Meeting fees are paid in cash. Retainer fees are paid in shares of Common Stock (valued at fair market value); provided that a director may elect to receive up to 50% of such retainer fees in cash. Directors may defer all or a portion of their retainer and meeting fees. Our Stock and Deferral Plan for Non-Employee Directors governs the payment of retainer and meeting fees and the terms of any deferrals of such fees. The Statement 123R charge for deferrals of retainer and meeting fees that are invested in phantom shares of the Company s Common Stock is included in the stock awards column in the above table. Directors are also reimbursed for their reasonable expenses in connection with attending Board of Director meetings and other Company events.

Our Amended and Restated 2000 Stock Incentive Plan for Non-Employee Directors provides for grants of stock options and restricted share units to members of the Board of Directors who are not employees of the Company or any subsidiary. The size of any grants of stock options and restricted share units to non-employee directors, including to new directors, will be determined annually, based on the analysis of an independent compensation consultant. Based on such analysis, in April 2008 the Compensation Committee recommended, and the Board approved, the grant of 6,000 restricted share units to each non-employee director, and stock options with a binomial value of $20,000, on the date of the 2008 Annual Meeting. Restricted share units and stock options become 100% vested on the first anniversary of the date of grant provided the eligible director continues as a director of the Company throughout that one-year period. Prior to the first anniversary of the date of grant, an eligible director shall be vested in the pro rata number of restricted share units and stock options based on the number of days during that year that the eligible director served. The total number of shares of our Common Stock that may be issued under the plan is 500,000, subject to adjustment in the case of certain corporate transactions and events.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The Board and the Compensation Committee (*Committee*) believe that the Company s compensation program should motivate employees to achieve the Company s annual, long-term and strategic goals, while aligning employee and stockholder interests. The Company s compensation objectives are to attract and retain the best available talent and foster its corporate culture of teamwork to achieve its business objectives while rewarding individual contributions, all in order to achieve a superior rate of return over time. The Company s compensation philosophy is designed so that a substantial component of each employee s potential annual compensation is dependent upon measurable improvement to stockholder value.

Decisions with respect to the compensation of the Company s executive officers are made by the Committee. The compensation of non-executive officers and other employees is determined by the executive officers. The compensation of the Chief Executive Officer is recommended by the Committee and approved by the independent members of the Board of Directors.

The Committee based its decisions with respect to performance-measured compensation of our executive officers for services rendered in 2007 upon these principles and its assessment of each officer s potential to enhance long-term stockholder value. The Committee also considered each executive officer s current salary and prior year compensation, as well as compensation paid to the executive officer s peers. The Committee engages Frederic W. Cook & Co., Inc. and Towers Perrin as consultants to assist it in determining appropriate types and levels of compensation. Towers Perrin assists the Committee with its evaluation of base salary, and Frederic W.

Cook & Co., Inc. assists with all other compensation matters. Neither firm performs services for the Company other than its work for the Committee. The Committee expects recommendations from the Company s Chief Executive Officer but exercises its own judgment and makes its own determination.

Types of Compensation

The Company provides two main types of compensation to executive officers:

(1) annual compensation, consisting of a base salary and an incentive bonus on the attainment of corporate objectives and individual performance; and

(2) long-term compensation, consisting of restricted share units (settled in shares or cash) and stock options and share appreciation rights (settled in shares or cash), the value of which is directly linked to the value of a share of the Company s Common Stock.

Annual Compensation

At least once each year, the Committee reviews the Company s executive officers base salary. This review is conducted with the assistance of Towers Perrin. The consultant s analysis includes an assessment of the Company s executive officers compensation levels compared to other executive officers in similar positions in the Company s industry sector. The annual base salary of each executive is determined by an analysis of the compensation paid to other executive officers in similar positions in the Company s peer group and market data derived from a combination of sources, including published salary survey data of other exploration and production companies purchased from third parties. The Committee reviewed the following data in late 2006 in connection with making its determination for establishing base salaries for 2007: (1) published surveys of compensation consulting firms, which target exploration and production companies, and (2) a peer group of companies including ATP Oil & Gas Corp., Berry Petroleum Company, Bois d Arc Energy Inc., Cabot Oil & Gas Corp., Cimarex Energy Co., Comstock Resources Inc., Encore Acquisition Company, Forest Oil Corporation, Houston Exploration Company, Meridian Resource Corp., Newfield Exploration Company, Range Resources Corporation, St. Mary Land & Exploration Company, Stone Energy Corp. and Swift Energy Company.

The data from the published surveys cannot be identified by specific companies, but is based upon data submitted by companies with revenues ranging from $100 million to $700 million. The Committee uses these different analyses to ensure it is getting a broad perspective on the market place data on which to base its decisions. The Committee targets the median to 75th percentile of its peer group for base salary. A competitive base salary is consistent with the Company s long-term objectives of attracting and retaining highly qualified, competent executives.

The incentive bonus is particularly aligned with the interests of the Company s stockholders. Incentive bonuses are based on quantitative and qualitative factors that the Committee may deem appropriate and the Committee s assessment of the individual s performance. While the Committee does not apply a completely formulaic approach, in 2007 the quantitative factors considered consisted of predetermined targets of production growth, reserve replacement, reserve replacement cost relative to the peer group, cash costs (lease operating expenses, general and administrative expense and taxes other than on earnings, excluding the Company s merger and acquisition expenses) per barrel of oil equivalent (Cash Costs/Boe *)* relative to the peer group, and the increase in value of the Company s Common Stock relative to the peer group. The Committee weighted each of these factors equally, and the Named Officers can receive up to a maximum of 200% of each quantitative target for specified performance exceeding the Company s objectives. The Committee has in the past adjusted targets for extraordinary events such as significant tropical storms. The Committee also compares the Company s results against the results of its peer group. The Committee does not set individual performance goals for the Company s executives. The peer group used for incentive bonus comparisons, which was formulated in late Summer of 2007, is comprised of ATP Oil & Gas Corp., Bois d Arc Energy, Inc., Callon Petroleum Company, Mariner Energy, Inc., McMoRan Exploration Co., Meridian Resource Corp., Stone Energy Corp. and W & T Offshore, Inc.

A target bonus percentage of base salary is predetermined and periodically reviewed for each executive on the basis of market practices, although actual bonus payments can be significantly affected by the Committee s assessment of individual performance. The target bonus percentages for the current Named Officers set forth in the Summary Compensation Table are as follows: Mr. Bachmann, 100%; Mr. Peper, 55%; Mr. Leary, 55%; Mr. DeBrock, 50%; and Mr. Vincent, 50%. The Committee targets the 75th percentile for the combination of base salary and incentive bonus when results warrant. In reviewing quantitative factors, the Committee will determine each year whether a threshold level of performance below the Company s objectives is deserving of any bonus percentage, taking into account external factors beyond the control of the executives.

For 2007, the Committee determined that the Company did not meet its targets for production growth (actual of 7%, adjusted for the 2007 sale of assets, with a target of 10%), stock price performance (from the market close on December 30, 2006 to December 31, 2007, the Company was in the bottom quartile of its peer group), reserve replacement (target of 130%, with an actual performance of a negative 31%), Cash Costs/Boe (an indexed target based on peer performance, with an actual of $15.28, after adjusting to exclude the Company s merger and acquisition related expenses in 2007) or reserve replacement cost (an indexed target based on peer performance, which was not calculable due to the negative reserve replacement). Based on these results, the Committee determined that no bonuses in accordance with the Company s quantitative factors were warranted. The Committee expects to determine shortly whether to modify the corporate targets that are to serve as the quantitative factors used in determining incentive bonuses for 2008 performance.

Long-Term Compensation

In determining the appropriate levels of incentive compensation, the Committee reviews comparable compensation, as well as historical share usage and dilution analyses and the fair value of long-term compensation as a percentage of market capitalization, of its peer group. It also reviews the mix of equity forms used by exploration and production companies of similar size and revenues in compensating executive officers.

Last year the Committee used a combination of stock options and cash-settled restricted share units to provide equity compensation to the executive officers. These equity forms create an alignment of interests with the Company s stockholders. Stock options have an exercise price equal to the fair market value on the date of grant, and have a ten-year term, vesting in one-third increments on the first three anniversaries of the date of grant. If any grantee voluntarily leaves the Company other than by reason of retirement, unvested options are forfeited and vested options must be exercised within 30 days. Unvested options will become immediately exercisable upon a change of control (as defined) of the Company. If any grantee leaves the Company, unvested cash-settled restricted share units are forfeited. Unvested cash-settled restricted share units will become fully vested upon a change of control (as defined) of the Company. Each cash-settled restricted share unit vests in one-third increments on the first three anniversaries of the date of grant for annual awards, but could vest differently if used as an employment or other special award, as determined by the Committee.

The Committee has historically targeted the 75th percentile for long-term compensation. In 2007, the desired dollar value of long-term compensation was divided between stock options (25%) and cash-settled restricted share units (75%) based on the binomial value of the stock options with FAS 123R assumptions and the market price of Common Stock at grant for cash-settled restricted share units. The Committee approved awards for the executive officers in late Spring of 2007 based upon the 75th percentile, consistent with the Committee s compensation philosophy. The peer group used to make this determination, which was formulated in early 2007, consisted of: ATP Oil & Gas Corp., Cabot Oil & Gas Corp., Comstock Resources Inc., Denbury Resources Inc., Houston Exploration Company, Meridian Resources Corp., Newfield Exploration Company, St. Mary Land & Exploration Company and Stone Energy Corp. The awards are set forth under Grants of Plan-Based Awards . The Committee reviews its compensation philosophy periodically, and reserves the right to change the method of awarding long-term equity compensation.

The Committee also reviewed data relating to the 2005 2007 performance cycle, which was based on three year production growth, three year proved reserve growth and three year return on investment targets, in each case compared to peer groups determined annually. Each factor is weighted equally, and Named Officers can receive up to a maximum of 200% of each quantitative factor. The Committee determined that the Company partially met the production growth and reserve growth criteria compared to its peer group in 2005, the first year of the three year award cycle. In accordance with the terms of the performance share award, the Committee vested 16.7% of the performance shares, or 6,749 shares. The Committee did not grant any new performance shares in 2007.

In April 2008, the Committee made long-term equity awards to the Named Officers. Except for the award to Mr. Bachmann described below, the Committee used a combination of stock options, restricted share units, and cash-settled restricted share units to provide long-term equity compensation.

Compensation of the Chief Executive Officer

The Committee based its recommendations to the independent members of the Board with respect to compensation of our Chief Executive Officer, Richard A. Bachmann, for services rendered in 2007 on the factors discussed above and our assessment of his potential to enhance long-term stockholder value. The Committee also considered Mr. Bachmann s current salary and prior year compensation, as well as compensation paid to his peers. The Committee used its outside compensation consultants to assist it in determining appropriate types and levels of compensation. The independent members of the Board accepted the Committee s recommendations.

Mr. Bachmann s base salary of $500,000 for 2007 was commensurate with the median to 75th percentile of base salaries for chief executive officers of the various data analyses presented to the Committee, as described above. For 2008, Mr. Bachmann s base salary was increased to $525,000. Mr. Bachmann s bonus target is 100%. Mr. Bachmann was not awarded a bonus for 2007. Mr. Bachmann s 2007 long-term incentive awards are set forth under Grants of Plan-Based Awards .

In April 2008, in order to better align the interests of the Chief Executive Officer with stockholders and to place him more at risk , the Committee recommended, and the independent directors approved, long-term equity compensation for Mr. Bachmann in the form of an award of 500,000 cash-settled share appreciation rights. The share appreciation rights have an exercise price equal to fair market value on the date of grant, have a ten-year term and vest in one-third increments on the first three anniversaries of the date of grant. This award, and related charges, will be shown in the tables below for the 2009 Annual Meeting of Stockholders.

Policy on Deductibility of Compensation

Section 162(m) of the Internal Revenue Code of 1986 limits the deductibility for federal income taxes of compensation in excess of $1 million paid to a publicly held company s chief executive officer and any of the other four highest-paid executive officers, except for performance-based compensation. The Committee is aware of this limitation and intends to consider the effects of Section 162(m) on the Company when making compensation decisions.

Stock Ownership Guidelines

The Company has Executive Stock Ownership Guidelines that generally require the Company s Chief Executive Officer, President, and each Executive Vice President and each Senior Vice President to maintain a share ownership equal to 50% of the profit shares acquired under equity compensation plans of the Company. Profit shares means the Company Shares held by an executive as a result of the exercise of stock options, the lapsing of restrictions on restricted stock and restricted share units and the earning of performance shares, after giving effect to Company Shares sold or netted to pay any exercise price or tax withholding amounts related to such award.

Compensation Committee Report

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis provisions to be included in the Company s filings pursuant to the Securities Exchange Act of 1934. Based on the reviews and discussions referred to above, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis referred to above be included in such filings.

Compensation Committee

John C. Bumgarner, Chairman

Robert D. Gershen, Member

William R. Herrin, Member

John G. Phillips, Member

Notwithstanding any SEC filing by the Company that includes or incorporates by reference other SEC filings in their entirety, this Compensation Committee Report shall not be deemed to be filed with the SEC except as specifically provided otherwise therein.

Summary Compensation Table

The following table sets forth certain summary information for the year ending December 31, 2007 concerning the compensation earned by the Company s Named Officers consisting of its principal executive officer (Mr. Bachmann), each individual who served as principal financial officer in 2007 (Messrs. Leary and Woodall), the four most highly-compensated executive officers for fiscal 2007 (Messrs. Peper, DeBrock, Dykes and Vincent), and a former executive officer (Mr. Gobe) who would have been one of three most highly compensated executive officers but for his retirement in September 2007.

Name and Principal Position	Year	Salary ($)	Bonus ($)(1)	Stock Awards ($)(2)	Option Awards ($)(2)	Non-Equity Incentive Plan Compensation ($)(3)	All Other Compensation ($)(4)	Total ($)
Richard A. Bachmann	2007	500,000		248,120	825,977		21,394	1,595,491
	2006	440,000		649,580	890,594	300,000	20,914	2,301,088
Chairman and Chief Executive Officer								
John H. Peper	2007	250,000	200,000	92,720	280,294		17,142	840,156
Executive Vice President, General Counsel and Corporate Secretary	2006	236,000		149,425	313,471	88,264	27,953	815,113
Joseph T. Leary	2007	92,788	50,000		132,863		1,366	277,017
Executive Vice President and Chief Financial Officer (5)								
Thomas D. DeBrock	2007	226,620	103,500	419,241	64,795		134,883	949,039
Senior Vice President Exploration (6)								
L. Keith Vincent	2007	193,515	86,000	173,133			13,857	466,505
Senior Vice President Acquisitions and Land (6)								
Phillip A. Gobe	2007	251,250		691,234	826,052		13,529	1,782,065
	2006	315,000		583,422	717,595	139,230	25,396	1,780,643
Former President and Chief Operating Officer (7)								

T. Rodney Dykes	2007	227,579		63,699	166,309		15,937	473,524
	2006	212,000		103,299	210,599	72,080	14,891	612,869
Former Senior Vice President-Production and Construction (8)								
Timothy R. Woodall	2007	92,949		182,200	372,117		5,960	653,226
Former Executive Vice President and Chief Financial Officer (9)	2006	91,987	150,000	52,231	162,561	38,958	29,471	525,208

(1) Amounts include Chairman s awards paid to Messrs. Peper, DeBrock and Vincent. Bonuses paid for 2007 performance are found under the column captioned Non-Equity Incentive Plan Compensation .

(2) Amounts reflect compensation cost recorded in the 2007 consolidated financial statements for each named individual and includes grants made in previous years for which compensation expense is required to be recognized in accordance with Statement 123R. The expense has been calculated based on the grant date fair value of the respective awards offset by the fiscal 2007 reversal of a portion of the

amounts expensed in 2006 due to reductions in assumptions regarding payout levels and in certain cases, share price. The amounts reported have been adjusted to eliminate service-based forfeiture assumptions. Please refer to footnotes 2(j) and 14 in the Company s consolidated financial statements filed on Form 10-K for the year ended December 31, 2007 for a discussion of the assumptions used in computing the grant date fair value of stock based compensation awards. These amounts reflect the Company s accounting expense for these awards and do not correspond to the actual value that might be realized by the named individuals.

(3) Amounts reflected under this column are paid pursuant to the Company s incentive compensation plan as described in the incentive bonus paragraph under Annual Compensation in the Compensation Discussion and Analysis .

(4) The amounts represent the dollar value of term life insurance premiums paid by us for the benefit of the Named Officers, the dollar value of the Company match to the Energy Partners, Ltd. 401(k) Plan on the employees behalf, and reimbursement of relocation expenses. The plan generally requires that the 401(k) match be held in our Common Stock for a period of three years. For 2007, (i) the life insurance premiums for Messrs. Bachmann, Peper, DeBrock, Dykes, Leary, Vincent, Gobe and Woodall were $6,574, $2,322, $723, $1,117, $871, $926, $2,129 and $203 respectively; (ii) the value of the 401(k) match for Messrs. Bachmann, Peper, DeBrock, Dykes, Vincent, Gobe and Woodall were $13,500, $13,500, $13,500, $13,500, $11,611, $10,411 and $3,750 respectively; (iii) the value of reimbursed relocation expenses for Mr. Woodall was $3,196, inclusive of tax gross up of $1,457, and (iv) $120,000 paid to Mr. DeBrock in 2007 under a deferred compensation agreement.

(5) Mr. Leary became the Company s Executive Vice President and Chief Financial Officer upon his appointment by the Board of Directors in August 2007 and was paid a cash bonus of $50,000 upon commencement of employment.

(6) Messrs. DeBrock and Vincent became executive officers of the Company in 2007.

(7) Mr. Gobe retired as an officer in September 2007 but continues to serve as a Director of the Company. Mr. Gobe was paid $6,000 in cash fees for his services as a director subsequent to his retirement.

(8) Mr. Dykes ceased to be an executive officer of the Company on February 14, 2008.

(9) Mr. Woodall served as Executive Vice President and Chief Financial Officer from August 21, 2006 to May 9, 2007.

Grants of Plan-Based Awards

The table below sets forth certain information with respect to awards granted to the Named Officers in 2007.

			Estimated Possible Payouts Under Non-Equity Incentive Plan Awards($)(1)							
Name	Grant Date	Approval Date	Threshold	Target	Maximum	All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards ($/Sh)	Closing Price on Grant Date ($/Sh)	Grant Date Fair Value of Stock and Option Awards ($)(2)
Richard A. Bachmann (3)			0	500,000	N/A					
	June 1, 2007	June 1, 2007					78,248	17.27	17.27	534,546
						100,588			17.27	1,737,155
John H. Peper (4)			0	137,500	N/A					
	May 30, 2007	May 30, 2007					18,086	16.82	16.82	120,272
						23,250			16.82	391,065
Joseph T. Leary (5)			0	57,292	N/A					
	August 21, 2007	August 17, 2007					100,000	13.26	13.26	524,528
Thomas D. DeBrock (6)			0	130,000	N/A					
	April 3, 2007	April 3, 2007				10,000			17.82	178,200
T. Rodney Dykes (4)			0	120,000	N/A					
	May 30, 2007	May 30, 2007					14,243	16.82	16.82	94,766
						18,309			16.82	307,957
L. Keith Vincent (6)			0	115,000	N/A					
	April 3, 2007	April 3, 2007				4,650			17.82	82,863
Phillip A. Gobe(4)			0	217,750	N/A					
	May 30, 2007	May 30, 2007					33,153	16.82	16.82	220,467
						42,618			16.82	715,835

(1) Amounts actually paid are reflected in the column titled Non-Equity Incentive Plan Compensation found on the Summary Compensation Table.

(2) Amounts reflect the grant date fair value of the respective awards computed in accordance with Statement 123R. Please refer to footnotes 2(j) and 14 in the Company s consolidated financial statements filed on Form 10-K for the year ended December 31, 2007 for a discussion of the assumptions used in computing the grant date fair value of stock based compensation awards. These amounts reflect the Company s accounting expense for these awards and do not correspond to the actual value that might be realized by the named individuals.

(3) On June 1, 2007, Mr. Bachmann was granted stock options with a ten-year term that are exercisable as follows: one-third become exercisable on June 1, 2008, one-third become exercisable beginning on June 1, 2009 and the remainder are exercisable beginning on June 1, 2010. Also on June 1, 2007 Mr. Bachmann was granted cash-settled restricted share units that vest as follows: one third vest on June 1, 2008, one-third vest on June 1, 2009 and the remainder vest on June 1, 2010.

(4) On May 30, 2007, Messrs. Gobe, Dykes and Peper were granted stock options with a ten-year term that are exercisable as follows: one-third become exercisable beginning on May 30, 2008, one-third become exercisable beginning on May 30, 2009 and the remainder are exercisable beginning on May 30, 2010. Also, on May 30, 2007, Messrs. Gobe, Dykes and Peper were granted cash-settled restricted share units that vest as follows: one-third vest on May 30, 2008, one-third vest on May 30, 2009 and the remainder vest on May 30, 2010. In connection with Mr. Dykes departure from the Company effective March 31, 2008, the Company agreed to accelerate the exercisability and vesting of Mr. Dykes 4,748 stock options and 6,130 cash-settled restricted share units that were otherwise scheduled to become exercisable and vest on May 30, 2008. The remainder of his May 30, 2007 stock option and cash-settled restricted share unit grants were forfeited. See Potential Payments Upon Termination or Change of Control for a description of Mr. Dykes agreement with the Company.

(5) Mr. Leary commenced employment with us on August 21, 2007 and at that time, was granted stock options with a ten-year term that become exercisable as follows: one-third become exercisable on August 21, 2008, one-third become exercisable on August 21, 2009 and the remainder become exercisable on August 21, 2010. Also, on August 21, 2007, Mr. Leary was granted cash-settled restricted share units which vest on August 21, 2010.

(6) On April 3, 2007, Messrs. DeBrock and Vincent were granted restricted share units. For the shares awarded, one-third vested on April 3, 2008, one-third vest on April 3, 2009 and the remainder vest on April 3, 2010.

Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table

Employment Agreements

Under our offer letter agreement with Mr. Leary dated August 21, 2007, he is entitled to an annual salary of at least $250,000. In addition, Mr. Leary received an employment payment of $50,000, ten year options to purchase 100,000 shares of Common Stock, which vest ratably over three years at an exercise price equal to the closing price of the Company s Common Stock on the date of grant and 30,000 cash-settled restricted share units which vest on the third anniversary of the date of his start of employment. Mr. Leary s bonus target is 55% of base pay.

The Company does not have employment agreements with any of the other Named Officers.

2006 Long Term Stock Incentive Plan

The Company s 2006 Long Term Stock Incentive Plan (the LTIP) authorizes the Compensation Committee of the Board of Directors to make the following types of awards to employees of the Company: stock options, share appreciation rights, performance shares, performance units, restricted shares, restricted share units, dividend equivalents and other share-based awards. The Compensation Committee is currently making awards under the LTIP in the form of stock options, restricted share units, cash-settled restricted share units and cash-settled share appreciation rights.

Outstanding Equity Awards at Fiscal 2007 Year-End

The table below sets forth information concerning the value of outstanding equity awards held by the Named Officers as of December 31, 2007.

	Option Awards				Stock Awards			
	Number of Securities Underlying Unexercised Options (#)							
Name	Exercisable	Unexercisable	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)(1)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(2)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)(1)
Richard A. Bachmann	100,000	None	10.80	April 30, 2011				
	53,334	None	10.07	May 6, 2013				
	200,000	None	13.58	May 13, 2014				
	41,333	20,667	25.07	March 24, 2015				
	37,310	74,620	22.98	March 23, 2016				
	20,887	41,772	18.00	August 3, 2016				
	None	78,248	17.27	June 1, 2017				
					11,098	131,067		
					6,068	71,663		
							14,700	173,607
							100,588	1,187,944
John H. Peper	75,000	None	7.98	January 17, 2012				
	23,333	None	10.07	May 6, 2013				
	33,500	None	13.58	May 13, 2014				
	8,933	4,467	27.34	March 17, 2015				
	None	100,000	26.59	July 22, 2015				
	6,727	13,454	22.31	March 16, 2016				
	3,364	6,726	22.98	March 23, 2016				
	3,508	7,015	18.00	August 3, 2016				
	None	18,086	16.82	May 30, 2007				
					3,001	35,442		
					1,019	12,034		
							3,175	37,497
							23,250	274,583
Joseph T. Leary	None	100,000	13.26	August 21, 2017				
Thomas D. DeBrock	2,333	None	10.07	May 6, 2013				
	15,000	None	13.58	May 13, 2014				
	10,000	5,000	27.34	March 17, 2015				
	3,334	6,666	22.31	March 16, 2016				
					2,500	29,525		
					25,000	295,250		
					3,333	39,363		
					4,000	47,240		
					10,000	118,100		
T. Rodney Dykes	10,000	None	12.65	July 26, 2011				
	10,000	None	7.98	January 17, 2012				
	13,333	None	10.07	May 6, 2013				
	26,000	None	13.58	May 13, 2014				
	6,667	3,333	27.34	March 17, 2015				
	None	50,000	26.59	July 22, 2015				
	5,298	10,594	22.31	March 16, 2016				
	2,649	5,297	22.98	March 23, 2016				
	None	14,243	16.82	May 30, 2017				
					2,363	27,907		
							2,373	28,019
							18,309	216,229

	Option Awards				Stock Awards			
	Number of Securities Underlying Unexercised Options (#)							
Name	Exercisable	Unexercisable	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)(1)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(2)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)(1)
L. Keith Vincent	10,000	None	15.00	November 1, 2010				
	35,000	None	10.80	April 30, 2011				
	28,000	None	7.98	January 17, 2012				
	10,000	None	10.07	May 6, 2013				
					1,233	14,562		
					15,000	177,150		
					3,100	36,611		
					4,650	54,917		
Phillip A. Gobe	50,000	None	18.97	December 6, 2014				
	30,333	15,167	27.34	March 17, 2015				
	None	100,000	26.59	July 22, 2015				
	16,626	33,252	22.31	March 16, 2016				
	8,313	16,626	22.98	March 23, 2016				
	2,679	5,357	18.00	August 3, 2016				
	None	33,153	16.82	May 30, 2017				
					40,000	472,400		
					7,418	87,607		
					778	9,188		
							42,618	503,319
Timothy R. Woodall								

(1) Based on the closing price of the Company s Common Stock of $11.81 on December 31, 2007.

(2) Represents unvested performance shares based upon the threshold level of performance.

Fiscal 2007 Option Exercises and Stock Vested

The table below sets forth information concerning the vesting of other equity awards by Named Officers during Fiscal 2007. The Named Officers did not exercise any stock options during Fiscal 2007.

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
Richard A. Bachmann			53,333	947,927
			5,550	99,900
			3,034	40,565
John H. Peper			8,000	142,160
			1,501	27,018
			510	6,819
Joseph T. Leary				
Thomas D. DeBrock			2000	35,300
			1,667	29,423
			2,500	44,125
			3,300	53,196
			15,000	196,050
T. Rodney Dykes			7,667	136,243
			1,182	21,276
L. Keith Vincent			1,550	27,358
			1,233	21,762
			1,800	29,016
Phillip A. Gobe			3,710	66,780
			389	5,201
Timothy R. Woodall				

Fiscal 2007 Pension Benefits

The Company does not have a defined benefit pension plan.

Fiscal 2007 Nonqualified Deferred Compensation

The table below reflects activity for the Named Officers with regard to nonqualified deferred compensation including the Company s award under a deferred compensation agreement.

Name	Registrant Contributions in Last Fiscal Year ($)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last Fiscal Year-End ($)
Richard A. Bachmann			
John H. Peper			
Joseph T. Leary			
Thomas D. DeBrock	600,000	120,000(1)	480,000
T. Rodney Dykes			
L. Keith Vincent			
Phillip A. Gobe			
Timothy R. Woodall			

(1) This amount is reported as All Other Compensation in the Summary Compensation Table.

The Company entered into an agreement with Mr. DeBrock on November 29, 2007, pursuant to which the Company would pay Mr. DeBrock $120,000 in cash on December 1, 2007 and on December 1 of each of the four succeeding years provided that Mr. DeBrock remains in the employment of the Company through the applicable payment date. In the event there is a change of control (defined as described in the section headed Change of Control Arrangements below) and Mr. DeBrock s employment terminates within two years following the change of control either by reason of an involuntary termination of employment by the Company without cause (as defined in the agreement) or a termination of employment by Mr. DeBrock for good reason (as defined in the agreement), the Company would pay Mr. DeBrock in a lump sum an amount equal to the sum of the remaining bonus amounts (except that such payment may need to be delayed for six months following termination of employment to comply with federal income tax rules governing nonqualified deferred compensation).

Change of Control Arrangements

The Company has no contracts, agreements, plans or arrangements that provide severance benefits to the Named Officers if they terminate employment prior to a change of control. The Named Officers have the same rights as other employees to receive benefits they have earned under the Company s broad-based benefit programs, such as their vested account balances under the Company s 401(k) plan and earned but unused vacation.

Certain of our current and former executive officers, Messrs. Bachmann, Gobe, Peper, Woodall and Leary entered into a Change of Control Severance Agreement *(Severance Agreement)* with the Company. Messrs. Bachmann, Gobe and Peper entered into their respective agreements in March 2005 and Messrs. Woodall and Leary entered into Severance Agreements when they joined the Company in August 2006 and August 2007, respectively. The Severance Agreements for Messrs. Bachmann, Peper and Leary expire on March 28, 2009. In addition, the Company has a Change of Control Severance Plan (the *Severance Plan* and, together with the Severance Agreements, the *Severance Program*) for certain key employees , including Messrs. DeBrock and Vincent. The Severance Plan may be amended or terminated by the Board of Directors in its sole discretion prior to the occurrence of a change of control of the Company. Messrs Gobe, Dykes and Woodall are no longer eligible for payments under the Severance Program and did not receive any payments under the Severance Program when they ceased employment with the Company.

The Severance Program provides that, upon the occurrence of a change of control, all equity awards granted to participants will become fully vested, all stock options and share appreciation rights will become fully exercisable and all restrictions on restricted shares and restricted share units will lapse. With respect to performance shares or other awards contingent on satisfaction of performance measures, the performance cycle will end as of the date of the change of control, and the participant will vest in the number of shares that would have been earned if the performance cycle had ended as of the end of the period covered by the most recently issued year-end financial statement plus such additional number of shares as the Compensation Committee of the Board of Directors shall determine in respect of any period of the performance cycle not covered by such year-end statement. In addition, participants in the Severance Program are entitled to receive certain benefits in the event of the termination of employment either by reason of an involuntary termination without cause (as defined) or a voluntary termination for good reason (including terminations by the participant following certain changes in duties, benefits, etc. that are treated as involuntary terminations) occurring within two years after a change of control. Upon the occurrence of these two triggers, an eligible participant would be entitled to receive between one and one half and three times the sum of (i) the participant s annual rate of base salary for the year of termination and (ii) the participant s average annual bonus from the Company for the three calendar years preceding the calendar year in which such termination of employment occurs (or, if the participant was employed for less than three years, the greater of the average annual bonus for all of the calendar years such individual was employed and the target bonus for the calendar year of termination). Messrs. Bachmann, Peper and Leary are entitled to receive three (3) times, and Messrs. DeBrock and Vincent are entitled to receive two (2) times, the sum described in the preceding sentence. Payments are to be paid in a lump sum in cash within 30 days following termination.

In addition, participants who become entitled to severance benefits will continue to receive medical, dental and life insurance benefits in existence at the time of the change of control for a specified period of time (18 months for our executive officers), provided that the participant continues to pay the same portion of the required premium for such coverage as was required prior to termination. In the case of a participant who becomes entitled to severance benefits, if the participant has not, by the time of his or her termination of employment, received a bonus for the calendar year before the calendar year of termination of employment, the participant will receive a bonus for that year in an amount equal to his or her target bonus opportunity for that year. If any payments are subject to the excise tax on excess parachute payments under Section 280G of the Internal Revenue Code of 1986, payments to the participant will be reduced until no amount payable to the participant would constitute an excise parachute payment, provided that no such reduction will be made if the net after-tax payment to which the participant would otherwise be entitled without such reduction would be greater than the net after-tax payment, in each case, after taking into account Federal, state, local or other income and excise taxes, to the participant resulting from the receipt of such payments with such reduction.

For purposes of the Severance Program and awards under the 2006 Long Term Stock Incentive Plan and the Amended and Restated 2000 Stock Incentive Plan for Non-Employee Directors, a change of control generally includes any of the following events: (i) an acquisition by any person of 25% or more of the securities entitled to vote in the election of directors, (ii) the current directors, or their approved successors, no longer constitute a majority of the Board of Directors, (iii) a merger or similar transaction is consummated which results in the holders of our Common Stock owning 50% or less of the surviving or transferee entity s securities entitled to vote generally in the election of directors or (iv) approval of a plan of liquidation or disposition of all or substantially all of our assets.

Potential Payments Upon Termination or Change of Control

The following table shows the amounts that would be payable to our Named Officers pursuant to the Severance Program, assuming there was a change of control as of December 31, 2007 and a termination of employment occurred on December 31, 2007 qualifying the Named Officer for the benefits under the Severance Program:

Name	Lump Sum Severance Payment ($)	Continuation of Medical, Dental and Life Insurance Benefits ($)(1)	Accelerated Vesting of Stock Options ($)(2)	Accelerated Vesting of Restricted Shares, Restricted Share Units and Cash-Settled Restricted Share Units ($)(3)	Accelerated Vesting of Performance Shares ($)(4)	Total ($)
Richard A. Bachmann	3,315,000	16,272		1,390,675	57,870	4,779,817
John H. Peper	1,168,234	17,948		322,059	12,499	1,520,740
Joseph T. Leary	1,162,500	13,009		354,300		1,529,809
Thomas D. DeBrock	765,000	18,020		529,478		1,312,498
T. Rodney Dykes	661,787	17,876		244,136	9,340	933,139
L. Keith Vincent	623,533	17,804		283,239		924,576

(1) The value shown for the continuation of medical and dental benefits is the aggregate amount of the COBRA cost (determined as of December 31, 2007) to provide the benefits minus the Named Officer s required contribution (determined as of December 31, 2007). The value shown for the continuation of life insurance benefits is the aggregate amounts of the life insurance premiums to provide the benefits at the rate in effect as of December 31, 2007.

(2) The value of the accelerated vesting of the stock options is based on the positive difference, if any, between the closing price of the Company s Common Stock of $11.81 on December 31, 2007, as reported by the New York Stock Exchange, and the exercise price of such options.

(3) The value of the Company s Common Stock utilized for purposes of this table was the closing price on December 31, 2007. The closing price of the Company s Common Stock on December 31, 2007, as reported by the New York Stock Exchange, was $11.81.

(4) The value of the accelerated vesting of performance shares was computed by determining the vesting as if the performance cycle had ended on December 31, 2006 and valuing the shares that would have vested utilizing the closing price of the Company s Common Stock on December 31, 2007. The closing price of the Company s Common Stock on December 31, 2007, as reported by the New York Stock Exchange, was $11.81. An estimated 16.67% payout was determined for the 2005 to 2007 performance share cycle.

The above table does not include payments and benefits to the extent they are provided on a non-discriminatory basis to salaried employees generally upon termination of employment such as 401(k) plan vested benefits and earned but unused vacation.

As stated above, under the Severance Program, in the event of a change of control, all stock options will become fully exercisable, all restrictions on restricted shares, restricted share units, cash-settled restricted share units and cash-settled share appreciation rights will lapse, and performance shares will vest as if the performance cycle had ended as of the end of the period covered by the most recently issued year-end financial statement, plus such additional number of shares as the Compensation Committee of the Board of Directors shall determine in respect of any period of the performance cycle not covered by such year-end statement. All of the outstanding stock options, restricted shares, restricted share units, cash-settled restricted share units, cash-settled share appreciation rights and performance shares contain the respective provisions to that effect. Termination of employment in a qualifying termination is not a condition for such benefits. Thus, if a change of control were to occur, the Named Officers would receive the benefit of the accelerated vesting of stock options, restricted shares, restricted share units, cash-settled restricted share units, cash-settled share appreciation rights and performance shares as shown in the above table even if the Named Officer s employment does not terminate. Pursuant to the terms of outstanding stock options and cash-settled share appreciation rights, in the event of a change of control, such options and cash-settled share appreciation rights would remain exercisable until the expiration of their 10-year term. Under the terms of outstanding restricted shares, restricted share units, cash-settled restricted share units and performance shares, in the absence of a change of control, such awards would be forfeited in the event of a termination of employment for any reason. Under the terms of outstanding stock options and cash-settled share appreciation rights, in the absence of a change of control, the following rules would apply upon a termination of employment: (i) in the case of a termination for any reason other than death, disability or retirement (defined to mean a voluntary termination on or after age 55 with at least 5 years of service), unvested options and cash-settled share appreciation rights would be forfeited and vested options and cash-settled share appreciation rights would remain exercisable for 30 days following termination of employment (but not beyond their expiration date), and (ii) in the case of a termination by reason of death, disability or retirement, options and cash-settled share appreciation rights would continue to vest through December 31st of the year of termination of employment, unvested options and cash-settled share appreciation rights would be forfeited as of such December 31st, and vested options and cash-settled share appreciation rights would remain exercisable for three (3) years following termination of employment (but not beyond their expiration date).

In connection with the retirement of Mr. Gobe, the stock options, restricted share units and cash-settled restricted share units granted to him were modified to provide for vesting to continue following Mr. Gobe s retirement in accordance with the award s regular vesting schedule and for vested options to remain outstanding until the end of the three-year period beginning on the date of his retirement (but not beyond their expiration date), except that Mr. Gobe s outstanding stock options, restricted share units and cash-settled restricted share units would be forfeited if he were to commence full-time employment as an executive with, or service on the board of directors of, a business enterprise engaged directly or through one or more subsidiaries in the oil and gas exploration and production business.

In connection with Mr. Dykes departure from the Company, effective March 31, 2008, Mr. Dykes agreed to release claims against the Company and its subsidiaries, affiliates, officers, directors and other persons and to comply with certain confidentiality provisions, and the Company agreed (i) to pay Mr. Dykes $245,000 in severance pay, (ii) to accelerate the vesting of Mr. Dykes 4,748 nonqualified stock options otherwise scheduled to vest on May 30, 2008, (iii) to permit Mr. Dykes vested stock options to remain exercisable for up to three years after the date of Mr. Dykes departure, (iv) to accelerate the vesting of Mr. Dykes 6,103 cash-settled restricted share units otherwise scheduled to vest on May 30, 2008, and (v) to provide reimbursement for the employer portion of Mr. Dykes COBRA premiums for up to 12 months.

Report of the Audit Committee

The Audit Committee acts under a written charter adopted and approved by the Board of Directors.

It is not the responsibility of the Audit Committee to plan or conduct audits, to determine that the Company s financial statements are in all material respects complete and accurate in accordance with generally accepted accounting principles, or to certify the Company s financial statements. This is the responsibility of management and the independent registered public accountants. It is also not the responsibility of the Audit Committee to guarantee the opinion of the independent registered public accountants or assure compliance with laws and regulations and the Company s Code of Business Conduct and Ethics.

Based on the Audit Committee s review of the audited financial statements as of and for the fiscal year ended December 31, 2007 and its discussions with management regarding such audited financial statements and management s assessment of the effectiveness of the Company s system of internal control over financial reporting, its receipt of written disclosures and the letter from the independent registered public accountants required by Independence Standards Board Standard No. 1, its discussions with the independent registered public accountants regarding such auditor s independence, the matters required to be discussed by the Statement on Auditing Standards 61, and its discussions with the independent registered public accountants regarding its opinion on the effectiveness of the Company s system of internal control over financial reporting, and other matters the Audit Committee deemed relevant and appropriate, the Audit Committee recommended to the Board of Directors that the audited financial statements as of and for the fiscal year ended December 31, 2007 be included in the Company s Annual Report on Form 10-K for such fiscal year.

Audit Committee

Jerry D. Carlisle, Chairman

John C. Bumgarner, Member

Harold D. Carter, Member

John G. Phillips, Member

Fees Billed to the Company by KPMG LLP During Fiscal Years Ended December 31, 2007 and 2006

Audit Fees. Audit fees (including expenses) billed (or billable) to the Company by KPMG LLP with respect to fiscal 2007 and fiscal 2006 were $688,850 and $635,000, respectively. 2007 audit fees include (i) integrated audit services $550,000; and (ii) registration statements $138,850. 2006 audit fees include (i) integrated audit services $505,000; and (ii) registration statements $130,000.

Audit-Related Fees. There were no audit-related fees (including expenses) billed (or billable) to the Company by KPMG LLP with respect to fiscal 2007 and fiscal 2006.

Tax Fees. There were no tax fees (including expenses) billed by KPMG LLP with respect to fiscal 2007 or fiscal 2006.

All Other Fees. There were no other fees (including expenses) billed by KPMG LLP with respect to fiscal 2007 and fiscal 2006.

The Audit Committee believes that the foregoing expenditures are compatible with maintaining the independence of the Company s public accountants. The Audit Committee pre-approved all such audit and non-audit services by our independent registered public accountants during 2007.

The Audit Committee has adopted procedures for pre-approving all audit and permissible non-audit services provided by the independent registered public accountants. The Audit Committee will annually review and pre-approve the audit, review and attest services to be provided during the next audit cycle by the independent registered public accountants and may annually review and pre-approve permitted non-audit services to be provided during the next audit cycle by the independent registered public accountants. To the extent practicable, the Audit Committee will also review and approve a budget for such services. Services proposed to be provided by the independent registered public accountants that have not been pre-approved during the annual review and the fees for such proposed services must be pre-approved by the Audit Committee or its designated subcommittee. Additionally, fees for previously approved services that are expected to exceed the previously approved budget must also be pre-approved by the Audit Committee or its designated subcommittee. All requests or applications for the independent registered public accountants to provide services to the Company shall be submitted to the Audit Committee or its designated subcommittee by the Chief Financial Officer or Controller and must address whether, in his or her view, the request or application is consistent with applicable laws, rules and regulations relating to auditor independence.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company s executive officers, directors and persons who own more than ten percent (10%) of the Company s Common Stock to file initial reports of ownership and changes in ownership with the Securities and Exchange Commission. To the Company s knowledge, with respect to the year ended December 31, 2007, all applicable filings were timely made, other than a Form 3 and Form 4 filing for Ms. Riviere, the Company s Principal Accounting Officer, due to an administrative error, which reported 13 delinquent transactions, of which 12 were exempt transactions.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Any proposed related party transactions are submitted to the Board of Directors for approval. In 2007 through the mailing date of this Proxy Statement, the Company did not engage in any transaction with a related person in which the amount involved exceeded $120,000, other than the items discussed below.

Mr. Hiltz is a senior managing director of Evercore Partners Inc., an affiliate of one of the Company s financial advisors, Evercore Group L.L.C. Evercore Group L.L.C. provided financial advisory services on customary terms to the Company in connection with the merger agreement with Stone Energy Corporation that was subsequently terminated, the offer to purchase all of the Company s stock made by Woodside Petroleum, Ltd. and the Company s exploration of strategic alternatives. Evercore Group L.L.C. received fees of $1.6 million in 2006 in connection with financial advisory services related to the Stone transaction and the consideration of the unsolicited offer from Woodside. In addition, a $7.0 million fee was due to Evercore Group L.L.C. upon the earlier of the consummation of a transaction or September 5, 2007, of which $2.3 million was accrued during 2006 and the remaining $4.7 million was accrued in the first three months of 2007 and paid in September 2007. In addition, Mr. Hiltz is a director of Davis Petroleum Corp., which submitted two joint high bids with the Company for certain oil and gas leases, one of which has been awarded and the other of which is pending. The Company s share of the joint bids was $7.2 million. Davis Petroleum is owned by an affiliate of Evercore Partners Inc., where Mr. Hiltz is a senior managing director.

The Company appointed three new directors, Messrs. Latimer, Patton, and Pully, to the Board pursuant to a letter agreement dated April 1, 2008, among the Company, Carlson, Asgard, Mr. Carlson, DBDO, and Messrs Latimer, Patton and Pully. These new directors were recommended by Carlson, which together with its affiliates owns approximately 9.4% of the Company s outstanding shares.

Pursuant to the letter agreement, Carlson and its affiliates have agreed to vote their shares in favor of all of the Company s nominees at the 2008 Annual Meeting. Mr. Pully, a consultant to Carlson, has agreed to resign as a director upon the request of a majority of the Board if Carlson s and its affiliates ownership of the Company s common stock falls below 5% of the Company s currently outstanding common stock. Carlson and its affiliates have agreed to refrain from: (i) soliciting proxies or consents for the voting of any Company securities; (ii) seeking to influence any person regarding the voting of any Company securities; (iii) soliciting shareholders of the Company for the approval of shareholder proposals; (iv) otherwise communicating with the Company s stockholders; (v) engaging in a course of conduct, except with regard to Messrs. Latimer, Patton, and Pully in their capacities as directors of the Company with the Board and management, with the purpose of causing stockholders to vote contrary to the recommendation of the Board or contrary to the Company s policies, with certain exceptions regarding matters to be voted upon by the Company s shareholders and (vi) requesting that the letter agreement be amended or changed prior to the earlier of the Notice Date (as defined in the letter agreement) or the date of a material breach by the Company of its obligations under the letter agreement. Additionally, the Company has agreed to not increase the size of its board of directors or amend its Bylaws regarding the nomination of directors at the 2009 annual meeting of stockholders prior to the Notice Date.

OTHER MATTERS

Management of the Company is not aware of other matters to be presented for action at the 2008 Annual Meeting. However, if other matters are presented, it is the intention of the persons named in the accompanying proxy card to vote in accordance with their judgment on such matters.

STOCKHOLDER PROPOSALS FOR THE 2009 ANNUAL MEETING

Stockholder proposals intended to be included in the Proxy Statement relating to the Company s 2009 Annual Meeting pursuant to Rule 14a-8 (*Rule 14a-8*) under the Exchange Act must be received by the Corporate Secretary of the Company no later than January 1, 2009 and must otherwise comply with Rule 14a-8.

Any stockholder proposals received outside of the Rule 14a-8 procedure for consideration at the Company s 2009 Annual Meeting must be delivered to the Corporate Secretary of the Company no later than March 30, 2009, but no earlier than February 28, 2009. If such timely notice of a stockholder proposal is not given, the proposal may not be brought before the 2009 Annual Meeting. If timely notice is given but is not accompanied by a written statement to the extent required by applicable securities laws, the Company may exercise discretionary voting authority over proxies with respect to such proposal, if presented at the 2009 Annual Meeting.

Stockholder proposals for nominees for directors must comply with the procedures set forth in Section 2.10 of the Company s Amended and Restated Bylaws. In order to recommend a nominee for a director position, a stockholder must be a stockholder of record at the time of giving notice and must be entitled to vote at the meeting at which such nominee will be considered. Stockholder recommendations must be made pursuant to written notice delivered to the Secretary at the principal executive offices of the Company (i) in the case of a nomination for election at an annual meeting, not later than 60 days nor earlier than 90 days prior to the first anniversary of the preceding year s annual meeting; and (ii) in the case of a special meeting at which directors are to be elected, not earlier than the close of business on the 90th day prior to such special meeting and not later than the close of business on the later of the 60th day prior to such special meeting or the tenth day following the day on which public announcement is first made of the date of the meeting and of the nominees proposed by the Board of Directors to be elected at the special meeting. In the event that the date of the annual meeting is changed by more than 30 days from the anniversary date of the preceding year s annual meeting, the stockholder notice described above will be deemed timely if it is received not earlier than the close of business on the 90th day prior to such annual meeting and not later than the close of business on the later of the 60th day prior to such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made.

The stockholder notice must set forth the following:

- As to each person the stockholder proposes to nominate for election as a director, (i) the name, age, business address and residence address of the person, (ii) the principal occupation and employment of the person, (iii) the class or series and number of shares of capital stock of the Company which are owned beneficially or of record by the person and (iv) all information relating to such person that would be required to be disclosed in solicitations of proxies for the election of directors pursuant to Regulation 14A under the Exchange Act and Rule 14a-12 thereunder, including such person s written consent to being named as a nominee and to serving as a director if elected, and

- As to the nominating stockholder and the beneficial owner, if any, of such stock, (i) such stockholder s and beneficial owner s, name and address as they appear on the Company s books, (ii) the class and number of shares of the Company s capital stock which are owned beneficially or of record by such stockholder and such beneficial owner, (iii) a description of all arrangements or understandings between such stockholder and each proposed nominee and any other person or persons (including their names) pursuant to which the nomination(s) are to be made by such stockholder, (iv) a representation that such stockholder intends to appear in person or by proxy at the annual meeting to nominate the person named in its notice, (v) a representation whether the stockholder or the beneficial owner, if any, intends or is part of a group which intends to (a) deliver a proxy statement and/or form of proxy to holders of at least the percentage of the Company s outstanding capital stock required to elect the nominee and/or (b) otherwise solicit proxies from stockholders in support of such nomination and (vi) any other information relating to such stockholder that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Exchange Act, and the rules and regulations promulgated thereunder.

In addition to complying with the foregoing procedures, any stockholder nominating a director must comply with all applicable requirements of the Exchange Act and the rules and regulations thereunder. Recommendations must also include a written statement from the candidate expressing a willingness to serve.

Please sign, date, and return your proxy promptly to avoid unnecessary expense. All stockholders are urged, regardless of the number of shares owned, to participate in the 2008 Annual Meeting by returning their proxy in the enclosed business reply envelope.

By Order of the Board of Directors

RICHARD A. BACHMANN

Chairman of the Board and

Chief Executive Officer

New Orleans, Louisiana

April 28, 2008

Annex I

Energy Partners, Ltd.

Director Independence Standards

The Board of Directors of Energy Partners, Ltd (the Company) has adopted the following standards to assist it in making determinations of independence in accordance with the NYSE Corporate Governance rules.

A director will be deemed to be independent unless, within the preceding three years (which period shall be one year until November 4, 2004):

Employment Relationships

- such director was employed by the Company or any of the Company s subsidiaries, other than as interim Chairman or Chief Executive Officer;
- any immediate family member of such director was an executive officer of the Company or any of the Company s subsidiaries;
- such director was affiliated with or employed by a present or former internal or external auditor of the Company or any of its subsidiaries; or
- an immediate family member of such director was affiliated with or employed in a professional capacity by a present or former internal or external auditor of the Company or any of its subsidiaries.

Compensation Relationships

- such director received more than $100,000 in any such year in direct compensation from the Company or any of its subsidiaries other than: (i) director and committee fees; (ii) pension or other forms of deferred compensation for prior service; *provided*, *however*, that such compensation is not contingent in any way on continued service; and (iii) compensation received for former service as an interim Chairman or Chief Executive Officer; or
- an immediate family member of such director received more than $100,000 in any such year in direct compensation from the Company or any of its subsidiaries as a director or executive employee other than: (i) director and committee fees and (ii) pension or other forms of deferred compensation for prior service; *provided*, *however*, that such compensation is not contingent in any way on continued service.

Commercial Relationships

- such director was, and is currently, an executive officer or employee of another company that made payments to, or received payments from, the Company or any of its subsidiaries for property or services in an amount which, in any single fiscal year, exceeded the greater of $1 million or 2% of such other company s consolidated gross revenues; or

- an immediate family member of such director was, and is currently, an executive officer of another company that made payments to, or received payments from, the Company or any of its subsidiaries for property or services align="center" style="font-size: 10pt; font-family: 'Times New Roman', Times; color: #000000; background: #FFFFFF">
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An assignee will become a unitholder of our company for the transferred units upon the recording of the name of the assignee on our books and records.

Until a unit has been transferred on our books, we and the transfer agent, notwithstanding any notice to the contrary, may treat the record holder of the unit as the absolute owner for all purposes, except as otherwise required by law or stock exchange regulations.

Our Limited Liability Company Agreement

The following is a summary of the material provisions of our limited liability company agreement.

We summarize the following provisions of our limited liability company agreement elsewhere in this prospectus:

- with regard to distributions of available cash, please read Our Cash Distribution Policy and Timing of Distributions ;
- with regard to the transfer of units, please read Transfer of Units ;
- with regard to issuance of additional units, please read Issuance of Additional Units ;
- with regard to our limited call right with respect to the units, please read Limited Call Right ; and
- with regard to allocations of taxable income and taxable loss, please read Material Tax Consequences.

Organization

Linn Energy, LLC was organized in April 2005 and will remain in existence until dissolved in accordance with our limited liability company agreement.

Purpose

Under our limited liability company agreement, we are permitted to engage, directly or indirectly, in any activity that our board of directors approves and that a limited liability company organized under Delaware law lawfully may conduct; provided, that our board of directors shall not cause us to engage, directly or indirectly, in any business activities that it determines would cause us to be treated as an association taxable as a corporation or otherwise taxable as an entity for federal income tax purposes.

Although our board of directors has the ability to cause us and our operating subsidiaries to engage in activities other than the exploration, development and production of natural gas reserves, our board of directors has no current plans to do so. Our board of directors is authorized in general to perform all acts it deems to be necessary or appropriate to carry out our purposes and to conduct our business.

Fiduciary Duties

Our limited liability company agreement provides that our business and affairs shall be managed under the direction of our board of directors, which shall have the power to appoint our officers. Our limited liability company agreement further provides that the authority and function of our board of directors and officers shall be identical to the authority and functions of a board of directors and officers of a corporation organized under the General Corporation Law of the State of Delaware, or DGCL. Finally, our limited liability company agreement provides that except as specifically provided therein, the fiduciary duties and obligations owed to our limited liability company and to our members shall be the same as the respective duties and obligations owed by officers and directors of a corporation organized under the DGCL to their corporation and stockholders, respectively. Our limited liability company agreement permits affiliates of our directors to invest or engage in other businesses or activities that compete with us. In addition, our limited liability company agreement establishes a conflicts committee of our board of directors, consisting solely of independent directors, which will be authorized to review transactions involving potential conflicts of interest. Currently,

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our audit committee acts as the conflicts committee. If the audit committee approves such a transaction, or if a transaction is on terms generally available from third parties or an action is taken that is fair and reasonable to us, you will not be able to assert that such approval constituted a breach of fiduciary duties owed to you by our directors and officers.

Agreement to be Bound by Limited Liability Company Agreement; Power of Attorney

By purchasing a unit in us, you will be admitted as a unitholder of our company and will be deemed to have agreed to be bound by the terms of our limited liability company agreement. Pursuant to this agreement, each unitholder and each person who acquires a unit from a unitholder grants to our board of directors (and, if appointed, a liquidator) a power of attorney to, among other things, execute and file documents required for our qualification, continuance or dissolution. The power of attorney also grants our board of directors the authority to make certain amendments to, and to make consents and waivers under and in accordance with, our limited liability company agreement.

Capital Contributions

Unitholders are not obligated to make additional capital contributions, except as described below under Limited Liability.

Limited Liability

Unlawful Distributions. The Delaware Limited Liability Company Act, or Delaware Act, provides that a unitholder who receives a distribution and knew at the time of the distribution that the distribution was in violation of the Delaware Act shall be liable to the company for the amount of the distribution for three years. Under the Delaware Act, a limited liability company may not make a distribution to a unitholder if, after the distribution, all liabilities of the company, other than liabilities to unitholders on account of their membership interests and liabilities for which the recourse of creditors is limited to specific property of the company, would exceed the fair value of the assets of the company. For the purpose of determining the fair value of the assets of a company, the Delaware Act provides that the fair value of property subject to liability for which recourse of creditors is limited shall be included in the assets of the company only to the extent that the fair value of that property exceeds that liability. Under the Delaware Act, an assignee who becomes a substituted unitholder of a company is liable for the obligations of his assignor to make contributions to the company, except the assignee is not obligated for liabilities unknown to him at the time he became a unitholder and that could not be ascertained from the limited liability company agreement.

Failure to Comply with the Limited Liability Provisions of Jurisdictions in Which We Do Business. Our subsidiaries currently conduct business operations or own assets in the States of West Virginia, Virginia, Pennsylvania, New York, California, Oklahoma, Kansas, New Mexico, Illinois, Indiana, Arkansas, Colorado, Kentucky, Louisiana, Mississippi, Montana, North Dakota, South Dakota and Texas. Our subsidiaries may conduct business or own assets in other states, and maintenance of limited liability for us, as a member of our operating subsidiaries, may require compliance with legal requirements in the jurisdictions in which the operating subsidiaries conduct business, including qualifying our subsidiaries to do business there. Limitations on the liability of unitholders for the obligations of a limited liability company have not been clearly established in many jurisdictions. We operate in a manner that our board of directors considers reasonable and necessary or appropriate to preserve the limited liability of our unitholders.

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Voting Rights

The following matters require the unitholder vote specified below:

Election of members of the board of directors	Our limited liability company agreement provides that we will have a board of not less than three and no more than eleven members. Holders of our units, voting together as a single class, will elect our directors. Please read Election of Members of Our Board of Directors.
Issuance of additional units	No approval right.
Amendment of our limited liability company agreement	Certain amendments may be made by our board of directors without the approval of the unitholders. Other amendments generally require the approval of a unit majority. Please read Amendment of Our Limited Liability Company Agreement.
Merger of our company or the sale of all or substantially all of our assets	Unit majority. Please read Merger, Sale or Other Disposition of Assets.
Dissolution of our company	Unit majority. Please read Termination and Dissolution.

Matters requiring the approval of a unit majority require the approval of a majority of the outstanding units.

Election of Members of Our Board of Directors

Members of our board of directors are elected by our unitholders and are subject to re-election on an annual basis at our annual meeting of unitholders.

Removal of Members of Our Board of Directors

Any director may be removed, with or without cause, by the holders of a majority of the outstanding units then entitled to vote at an election of directors.

Amendment of Our Limited Liability Company Agreement

General. Amendments to our limited liability company agreement may be proposed only by or with the consent of our board of directors. To adopt a proposed amendment, other than the amendments discussed below, our board of directors is required to seek written approval of the holders of the number of units required to approve the amendment or call a meeting of our unitholders to consider and vote upon the proposed amendment. Except as described below, an amendment must be approved by a unit majority.

Prohibited Amendments. No amendment may be made that would:

enlarge the obligations of any unitholder without its consent, unless approved by at least a majority of the type or class of member interests so affected;

provide that we are not dissolved upon an election to dissolve our company by our board of directors that is approved by a unit majority;

change our term of existence; or

give any person the right to dissolve our company other than our board of directors right to dissolve our company with the approval of a unit majority.

The provision of our limited liability company agreement preventing the amendments having the effects described in any of the clauses above can be amended upon the approval of the holders of at least 75% of the outstanding units, voting together as a single class.

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No Unitholder Approval. Our board of directors may generally make amendments to our limited liability company agreement without the approval of any unitholder or assignee to reflect:

a change in our name, the location of our principal place of business, our registered agent or our registered office;

the admission, substitution, withdrawal or removal of members in accordance with our limited liability company agreement;

the merger of our company or any of its subsidiaries into, or the conveyance of all of our assets to, a newly-formed entity if the sole purpose of that merger or conveyance is to effect a mere change in our legal form into another limited liability entity;

a change that our board of directors determines to be necessary or appropriate for us to qualify or continue our qualification as a company in which our members have limited liability under the laws of any state or to ensure that neither we, our operating subsidiaries nor any of its subsidiaries will be treated as an association taxable as a corporation or otherwise taxed as an entity for federal income tax purposes;

an amendment that is necessary, in the opinion of our counsel, to prevent us, members of our board, or our officers, agents or trustees from in any manner being subjected to the provisions of the Investment Company Act of 1940, the Investment Advisors Act of 1940, or plan asset regulations adopted under the Employee Retirement Income Security Act of 1974, or ERISA, whether or not substantially similar to plan asset regulations currently applied or proposed;

an amendment that our board of directors determines to be necessary or appropriate for the authorization of additional securities or rights to acquire securities;

any amendment expressly permitted in our limited liability company agreement to be made by our board of directors acting alone;

an amendment effected, necessitated or contemplated by a merger agreement that has been approved under the terms of our limited liability company agreement;

any amendment that our board of directors determines to be necessary or appropriate for the formation by us of, or our investment in, any corporation, partnership or other entity, as otherwise permitted by our limited liability company agreement;

a change in our fiscal year or taxable year and related changes;

a merger, conversion or conveyance effected in accordance with the limited liability company agreement; and

any other amendments substantially similar to any of the matters described in the clauses above.

In addition, our board of directors may make amendments to our limited liability company agreement without the approval of any unitholder or assignee if our board of directors determines that those amendments:

do not adversely affect the unitholders (including any particular class of unitholders as compared to other classes of unitholders) in any material respect;

are necessary or appropriate to satisfy any requirements, conditions or guidelines contained in any opinion, directive, order, ruling or regulation of any federal or state agency or judicial authority or contained in any federal or state statute;

are necessary or appropriate to facilitate the trading of units or to comply with any rule, regulation, guideline or requirement of any securities exchange on which the units are or will be listed for trading, compliance with any of which our board of directors deems to be in the best interests of us and our unitholders;

are necessary or appropriate for any action taken by our board of directors relating to splits or combinations of units under the provisions of our limited liability company agreement; or

are required to effect the intent expressed in the registration statement filed by us in connection with our initial public offering or the intent of the provisions of our limited liability company agreement or are otherwise contemplated by our limited liability company agreement.

Opinion of Counsel and Unitholder Approval. Our board of directors will not be required to obtain an opinion of counsel that an amendment will not result in a loss of limited liability to our unitholders or result in our being treated as an entity for federal income tax purposes if one of the amendments described above under No Unitholder Approval should occur. No other amendments to our limited liability company agreement will become effective without the approval of holders of at least 90% of the units unless we obtain an opinion of counsel to the effect that the amendment will not affect the limited liability under applicable law of any unitholder of our company.

Any amendment that would have a material adverse effect on the rights or preferences of any type or class of outstanding units in relation to other classes of units will require the approval of at least a majority of the type or class of units so affected. Any amendment that reduces the voting percentage required to take any action is required to be approved by the affirmative vote of unitholders whose aggregate outstanding units constitute not less than the voting requirement sought to be reduced.

Merger, Sale or Other Disposition of Assets

Our board of directors is generally prohibited, without the prior approval of the holders of a unit majority from causing us to, among other things, sell, exchange or otherwise dispose of all or substantially all of our assets in a single transaction or a series of related transactions, including by way of merger, consolidation or other combination, or approving on our behalf the sale, exchange or other disposition of all or substantially all of the assets of our subsidiaries, provided that our board of directors may mortgage, pledge, hypothecate or grant a security interest in all or substantially all of our assets without that approval. Our board of directors may also sell all or substantially all of our assets under a foreclosure or other realization upon the encumbrances above without that approval.

If the conditions specified in the limited liability company agreement are satisfied, our board of directors may merge us or any of its subsidiaries into, or convey all of our assets to, a newly-formed entity if the sole purpose of that merger or conveyance is to effect a mere change in our legal form into another limited liability entity. The unitholders are not entitled to dissenters rights of appraisal under the limited liability company agreement or applicable Delaware law in the event of a merger or consolidation, a sale of all or substantially all of our assets or any other transaction or event.

Termination and Dissolution

We will continue as a company until terminated under our limited liability company agreement. We will dissolve upon: (1) the election of our board of directors to dissolve us, if approved by the holders of a unit majority; (2) the sale, exchange or other disposition of all or substantially all of the assets and properties of our company and our subsidiaries; or (3) the entry of a decree of judicial dissolution of our company.

Liquidation and Distribution of Proceeds

Upon our dissolution, the liquidator authorized to wind up our affairs will, acting with all of the powers of our board of directors that the liquidator deems necessary or desirable in its judgment, sell or otherwise dispose of our assets. The liquidator will first apply the proceeds of liquidation to the payment of our creditors. The liquidator will distribute any remaining proceeds to the unitholders, in accordance with their capital account balances, as adjusted to reflect any gain or loss upon the sale or other disposition of our assets in liquidation. The liquidator may defer liquidation or distribution of our assets for a reasonable period of time or distribute assets to unitholders in kind if it determines that a sale would be impractical or would cause undue loss to our unitholders.

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Anti-Takeover Provisions

Our limited liability company agreement contains specific provisions that are intended to discourage a person or group from attempting to take control of our company without the approval of our board of directors. Specifically, our limited liability company agreement provides that we will elect to have Section 203 of the DGCL apply to transactions in which an interested unitholder (as described below) seeks to enter into a merger or business combination with us. Under this provision, such a holder will not be permitted to enter into a merger or business combination with us unless:

- prior to such time, our board of directors approved either the business combination or the transaction that resulted in the unitholder s becoming an interested unitholder;
- upon consummation of the transaction that resulted in the unitholder s becoming an interested unitholder, the interested unitholder owned at least 85% of our outstanding units at the time the transaction commenced, excluding for purposes of determining the number of units outstanding those units owned:
  - by persons who are directors and also officers; and
  - by employee unit plans in which employee participants do not have the right to determine confidentially whether units held subject to the plan will be tendered in a tender or exchange offer; or
- at or subsequent to such time the business combination is approved by our board of directors and authorized at an annual or special meeting of our unitholders, and not by written consent, by the affirmative vote of at least two-thirds of our outstanding voting units that are not owned by the interested unitholder.

Section 203 defines business combination to include:

- any merger or consolidation involving the company and the interested unitholder;
- any sale, transfer, pledge or other disposition of 10% or more of the assets of the company involving the interested unitholder;
- subject to certain exceptions, any transaction that results in the issuance or transfer by the company of any units of the company to the interested unitholder;
- any transaction involving the company that has the effect of increasing the proportionate share of the units of any class or series of the company beneficially owned by the interested unitholder; or
- the receipt by the interested unitholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits provided by or through the company.

In general, by reference to Section 203, an interested unitholder is any entity or person who or which beneficially owns (or within three years did own) 15% or more of the outstanding voting units of the company and any entity or person affiliated with or controlling or controlled by such entity or person.

The existence of this provision would be expected to have an anti-takeover effect with respect to transactions not approved in advance by our board of directors, including discouraging attempts that might result in a premium over the market price for units held by unitholders.

Meetings; Voting

All notices of meetings of unitholders shall be sent or otherwise given in accordance with Section 11.4 of our limited liability company agreement not less than 10 nor more than 60 days before the date of the meeting. The notice shall specify the place, date and hour of the meeting and (i) in the case of a special meeting, the general nature of the business to be transacted (no business other than that specified in the notice may be transacted) or (ii) in the case of the annual meeting, those matters which the board of directors, at the time of giving the notice, intends to present for action by the unitholders (but any proper matter may be presented at the meeting for such action). The notice of any meeting at which directors are to be elected shall include the name of any nominee or nominees who, at the time of the notice, the board of directors intends to present for election. Any previously scheduled meeting of the unitholders may be postponed, and any special meeting of the unitholders may be cancelled, by resolution of the board of directors upon public notice given prior to the date previously scheduled for such meeting of unitholders.

Units that are owned by an assignee who is a record holder, but who has not yet been admitted as a unitholder, shall be voted at the written direction of the record holder by a proxy designated by our board of directors. Absent direction of this kind, the units will not be voted, except that units held by us on behalf of non-citizen assignees shall be voted in the same ratios as the votes of unitholders on other units are cast.

Any action required or permitted to be taken by our unitholders must be effected at a duly called annual or special meeting of unitholders and may not be effected by any consent in writing by such unitholders.

Meetings of the unitholders may only be called by a majority of our board of directors. Unitholders may vote either in person or by proxy at meetings. The holders of a majority of the outstanding units of the class or classes for which a meeting has been called represented in person or by proxy shall constitute a quorum unless any action by the unitholders requires approval by holders of a greater percentage of the units, in which case the quorum shall be the greater percentage.

Each record holder of a unit has a vote according to his percentage interest in us, although additional units having special voting rights could be issued. Please read Issuance of Additional Securities. Units held in nominee or street name accounts will be voted by the broker or other nominee in accordance with the instruction of the beneficial owner unless the arrangement between the beneficial owner and its nominee provides otherwise.

Any notice, demand, request, report or proxy material required or permitted to be given or made to record holders of units under our limited liability company agreement will be delivered to the record holder by us or by the transfer agent.

Non-Citizen Assignees; Redemption

If we or any of our subsidiaries are or become subject to federal, state or local laws or regulations that, in the reasonable determination of our board of directors, create a substantial risk of cancellation or forfeiture of any property that we have an interest in because of the nationality, citizenship or other related status of any unitholder or assignee, we may redeem, upon 30 days advance notice, the units held by the unitholder or assignee at their current market price. To avoid any cancellation or forfeiture, our board of directors may require each unitholder or assignee to furnish information about his nationality, citizenship or related status. If a unitholder or assignee fails to furnish information about his nationality, citizenship or other related status within 30 days after a request for the information or our board of directors determines after receipt of the information that the unitholder or assignee is not an eligible citizen, the unitholder or assignee may be treated as a non-citizen assignee. In addition to other limitations on the rights of an assignee who is not a substituted unitholder, a non-citizen assignee does not have the right to direct the voting of his units and may not receive distributions in kind upon our liquidation, but is entitled to a cash equivalent thereof.

Indemnification

Under our limited liability company agreement and subject to specified limitations, we will indemnify to the fullest extent permitted by law, from and against all losses, claims, damages or similar events any director or officer, or while serving as a director or officer, any person who is or was serving as a tax matters member or as a director, officer, tax matters member, employee, partner, manager, fiduciary or trustee of any or our affiliates. Additionally, we shall indemnify to the fullest extent permitted by law, from and against all losses, claims, damages or similar events any person who is or was an employee (other than an officer) or agent of our company.

Any indemnification under our limited liability company agreement will only be out of our assets. We are authorized to purchase insurance against liabilities asserted against and expenses incurred by persons for our activities, regardless of whether we would have the power to indemnify the person against liabilities under our limited liability company agreement.

Books and Reports

We are required to keep appropriate books of our business at our principal offices. The books will be maintained for both tax and financial reporting purposes on an accrual basis. For tax and fiscal reporting purposes, our fiscal year is the calendar year.

We furnish or make available to record holders of units, within 120 days after the close of each fiscal year, an annual report containing audited financial statements and a report on those financial statements by our independent public accountants. Except for our fourth quarter, we also furnish or make available summary financial information within 90 days after the close of each quarter.

We furnish each record holder of a unit with information reasonably required for tax reporting purposes within 90 days after the close of each calendar year. This information is expected to be furnished in summary form so that some complex calculations normally required of unitholders can be avoided. Our ability to furnish this summary information to unitholders depends on the cooperation of unitholders in supplying us with specific information. Every unitholder receives information to assist him in determining his federal and state tax liability and filing his federal and state income tax returns, regardless of whether he supplies us with information.

Right To Inspect Our Books and Records

Our limited liability company agreement provides that a unitholder can, for a purpose reasonably related to his interest as a unitholder, upon reasonable demand and at his own expense, have furnished to him:

- a current list of the name and last known address of each unitholder;
- a copy of our tax returns;
- information as to the amount of cash, and a description and statement of the agreed value of any other property or services, contributed or to be contributed by each unitholder and the date on which each became a unitholder;
- copies of our limited liability company agreement, certificate of formation, related amendments and powers of attorney under which such documents have been executed;
- information regarding the status of our business and financial condition; and
- any other information regarding our affairs as is just and reasonable.

Our board of directors may, and intends to, keep confidential from our unitholders information that it believes to be in the nature of trade secrets or other information, the disclosure of which our board of directors believes in good faith is not in our best interests, information that could damage our company or our business, or information that we are required by law or by agreements with a third party to keep confidential.

MATERIAL TAX CONSEQUENCES

This section addresses the material tax consequences that may be relevant to prospective unitholders who are individual citizens or residents of the United States and, except as otherwise indicated, is the opinion of Baker & Hostetler LLP, counsel to us, insofar as it relates to legal conclusions with respect to matters of United States federal income tax law that are addressed in this section. This section is based upon current provisions of the Internal Revenue Code (the Code), existing regulations, proposed regulations to the extent noted, and current administrative rulings and court decisions, all of which are subject to change. Changes in these authorities may cause the tax consequences to vary substantially from the consequences described below. Unless the context otherwise requires, references in this section to us or we are references to Linn Energy, LLC and our limited liability company operating subsidiaries.

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This section does not address all federal income tax matters affecting us or the unitholders. Furthermore, this section focuses on unitholders who are individual citizens or residents of the United States and has only limited application to corporations, estates, trusts, non-resident aliens or other unitholders subject to specialized tax treatment, such as tax-exempt institutions, foreign persons, individual retirement accounts (IRAs), employee benefit plans, real estate investment trusts (REITs) or mutual funds. Accordingly, we urge each prospective unitholder to consult, and depend on, his own tax advisor in analyzing the federal, state, local and foreign tax consequences particular to him of the ownership or disposition of our units.

No ruling has been or will be requested from the IRS regarding any matter affecting us or prospective unitholders. All statements of law and legal conclusions, but not statements of facts, contained in this section, except as otherwise indicated, are the opinions of Baker & Hostetler LLP. Such opinions are based on the accuracy and completeness of facts described in this prospectus and representations made by us to Baker & Hostetler LLP. Baker & Hostetler LLP has not undertaken any obligation to update its opinions discussed in this section after the date of this prospectus.

An opinion of counsel represents only that counsel s best legal judgment and does not bind the IRS or the courts. Accordingly, the opinions expressed in this section may not be sustained by a court if challenged by the IRS. Any such challenge by the IRS may materially and adversely impact the market for the units and the prices at which units trade. In addition, the costs of any dispute with the IRS, principally legal, accounting and related fees, will result in a reduction in cash available for distribution to our unitholders and thus will be borne directly or indirectly by the unitholders. Furthermore, the tax treatment of us, or of an investment in us, may be significantly modified by future legislative or administrative changes or court decisions. Any modifications may or may not be retroactively applied.

For the reasons described below, Baker & Hostetler LLP has not rendered an opinion with respect to the following specific federal income tax issues:

(1) the treatment of a unitholder whose units are loaned to a short seller to cover a short sale of units (please read *Tax Consequences of Unit Ownership Treatment of Short Sales*);

(2) whether our monthly convention for allocating taxable income and losses is permitted by existing Treasury Regulations (please read *Disposition of Units Allocations Between Transferors and Transferees*);

(3) whether percentage depletion will be available to a unitholder or the extent of the percentage depletion deduction available to any unitholder (please read *Tax Treatment of Operations Depletion Deductions*);

(4) whether the deduction related to United States production activities will be available to a unitholder or the extent of such deduction to any unitholder (please read *Tax Treatment of Operations Deduction for United States Production Activities*);

(5) whether our method for depreciating Section 743 adjustments is sustainable (please read *Tax Consequences of Unit Ownership Section 754 Election* and *Uniformity of Units*); and

(6) whether assignees of units who fail to execute and deliver transfer applications will be treated as partners for federal income tax purposes (please read *Unitholder Status*).

IT IS THE RESPONSIBILITY OF EACH UNITHOLDER TO INVESTIGATE THE LEGAL AND TAX CONSEQUENCES, UNDER THE LAWS OF PERTINENT JURISDICTIONS, OF HIS

INVESTMENT IN US. ACCORDINGLY, EACH PROSPECTIVE UNITHOLDER IS URGED TO CONSULT, AND DEPEND UPON, HIS TAX COUNSEL OR OTHER ADVISOR WITH REGARD TO THOSE MATTERS. FURTHER, IT IS THE RESPONSIBILITY OF EACH UNITHOLDER TO FILE ALL STATE, LOCAL AND FOREIGN, AS WELL AS UNITED STATES FEDERAL TAX RETURNS THAT MAY BE REQUIRED OF HIM. BAKER & HOSTETLER LLP HAS NOT RENDERED AN OPINION ON THE STATE, LOCAL OR FOREIGN TAX CONSEQUENCES OF AN INVESTMENT IN US.

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Partnership Status

Except as discussed in the following paragraph, a limited liability company that has more than one member and that has not elected to be treated as a corporation is treated as a partnership and each member a partner for federal income tax purposes and, therefore, is not a taxable entity and incurs no federal income tax liability. Instead, each member is required to take into account his share of items of income, gain, loss and deduction of the company in computing his federal income tax liability, regardless of whether cash distributions are made to the member. Distributions by a partnership to a partner are generally not taxable to the partner unless the amount of cash distributed is in excess of the partner s adjusted basis in his partnership interest.

Section 7704 of the Code provides that publicly traded partnerships will, as a general rule, be taxed as corporations. However, an exception, referred to as the Qualifying Income Exception, exists with respect to publicly traded partnerships of which 90% or more of the gross income for every taxable year consists of qualifying income. Qualifying income includes income and gains derived from the exploration, development, mining or production, processing, refining, transportation (including pipelines transporting gas, oil, or products thereof), or the marketing of any mineral or natural resource (including fertilizer, geothermal energy, and timber), industrial source carbon dioxide, or the transportation or storage of certain fuels or biodiesel fuels. Other types of qualifying income include interest other than from a financial business, dividends, real property rents, gains from the sale of real property and gains from the sale or other disposition of assets held for the production of income that otherwise constitutes qualifying income. We estimate that, as of the date of this prospectus, less than 1% of our gross income is not qualifying income; however, this estimate could change from time to time. In reliance upon this estimate and facts provided by us concerning the sources and amounts of gross income attributable to our businesses, together with the representation that the composition of such gross income remained materially unchanged through the date of this prospectus, and based on applicable legal authority, Baker & Hostetler LLP is of the opinion that at least 90% of our gross income as of the date of this prospectus constitutes qualifying income.

No ruling has been or will be sought from the IRS and the IRS has made no determination as to our status or the status of our operating subsidiaries for federal income tax purposes or whether our operations generate qualifying income under Section 7704 of the Code. Instead, we will rely on the opinion of Baker & Hostetler LLP on such matters. It is the opinion of Baker & Hostetler LLP that, based upon the Code, treasury regulations, published revenue rulings and court decisions and the representations and assumptions described below, that as of the date of this prospectus we will be classified as a partnership, and each of our operating subsidiaries (other than Linn Operating, Inc., Linn Western Operating, Inc., and Mid Atlantic Well Service, Inc.) will be disregarded as an entity separate from us for federal income tax purposes.

In rendering its opinion, Baker & Hostetler LLP has relied on certain assumptions and on factual representations made by us in a letter to Baker & Hostetler LLP. Such assumptions and representations include:

Neither we nor any of our limited liability company subsidiaries have elected or will elect to be treated as a corporation;

We have been and will be operating in accordance with applicable partnerships statutes, our amended and restated limited liability company agreement and in the manner described in this prospectus; and

For each taxable year, more than 90% of the gross income for federal income tax purposes of the Company has been and will be income from (i) the exploration, development, mining or production, processing, refining, transportation (including pipelines transporting gas, oil, or products thereof), or the marketing of any mineral or natural resource (including fertilizer, geothermal energy, and timber), industrial source carbon dioxide, or the transportation or storage of certain fuels or biodiesel fuels; or (ii) other items of income as to which counsel has opined or will opine are qualifying income within the meaning of Section 7704(d) of the Code.

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We intend to monitor our income on a continuing basis and to manage our operations in subsequent taxable years with the objective to assure, although we cannot completely assure, that the ratio of our qualifying income to our total gross income will remain at 90% or above for each such taxable year.

If we fail to meet the Qualifying Income Exception, other than a failure that is determined by the IRS to be inadvertent and that is cured within a reasonable time after discovery, we will be treated as if we had transferred all of our assets, subject to liabilities, to a newly formed corporation, on the first day of the year in which we fail to meet the Qualifying Income Exception, in return for stock in that corporation, and then distributed that stock to the unitholders in liquidation of their interests in us. This deemed contribution and liquidation should be tax-free to unitholders and us so long as we, at that time, do not have liabilities in excess of the tax basis of our assets. Thereafter, we would be treated as a corporation for federal income tax purposes.

If we were taxable as a corporation in any taxable year, either as a result of a failure to meet the Qualifying Income Exception or otherwise, our items of income, gain, loss and deduction would be reflected only on our tax return rather than being passed through to the unitholders, and our net income would be taxed to us at corporate rates. In addition, any distribution made to a unitholder would be treated as either taxable dividend income, to the extent of our current or accumulated earnings and profits, or, in the absence of earnings and profits, a nontaxable return of capital, to the extent of the unitholder s tax basis in his units, or taxable capital gain, after the unitholder s tax basis in his units is reduced to zero. Accordingly, taxation as a corporation would result in a material reduction in a unitholder s cash flow and after-tax return and thus would likely result in a substantial reduction of the value of the units.

The remainder of this section is based on Baker & Hostetler LLP s opinion that we will be classified as a partnership for federal income tax purposes.

Unitholder Status

Unitholders who become members of Linn Energy, LLC will be treated as partners of Linn Energy, LLC for federal income tax purposes. Also:

- assignees who have executed and delivered transfer applications, and are awaiting admission as members; and
- unitholders whose units are held in street name or by a nominee and who have the right to direct the nominee in the exercise of all substantive rights attendant to the ownership of their units,

will be treated as partners in Linn Energy, LLC for federal income tax purposes. Because there is no direct or indirect authority addressing the federal tax treatment of assignees of units who are entitled to execute and deliver transfer applications and thereby become entitled to direct the exercise of attendant rights, but who fail to execute and deliver transfer applications, counsel is unable to opine that such persons are partners for federal income tax purposes. If not partners, such persons will not be eligible for the federal income tax treatment described in this discussion. Furthermore, a purchaser or other transferee of units who does not execute and deliver a transfer application may not receive some federal income tax information or reports furnished to record holders of units unless the units are held in a nominee or street name account and the nominee or broker has executed and delivered a transfer application for those units.

A beneficial owner of units whose units have been transferred to a short seller to complete a short sale would appear to lose his status as a partner with respect to those units for federal income tax purposes. Please read *Tax Consequences of Unit Ownership Treatment of Short Sales.*

Items of our income, gain, deduction, or loss would not appear to be reportable by a unitholder who is not a partner for federal income tax purposes, and any cash distributions received by a unitholder who is not a partner for federal income tax purposes would therefore be fully taxable as ordinary income. These unitholders are urged to consult their own tax advisors with respect to their status as partners in Linn Energy, LLC for federal income tax purposes. The references to unitholders in the discussion that follows are to persons who are treated as partners of Linn Energy, LLC for federal income tax purposes.

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Tax Consequences of Unit Ownership

Flow-Through of Taxable Income

We will not pay any federal income tax. Instead, each unitholder will be required to report on his income tax return his share of our income, gains, losses and deductions without regard to whether corresponding cash distributions are received by him. Consequently, we may allocate income to a unitholder even if he has not received a cash distribution from us. Each unitholder will be required to include in income his allocable share of our income, gains, losses and deductions for our taxable year or years ending with or within his taxable year. Our taxable year ends on December 31.

Treatment of Distributions

Distributions made by us to a unitholder generally will not be taxable to the unitholder for federal income tax purposes except to the extent the amount of any cash (or property treated as cash) distributed exceeds the unitholder s tax basis in his units immediately before the distribution. Cash distributions made by us to a unitholder in an amount in excess of a unitholder s tax basis in the units generally will be considered to be gain from the sale or exchange of the units, taxable in accordance with the rules described under *Disposition of Units.* To the extent that cash distributions made by us cause a unitholder s at risk amount to be less than zero at the end of any taxable year, he must recapture any losses deducted in previous years. Please read *Limitations on Deductibility of Losses.*

Any reduction in a unitholder s share of our liabilities for which no unitholder bears the economic risk of loss, known as non-recourse liabilities, will be treated as a distribution of cash to that unitholder. A decrease in a unitholder s percentage interest in us because of our issuance of additional units will decrease his share of our non-recourse liabilities, and thus will result in a corresponding deemed distribution of cash, which may constitute a non-pro rata distribution. A non-pro rata distribution of money or property may result in ordinary income to a unitholder, regardless of his tax basis in the units, if the distribution reduces the unitholder s share of our unrealized receivables, including recapture of intangible drilling costs, depletion, depreciation recapture, and/or substantially appreciated inventory items, all as defined in section 751 of the Code, and collectively, Section 751 Assets. To that extent, the unitholder will be treated as having been distributed his proportionate share of the Section 751 Assets and having exchanged those assets with us in return for the non-pro rata portion of the actual distribution made. This latter deemed exchange generally will result in the unitholder s realization of ordinary income, which will equal the excess of (1) the non-pro rata portion of that distribution over (2) the unitholder s tax basis for the share of Section 751 Assets deemed relinquished in the exchange.

Basis of Units

A unitholder s initial tax basis for his units will be the amount he paid for the units plus his share of our non-recourse liabilities. That basis will be increased by his share of our income and by any increases in his share of our non-recourse liabilities. That basis generally will be decreased, but not below zero, by distributions from us, by the unitholder s share of our losses, by depletion deductions taken by him to the extent such deductions do not exceed his proportionate share of the adjusted tax basis of the underlying producing properties, by any decreases in his share of our non-recourse liabilities and by his share of our expenditures that are not deductible in computing taxable income and are not required to be capitalized. A unitholder s share of our non-recourse liabilities will generally be based on the unitholder s share of profits. Please read *Disposition of Units Recognition of Gain or Loss.*

Limitations on Deductibility of Losses

The deduction by a unitholder of his share of our losses will be limited to the unitholder s tax basis in the units and, in the case of an individual unitholder or a corporate unitholder, if more than 50% of the value of its stock is owned directly or indirectly by or for five or fewer individuals or some tax-exempt organizations, to the amount for which the unitholder is considered to be at risk with respect to our activities, if that amount is less than his tax basis. A unitholder must recapture losses deducted in previous years to the extent

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that distributions cause his at risk amount to be less than zero at the end of any taxable year. Losses disallowed to a unitholder or recaptured as a result of these limitations will carry forward and will be allowable as a deduction in a later year to the extent that his tax basis or at risk amount, whichever is the limiting factor, is subsequently increased. Upon the taxable disposition of a unit, any gain recognized by a unitholder can be offset by losses that were previously suspended by the at risk limitation but may not be offset by losses suspended by the basis limitation. Any excess loss above that gain previously suspended by the at risk or basis limitations is no longer utilizable.

In general, a unitholder will be at risk to the extent of the tax basis of his units, excluding any portion of that basis attributable to his share of our nonrecourse liabilities, reduced by any amount of money he borrows to acquire or hold his units, if the lender of those borrowed funds owns an interest in us, is related to the unitholder or can look only to the units for repayment. A unitholder s at risk amount will increase or decrease as the tax basis of the unitholder s units increases or decreases, other than tax basis increases or decreases attributable to increases or decreases in his share of our nonrecourse liabilities. Furthermore, a unitholder s at risk amount will decrease by the amount of the unitholder s depletion deductions and will increase to the extent of the amount by which the unitholder s percentage depletion deductions with respect to our property exceed the unitholder s share of the basis of that property.

The at risk limitation applies on an activity-by-activity basis, and in the case of oil and gas properties, each property is treated as a separate activity. Thus, a taxpayer s interest in each oil or gas property is generally required to be treated separately so that a loss from any one property would be limited to the at risk amount for that property and not the at risk amount for all the taxpayer s oil and gas properties. It is uncertain how this rule is implemented in the case of multiple oil and gas properties owned by a single entity treated as a partnership for federal income tax purposes. However, for taxable years ending on or before the date on which further guidance is published, the IRS will permit aggregation of oil or gas properties we own in computing a unitholder s at risk limitation with respect to us. If a unitholder must compute his at risk amount separately with respect to each oil or gas property we own, he may not be allowed to utilize his share of losses or deductions attributable to a particular property even though he has a positive at risk amount with respect to his units as a whole.

The passive loss limitations generally provide that individuals, estates, trusts and some closely-held corporations and personal service corporations are permitted to deduct losses from passive activities, which are generally defined as trade or business activities in which the taxpayer does not materially participate, only to the extent of the taxpayer s income from those passive activities. The passive loss limitations are applied separately with respect to each publicly traded partnership. Consequently, any losses we generate will only be available to offset our passive income generated in the future and will not be available to offset income from other passive activities or investments, including our investments or investments in other publicly traded partnerships, or salary or active business income. If we dispose of all or only a part of our interest in an oil or gas property, unitholders will be able to offset their suspended passive activity losses from our activities against the gain, if any, on the disposition. Any previously suspended losses in excess of the amount of gain recognized will remain suspended.

The passive activity loss rules are applied after other applicable limitations on deductions, including the at risk rules and the basis limitation. Notwithstanding whether an oil or gas property is a separate activity, passive losses that are not deductible because they exceed a unitholder s share of income we generate may be deducted in full when he disposes of his entire investment in us in a fully taxable transaction with an unrelated party.

Limitations on Interest Deductions

The deductibility of a non-corporate taxpayer s investment interest expense is generally limited to the amount of that taxpayer s net investment income. Investment interest expense includes:

interest on indebtedness properly allocable to property held for investment;

our interest expense attributed to portfolio income; and

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the portion of interest expense incurred to purchase or carry an interest in a passive activity to the extent attributable to portfolio income.

The computation of a unitholder s investment interest expense will take into account interest on any margin account borrowing or other loan incurred to purchase or carry a unit.

Net investment income includes gross income from property held for investment and amounts treated as portfolio income under the passive loss rules, less deductible expenses, other than interest, directly connected with the production of investment income, but generally does not include gains attributable to the disposition of property held for investment. The IRS has indicated that net passive income earned by a publicly traded partnership will be treated as investment income for purposes of the limitations on the deductibility of investment interest to its unitholders. In addition, the unitholder s share of our portfolio income will be treated as investment income.

Entity-Level Collections

If we are required or elect under applicable law to pay any federal, state, local, or foreign income tax on behalf of any unitholder or any former unitholder, we are authorized to pay those taxes from our funds. That payment, if made, will be treated as a distribution of cash to the unitholder on whose behalf the payment was made. If the payment is made on behalf of a unitholder whose identity cannot be determined, we are authorized to treat the payment as a distribution to all current unitholders. We are authorized to amend our limited liability company agreement in the manner necessary to maintain uniformity of intrinsic tax characteristics of units and to adjust later distributions, so that after giving effect to these distributions, the priority and characterization of distributions otherwise applicable under our limited liability company agreement is maintained as nearly as is practicable. Payments by us as described above could give rise to an overpayment of tax on behalf of an individual unitholder in which event the unitholder would be required to file a claim in order to obtain a credit or refund.

Allocation of Income, Gain, Loss and Deduction

In general, if we have a net profit, our items of income, gain, loss and deduction will be allocated among the unitholders in accordance with their percentage interests in us. If we have a net loss for the entire year, that loss will be allocated to the unitholders in accordance with their percentage interests in us to the extent of their positive capital account balances.

Specified items of our income, gain, loss and deduction will be allocated under Section 704(c) of the Code to account for the difference between the tax basis and fair market value of our assets at the time of an offering of new units, which assets are referred to in this discussion as Contributed Property. These *Section 704(c) allocations* are required to eliminate the difference between a partner s book capital account, credited with the fair market value of Contributed Property, and the tax capital account, credited with the tax basis of Contributed Property, referred to in this discussion as the book-tax disparity. The effect of these allocations to a unitholder purchasing units in this offering essentially will be the same as if the tax basis of our assets were equal to their fair market value at the time of this offering. In the event we issue additional units or engage in certain other transactions in the future, *reverse Section 704(c) allocations* , similar to the allocations described above, will be made to all holders of units, including purchasers of units in this offering, to account for the difference between the book basis for purposes of maintaining capital accounts and the fair market value of all property held by us at the time of the transaction. In addition, items of recapture income will be allocated to the extent possible to the unitholder who was allocated the deduction giving rise to the treatment of that gain as recapture income in order to minimize the recognition of ordinary income by other unitholders. Finally, although we do not expect that our operations will result in the creation of negative capital accounts, if negative capital accounts nevertheless result, items of our income and gain will be allocated in an amount and manner to eliminate the negative balance as quickly as possible.

An allocation of items of our income, gain, loss or deduction, other than an allocation required by Section 704(c), will generally be given effect for federal income tax purposes in determining a unitholder s share of an item of income, gain, loss or deduction only if the allocation has substantial economic effect. In

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any other case, a unitholder s share of an item will be determined on the basis of his interest in us, which will be determined by taking into account all the facts and circumstances, including:

the unitholder s relative contributions to us;

the interests of all the unitholders in profits and losses;

the interest of all the unitholders in cash flow; and

the rights of all the unitholders to distributions of capital upon liquidation.

Baker & Hostetler LLP is of the opinion that, with the exception of the issues described in *Section 754 Election, Disposition of Units Allocations Between Transferors and Transferees,* and *Uniformity of Units,* allocations under our limited liability company agreement will be given effect for federal income tax purposes in determining a unitholder s share of an item of income, gain, loss or deduction.

Treatment of Short Sales

A unitholder whose units are loaned to a short seller to cover a short sale of units may be considered as having disposed of those units. If so, he would no longer be treated for tax purposes as a partner with respect to those units during the period of the loan and may recognize gain or loss from the disposition. As a result, during this period:

none of our income, gain, loss or deduction with respect to those units would be reportable by the unitholder;

any cash distributions received by the unitholder with respect to those units would be fully taxable; and

all of these distributions would appear to be ordinary income.

Baker & Hostetler LLP has not rendered an opinion regarding the treatment of a unitholder whose units are loaned to a short seller to cover a short sale of units. Therefore, unitholders desiring to assure their status as partners and avoid the risk of gain recognition from a loan to a short seller are urged to modify any applicable brokerage account agreements to prohibit their brokers from loaning their units. The IRS has announced that it is studying issues relating to the tax treatment of short sales of partnership interests. Please also read Disposition of Units Recognition of Gain or Loss.

Alternative Minimum Tax

Each unitholder will be required to take into account his distributive share of any items of our income, gain, loss or deduction for purposes of the alternative minimum tax. The current minimum tax rate for non-corporate taxpayers is 26% on the first $175,000 ($87,500 in the case of married individuals filing separately) of alternative minimum taxable income in excess of the exemption amount and 28% on any additional alternative minimum taxable income. Prospective unitholders are urged to consult with their tax advisors with respect to the impact of an investment in units on their liability for the alternative minimum tax.

Tax Rates

In general, the highest effective United States federal income tax rate for individuals for 2009 currently is 35% and the maximum United States federal income tax rate for net capital gains of an individual for 2009 currently is 15% if the asset disposed of was held and beneficially owned for more than 12 months at the time of disposition.

Section 754 Election

We have made the election permitted by Section 754 of the Code. That election is irrevocable without the consent of the IRS. The election generally permits us to adjust a unit purchaser s tax basis in our assets (inside basis) under Section 743(b) of the Code to reflect his purchase price (Section 743(b) adjustment). The Section 743(b) adjustment does not apply to a person who purchases units directly from us. The

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Section 743(b) adjustment belongs to the purchaser and not to other unitholders. For purposes of this discussion, a unitholder s inside basis in our assets is considered to have two components: (1) his share of our tax basis in our assets (common basis) and (2) his Section 743(b) adjustment to that basis. Please also read *Allocation of Income, Gain, Loss, and Deduction* above.

A Section 754 election is advantageous if the transferee s tax basis in his units is higher than the units share of the aggregate tax basis of our assets immediately prior to the transfer. In that case, as a result of the election, the transferee would have a higher tax basis in his share of our assets for purposes of computing, among other items, a greater amount of depletion and depreciation deductions and his share of any gain or loss on a sale of our assets would be less. Conversely, a Section 754 election is disadvantageous if the transferee s tax basis in his units is lower than those units share of the aggregate tax basis of our assets immediately prior to the transfer. Thus, the fair market value of the units may be affected either favorably or unfavorably by the election.

The calculations involved in the Section 754 election are complex and will be made on the basis of assumptions as to the value of our assets and other matters. For example, the allocation of the Section 743(b) adjustment among our assets must be made in accordance with the Code. The IRS could seek to reallocate some or all of any Section 743(b) adjustment allocated by us to our tangible assets to goodwill instead. Goodwill, as an intangible asset, is generally either non-amortizable or amortizable over a longer period of time or under a less accelerated method than our tangible assets. We cannot assure you that the determinations we make will not be successfully challenged by the IRS or the resulting deductions will not be reduced or disallowed altogether. Should the IRS require a different basis adjustment to be made, and should, in our opinion, the expense of compliance exceed the benefit of the election, we may seek permission from the IRS to revoke our Section 754 election. If permission is granted, a subsequent purchaser of units may be allocated more income than he would have been allocated had the election not been revoked.

Treasury regulations under Section 743 of the Code require, if the remedial allocation method is adopted (which we adopt as to each of our properties), a portion of the Section 743(b) adjustment attributable to recovery property under Section 168 of the Code to be depreciated over the remaining cost recovery period for the Section 704(c) built-in gain. Under Treasury Regulation Section 1.167(c)-l(a)(6), a Section 743(b) adjustment attributable to property subject to depreciation under Section 167 of the Code rather than cost recovery deductions under Section 168 is generally required to be depreciated using either the straight-line method or the 150% declining balance method. In addition, the holder of a unit may be entitled by reason of a Section 743(b) adjustment to amortization deductions in respect of property to which the traditional method of eliminating differences in book and tax basis applies. It would not be possible to maintain uniformity of units if this requirement were literally followed; therefore under our limited liability company agreement, we are authorized to take a position to preserve the uniformity of units even if that position is not consistent with these Treasury Regulations. Please read *Tax Treatment of Operations* and *Uniformity of Units.*

Although Baker & Hostetler LLP is unable to opine as to the validity of this approach because there is no clear authority on this issue, we intend to depreciate the portion of a Section 743(b) adjustment attributable to unrealized appreciation in the value of Contributed Property, to the extent of any unamortized book-tax disparity, using a rate of depreciation or amortization derived from the depreciation or amortization method and useful life applied to the common basis of the property, or treat that portion as non-amortizable to the extent attributable to property the common basis of which is not amortizable. This method is consistent with the regulations under Section 743 of the Code, but is arguably inconsistent with Treasury Regulation Section 1.167(c)-l(a)(6), which is not expected to directly apply to a material portion of our assets. To the extent this Section 743(b) adjustment is attributable to appreciation in value in excess of the unamortized book-tax disparity, we will apply the rules described in the Treasury Regulations and the legislative history. If we determine that our position cannot reasonably be taken, we may take a depreciation or amortization position under which all purchasers acquiring units in the same month would receive depreciation or amortization, whether attributable to common basis or a Section 743(b) adjustment, based upon the same applicable rate as if they had purchased a direct interest in our assets. This kind of aggregate approach may result in lower annual depreciation or amortization deductions than would otherwise be allowable to some unitholders. This position will not be adopted if we determine that the loss of depreciation and amortization deductions will

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have a material adverse effect on the unitholders. If we choose not to utilize this aggregate method, we may use any other reasonable depreciation and amortization method to preserve the uniformity of the intrinsic tax characteristics of the units. The IRS may challenge any method of depreciating the Section 743(b) adjustment described in this paragraph. If this challenge were sustained, the uniformity of units might be affected, and the gain from the sale of units might be increased without the benefit of additional deductions. Please read *Tax Treatment of Operations,* *Disposition of Units Recognition of Gain or Loss,* and *Uniformity of Units.*

Tax Treatment of Operations

Accounting Method and Taxable Year

We use the year ending December 31 as our taxable year and the accrual method of accounting for federal income tax purposes. Certain compensation accruals reported in our financial statements are deducted when paid or vested for federal income tax reporting. Each unitholder will be required to include in income his share of our income, gain, loss and deduction for our taxable year ending within or with his taxable year. In addition, a unitholder who has a taxable year ending on a date other than December 31 and who disposes of all of his units following the close of our taxable year but before the close of his taxable year must include his share of our income, gain, loss and deduction in income for his taxable year, with the result that he will be required to include in income for his taxable year his share of more than one year of our income, gain, loss and deduction. Please read *Disposition of Units Allocations Between Transferors and Transferees.*

Depletion Deductions

Subject to the limitations on deductibility of losses discussed above, unitholders will be entitled to deductions for the greater of either cost depletion or (if otherwise allowable) percentage depletion with respect to our oil and gas interests. Although the Code requires each unitholder to compute his own depletion allowance and maintain records of his share of the adjusted tax basis of the underlying property for depletion and other purposes, we intend to furnish each of our unitholders with information relating to this computation for federal income tax purposes.

Percentage depletion is generally available with respect to unitholders who qualify under the independent producer exemption contained in Section 613A(c) of the Code. For this purpose, an independent producer is a person not directly or indirectly involved in the retail sale of oil, gas, or derivative products or the operation of a major refinery. Percentage depletion is calculated as an amount generally equal to 15% (and, in the case of marginal production, potentially a higher percentage) of the unitholder s gross income from the depletable property for the taxable year. The percentage depletion deduction with respect to any property is limited to 100% of the taxable income of the unitholder from the property for each taxable year, computed without the depletion allowance. A unitholder that qualifies as an independent producer may deduct percentage depletion only to the extent the unitholder s daily production of domestic crude oil, or the gas equivalent, does not exceed 1,000 barrels. This depletable amount may be allocated between oil and gas production, with 6,000 cubic feet of domestic gas production regarded as equivalent to one barrel of crude oil. The 1,000 barrel limitation must be allocated among the independent producer and controlled or related persons and family members in proportion to the respective production by such persons during the period in question.

In addition to the foregoing limitations, the percentage depletion deduction otherwise available is limited to 65% of a unitholder s total taxable income from all sources for the year, computed without the depletion allowance, net operating loss carrybacks, or capital loss carrybacks. Any percentage depletion deduction disallowed because of the 65% limitation may be deducted in the following taxable year if the percentage depletion deduction for such year plus the deduction carryover does not exceed 65% of the unitholder s total taxable income for that year. The carryover period resulting from the 65% net income limitation is indefinite.

Unitholders that do not qualify under the independent producer exemption are generally restricted to depletion deductions based on cost depletion. Cost depletion deductions are calculated by (i) dividing the unitholder s share of the adjusted tax basis in the underlying mineral property by the number of mineral units (barrels of oil and thousand cubic feet, or Mcf, of gas) remaining as of the beginning of the taxable year and

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(ii) multiplying the result by the number of mineral units sold within the taxable year. The total amount of deductions based on cost depletion cannot exceed the unitholder s share of the total adjusted tax basis in the property.

All or a portion of any gain recognized by a unitholder as a result of either the disposition by us of some or all of our oil and gas interests or the disposition by the unitholder of some or all of his units may be taxed as ordinary income to the extent of recapture of depletion deductions, except for percentage depletion deductions in excess of the basis of the property. The amount of the recapture is generally limited to the amount of gain recognized on the disposition.

The foregoing discussion of depletion deductions does not purport to be a complete analysis of the complex legislation and Treasury Regulations relating to the availability and calculation of depletion deductions by the unitholders. Further, because depletion is required to be computed separately by each unitholder and not by our company, no assurance can be given, and Baker & Hostetler LLP is unable to express any opinion, with respect to the availability or extent of percentage depletion deductions to the unitholders for any taxable year. We encourage each prospective unitholder to consult his tax advisor to determine whether percentage depletion would be available to him.

Current law may change and limit or eliminate the ability to take depletion deductions. For example, substantive changes to the existing federal income tax laws have been proposed that would affect depletion deductions. We are unable to predict whether any changes, or other proposals, will ultimately be enacted. Any such changes could negatively impact the value of an investment in our units.

Deductions for Intangible Drilling and Development Costs

We may elect to currently deduct intangible drilling and development costs (*IDCs*). IDCs generally include our expenses for wages, fuel, repairs, hauling, supplies and other items that are incidental to, and necessary for, the drilling and preparation of wells for the production of oil, gas, or geothermal energy. The option to currently deduct IDCs applies only to those items that do not have a salvage value.

Although we may elect to currently deduct IDCs, each unitholder will have the option of either currently deducting IDCs or capitalizing all or part of the IDCs and amortizing them on a straight-line basis over a 60-month period, beginning with the taxable month in which the expenditure is made. If a unitholder makes the election to amortize the IDCs over a 60-month period, no IDC preference amount will result for alternative minimum tax purposes.

Integrated oil companies must capitalize 30% of all their IDCs (other than IDCs paid or incurred with respect to oil and gas wells located outside of the United States) and amortize these IDCs over 60 months beginning in the month in which those costs are paid or incurred. If the taxpayer ceases to be an integrated oil company, it must continue to amortize those costs as long as it continues to own the property to which the IDCs relate. An *integrated oil company* is a taxpayer that has economic interests in crude oil deposits and also carries on substantial retailing or refining operations. An oil or gas producer is deemed to be a substantial retailer or refiner if it is subject to the rules disqualifying retailers and refiners from taking percentage depletion. In order to qualify as an *independent producer* that is not subject to these IDC deduction limits, a unitholder, either directly or indirectly through certain related parties, may not be involved in the refining of more than 75,000 barrels of oil (or the equivalent amount of gas) on average for any day during the taxable year or in the retail marketing of oil and gas products exceeding $5 million per year in the aggregate.

IDCs previously deducted that are allocable to property (directly or through ownership of an interest in a partnership) and that would have been included in the adjusted basis of the property had the IDC deduction not been taken are recaptured to the extent of any gain realized upon the disposition of the property or upon the disposition by a unitholder of interests in us. Recapture is generally determined at the unitholder level. Where only a portion of the recapture property is sold, any IDCs related to the entire property are recaptured to the extent of the gain realized on the portion of the property sold. In the case of a disposition of an undivided interest in a property, a proportionate amount of the IDCs with respect to the property is treated as allocable to the transferred undivided interest to the extent of any gain recognized. See *Disposition of Units Recognition of Gain or Loss.*

Current law may change and limit or eliminate the ability to take deductions for intangible drilling costs. For example, substantive changes to the existing federal income tax laws have been proposed that would eliminate our ability to deduct intangible drilling costs. We are unable to predict whether any changes, or other proposals, will ultimately be enacted. Any such changes could negatively impact the value of an investment in our units.

Deduction for United States Production Activities

Subject to the limitations on the deductibility of losses discussed above and the limitation discussed below, unitholders will be entitled to a deduction, the Section 199 deduction, equal to a specified percentage of our qualified production activities income that is allocated to such unitholder. The percentages are 6% for qualified production activities income generated in the years 2007, 2008, and 2009; and 9% thereafter.

Qualified production activities income is generally equal to gross receipts from domestic production activities reduced by cost of goods sold allocable to those receipts, other expenses directly associated with those receipts, and a share of other deductions, expenses and losses that are not directly allocable to those receipts or another class of income. The products produced must be manufactured, produced, grown or extracted in whole or in significant part by the taxpayer in the United States.

For a partnership, the Section 199 deduction is determined at the partner level. To determine his Section 199 deduction, each unitholder will aggregate his share of the qualified production activities income allocated to him from us with the unitholder s qualified production activities income from other sources. Each unitholder must take into account his distributive share of the expenses allocated to him from our qualified production activities regardless of whether we otherwise have taxable income. However, our expenses that otherwise would be taken into account for purposes of computing the Section 199 deduction are taken into account only if and to the extent the unitholder s share of losses and deductions from all of our activities is not disallowed by the basis rules, the at-risk rules or the passive activity loss rules. Please read *Tax Consequences of Unit Ownership Limitations on Deductibility of Losses.*

The amount of a unitholder s Section 199 deduction for each year is limited to 50% of the IRS Form W-2 wages actually or deemed paid by the unitholder during the calendar year that are deducted in arriving at qualified production activities income. Each unitholder is treated as having been allocated IRS Form W-2 wages from us equal to the unitholder s allocable share of our wages that are deducted in arriving at our qualified production activities income for that taxable year. It is not anticipated that we or our subsidiaries will pay material wages that will be allocated to our unitholders.

This discussion of the Section 199 deduction does not purport to be a complete analysis of the complex legislation and Treasury authority relating to the calculation of domestic production gross receipts, qualified production activities income, or IRS Form W-2 wages, or how such items are allocated by us to unitholders. Further, because the Section 199 deduction is required to be computed separately by each unitholder, no assurance can be given, and Baker & Hostetler LLP is unable to express any opinion, as to the availability or extent of the Section 199 deduction to the unitholders. Each prospective unitholder is encouraged to consult his tax advisor to determine whether the Section 199 deduction would be available to him.

Current law may change and limit or eliminate the ability to take the Section 199 deduction. For example, substantive changes to the existing federal income tax laws have been proposed that would eliminate the

Section 199 deduction for oil and gas producers, which would effectively eliminate the ability to take the Section 199 deduction with respect to our qualified production activities. We are unable to predict whether any changes, or other proposals, will ultimately be enacted. Any such changes could negatively impact the value of an investment in our units.

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Lease Acquisition Costs

The cost of acquiring oil and gas leaseholds or similar property interests is a capital expenditure that must be recovered through depletion deductions if the lease is productive. If a lease is proved worthless and abandoned, the cost of acquisition less any depletion claimed may be deducted as an ordinary loss in the year the lease becomes worthless. Please read *Tax Treatment of Operations Depletion Deductions.*

Geophysical Costs

The cost of geophysical exploration incurred in connection with the exploration and development of oil and gas properties in the United States are deducted ratably over a 24-month period beginning on the date that such expense is paid or incurred.

Operating and Administrative Costs

Amounts paid for operating a producing well are deductible as ordinary business expenses, as are administrative costs to the extent they constitute ordinary and necessary business expenses which are reasonable in amount.

Tax Basis, Depreciation and Amortization

The tax basis of our assets is used for purposes of computing depletion, depreciation, and cost recovery deductions and, ultimately, gain or loss on the disposition of these assets. The federal income tax burden associated with the difference between the fair market value of our assets and their tax basis immediately prior to this offering will be borne by our existing unitholders and any other offering will be borne by our unitholders as of that time. Please read *Tax Consequences of Unit Ownership Allocation of Income, Gain, Loss and Deduction.*

To the extent allowable, we may elect to use the depreciation and cost recovery methods that will result in the largest deductions being taken in the early years after assets are placed in service. Please read *Uniformity of Units.* Property we subsequently acquire or construct may be depreciated using accelerated methods permitted by the Code.

If we dispose of depreciable property by sale, foreclosure, or otherwise, all or a portion of any gain, determined by reference to the amount of depreciation previously allowable and the nature of the property, may be subject to the recapture rules and taxed as ordinary income rather than capital gain. Similarly, a unitholder who has taken cost recovery or depreciation deductions with respect to property we own will likely be required to recapture some or all, of those deductions as ordinary income upon a sale of his interest in us. Please read *Tax Consequences of Unit Ownership Allocation of Income, Gain, Loss and Deduction* and *Disposition of Units Recognition of Gain or Loss.*

The costs incurred in selling our units (called syndication expenses) must be capitalized and cannot be deducted currently, ratably, or upon our termination. There are uncertainties regarding the classification of costs as organization expenses, which we may be able to amortize, and as syndication expenses, which we may not be able to amortize. Any underwriting discounts and commissions we incur will be treated as syndication expenses.

Valuation and Tax Basis of Our Properties

The federal income tax consequences of the ownership and disposition of units will depend in part on our estimates of the relative fair market values, and the tax bases, of our assets. Although we may from time to time consult with professional appraisers regarding valuation matters, we will make many of the relative fair market value estimates ourselves. These estimates and determinations of basis are subject to challenge and will not be binding on the IRS or the courts. If the estimates of fair market value or basis are later found to be incorrect, the character and amount of items of income, gain, loss or deduction previously reported by unitholders might change, and unitholders might be required to adjust their tax liability for prior years and incur interest and penalties with respect to those adjustments.

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Disposition of Units

Recognition of Gain or Loss

Gain or loss will be recognized on a sale of units equal to the difference between the unitholder s amount realized and the unitholder s tax basis for the units sold. A unitholder s amount realized will equal the sum of the cash or the fair market value of other property received by him plus his share of our nonrecourse liabilities. Because the amount realized includes a unitholder s share of our nonrecourse liabilities, the gain recognized on the sale of units could result in a tax liability in excess of any cash received from the sale.

Prior distributions from us in excess of cumulative net taxable income for a unit that decreased a unitholder s tax basis in that unit will, in effect, become taxable income if the unit is sold at a price greater than the unitholder s tax basis in that unit, even if the price received is less than his original cost.

Except as noted below, gain or loss recognized by a unitholder, other than a dealer in units, on the sale or exchange of a unit held for more than one year generally will be taxable as capital gain or loss. Capital gain recognized by an individual on the sale of units held more than 12 months will generally be taxed, under current law, at a maximum rate of 15%. However, a portion of this gain or loss, which may be substantial, will be separately computed and taxed as ordinary income or loss under Section 751 of the Code to the extent attributable to unrealized receivables, or inventory items we own. The term unrealized receivables includes potential recapture items, including depreciation, depletion and IDC recapture. Ordinary income attributable to unrealized receivables and inventory items may exceed net taxable gain realized upon the sale of a unit and may be recognized even if there is a net taxable loss realized on the sale of a unit. Thus, a unitholder may recognize both ordinary income and a capital loss upon a sale of units. Net capital loss may offset capital gains and no more than $3,000 of ordinary income, in the case of individuals, and may only be used to offset capital gains in the case of corporations.

The IRS has ruled that a partner who acquires interests in a partnership in separate transactions must combine those interests and maintain a single adjusted tax basis for all those interests. Upon a sale or other disposition of less than all of those interests, a portion of that tax basis must be allocated to the interests sold using an equitable apportionment method, which generally means that the tax basis allocated to the interest sold equals an amount that bears the same relation to the partner s tax basis in his entire interest in the partnership as the value of the interest sold bears to the value of the partner s entire interest in the partnership. Treasury Regulations under Section 1223 of the Code allow a selling unitholder who can identify units transferred with an ascertainable holding period to elect to use the actual holding period of the units transferred. Thus, according to the IRS ruling, a unitholder will be unable to select high or low basis units to sell as would be the case with corporate stock, but, according to the regulations, may designate specific units sold for purposes of determining the holding period of units transferred. A unitholder electing to use the actual holding period of units transferred must consistently use that identification method for all subsequent sales or exchanges of units. A unitholder considering the purchase of additional units or a sale of units purchased in separate transactions is urged to consult his tax advisor as to the possible consequences of the IRS ruling position and application of the regulations.

Specific provisions of the Code affect the taxation of some financial products and securities, including partnership interests, by treating a taxpayer as having sold an appreciated partnership interest (one in which gain would be recognized if it were sold, assigned or terminated at its fair market value) if the taxpayer or related persons enter(s) into:

a short sale;

- an offsetting notional principal contract; or
- a futures or forward contract with respect to the partnership interest or substantially identical property.

Moreover, if a taxpayer has previously entered into a short sale, an offsetting notional principal contract or a futures or forward contract with respect to the partnership interest, the taxpayer will be treated as having sold that position if the taxpayer or a related person then acquires the partnership interest or substantially identical property. The Secretary of the Treasury is also authorized to issue regulations that treat a taxpayer that enters into transactions or positions that have substantially the same effect as the preceding transactions as having constructively sold the financial position.

Allocations Between Transferors and Transferees

In general, our taxable income and loss will be determined annually, will be prorated on a monthly basis and will be subsequently apportioned among the unitholders in proportion to the number of units owned by each of them as of the opening of the applicable exchange on the first business day of the month the Allocation Date. However, gain or loss realized on a sale or other disposition of our assets other than in the ordinary course of business will be allocated among the unitholders on the Allocation Date in the month in which that gain or loss is recognized. As a result, a unitholder transferring units may be allocated income, gain, loss and deduction realized after the date of transfer.

It is uncertain whether this method is permitted under existing Treasury Regulations. Proposed Regulations raise questions as to this approach; however, the preamble to the Proposed Regulations provides that the IRS will not apply the Proposed Regulations to publicly traded partnerships, and rather the IRS and Treasury Department have solicited comments in this regard. Accordingly, Baker & Hostetler LLP is unable to opine on the validity of this method of allocating income and deductions between transferor and transferee unitholders. If this method is disallowed or only applies to transfers of less than all of the unitholder s interest, our taxable income or losses might be reallocated among the unitholders. We are authorized to revise our method of allocation between unitholders, as well as among transferor and transferee unitholders whose interests vary during a taxable year, to conform to a method permitted under future Treasury Regulations.

A unitholder who owns units at any time during a quarter and who disposes of them prior to the record date set for a cash distribution for that quarter will be allocated items of our income, gain, loss and deductions attributable to that quarter but will not be entitled to receive that cash distribution.

Notification Requirements

A unitholder who sells any of his units, other than through a broker, generally is required to notify us in writing of that sale within 30 days after the sale (or, if earlier, January 15 of the year following the sale). A person who purchases units from a unitholder is required to notify us in writing of that purchase within 30 days after purchase, unless a broker or nominee will satisfy such requirement. We are required to notify the IRS of such transactions and to furnish specified information to the transferor and transferee. However, these reporting requirements do not apply to a sale by an individual who is a citizen of the United States and who affects the sale or exchange through a broker. Failure to notify us of a transfer of units may lead to the imposition of penalties.

Constructive Termination

We will be considered to have terminated for tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a 12-month period. A constructive termination results in the closing of our taxable year for all unitholders. In the case of a unitholder reporting on a taxable year other than a fiscal year ending December 31, the closing of our taxable year may result in more than 12 months of our taxable income or loss being includable in his taxable income for the year of termination. Constructive termination occurring on a date other than December 31 will result in us filing multiple tax returns (and unitholders receiving multiple Schedule K-1s) for one fiscal year and the cost of the preparation of these returns will be borne by all unitholders. We would be required to make new tax elections after a termination, including a new election under Section 754 of the Code, and a termination would result in a deferral of our deductions for depreciation. A termination could also result in penalties if we were unable to determine that the termination had occurred. Moreover, a termination might either accelerate the application of, or subject us to, any tax legislation enacted before the termination.

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Uniformity of Units

Because we cannot match transferors and transferees of units, we must maintain uniformity of the economic and tax characteristics of the units to a purchaser of these units. In the absence of uniformity, we may be unable to completely comply with a number of federal income tax requirements, both statutory and regulatory. A lack of uniformity can result from a literal application of Treasury Regulation Section 1.167(c)-1(a)(6). Any non-uniformity could have a negative impact on the value of the units. Please read *Tax Consequences of Unit Ownership Section 754 Election.*

We intend to depreciate the portion of a Section 743(b) adjustment attributable to unrealized appreciation in the value of Contributed Property, to the extent of any unamortized book-tax disparity, using a rate of depreciation or amortization derived from the depreciation or amortization method and useful life applied to the common basis of that property, or treat that portion as non-amortizable, to the extent attributable to property the common basis of which is not amortizable, consistent with the regulations under Section 743 of the Code, even though that position may be inconsistent with Treasury Regulation Section 1.167(c)-1(a)(6), which is not expected to directly apply to a material portion of our assets. Please read *Tax Consequences of Unit Ownership Section 754 Election.* To the extent that the Section 743(b) adjustment is attributable to appreciation in value in excess of the unamortized book-tax disparity, we will apply the rules described in the Treasury Regulations and legislative history. If we determine that this position cannot reasonably be taken, we may adopt a depreciation and amortization position under which all purchasers acquiring units in the same month would receive depreciation and amortization deductions, whether attributable to a common basis or Section 743(b) adjustment, based upon the same applicable rate as if they had purchased a direct interest in our property. If this position is adopted, it may result in lower annual depreciation and amortization deductions than would otherwise be allowable to some unitholders and risk the loss of depreciation and amortization deductions not taken in the year that these deductions are otherwise allowable. This position will not be adopted if we determine that the loss of depreciation and amortization deductions will have a material adverse effect on the unitholders. If we choose not to utilize this aggregate method, we may use any other reasonable depreciation and amortization method to preserve the uniformity of the intrinsic tax characteristics of any units that would not have a material adverse effect on the unitholders. The IRS may challenge any method of depreciating the Section 743(b) adjustment described in this paragraph. If this challenge were sustained, the uniformity of units might be affected, and the gain from the sale of units might be increased without the benefit of additional deductions. Please read *Disposition of Units Recognition of Gain or Loss.*

Tax-Exempt Organizations and Other Investors

Ownership of units by employee benefit plans, other tax-exempt organizations, non-resident aliens, foreign corporations, other foreign persons, and regulated investment companies raises issues unique to those investors and, as described below, may have substantially adverse tax consequences to them.

Employee benefit plans and most other organizations exempt from federal income tax, including individual retirement accounts and other retirement plans, are subject to federal income tax on unrelated business taxable income. Virtually all of our income allocated to a unitholder that is a tax-exempt organization will be unrelated business taxable income and will be taxable to them.

A regulated investment company or mutual fund is required to derive 90% or more of its gross income from interest, dividends and gains from the sale of stocks or securities or foreign currency or other permitted sources. Income from the ownership of units in a qualified publicly traded partnership is generally treated as income from a permitted source. We anticipate that we will meet the definition of a qualified publicly traded partnership.

Non-resident aliens and foreign corporations, trusts or estates that own units will be considered to be engaged in business in the United States because of the ownership of units. As a consequence, they will be required to file federal tax returns to report their share of our income, gain, loss or deduction and pay federal income tax at regular rates on their share of our net income or gain. Moreover, under rules applicable to publicly traded partnerships, we will withhold at the highest applicable tax rate from cash distributions made quarterly to foreign unitholders. Each foreign unitholder must obtain a taxpayer identification number from the

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IRS and submit that number to our transfer agent on an applicable Form W-8 series or applicable substitute form in order to obtain credit for these withholding taxes. A change in applicable law may require us to change these procedures.

In addition, because a foreign corporation that owns units will be treated as engaged in a United States trade or business, that corporation may be subject to the United States branch profits tax at a rate of 30%, in addition to regular federal income tax, on its share of our income and gain, as adjusted for changes in the foreign corporation s U.S. net equity, that is effectively connected with the conduct of a United States trade or business. That tax may be reduced or eliminated by an income tax treaty between the United States and the country in which the foreign corporate unitholder is a qualified resident. In addition, this type of unitholder is subject to special information reporting requirements under Section 6038C of the Code.

Under a ruling issued by the IRS, a foreign unitholder who sells or otherwise disposes of a unit will be subject to federal income tax on gain realized on the sale or disposition of that unit to the extent that this gain attributable to assets that are effectively connected with a United States trade or business (or, if a treaty applies, attributable to a permanent establishment) of the foreign unitholder that is deemed to exist through ownership in us. Apart from the ruling, a foreign unitholder generally will not be taxed or subject to withholding upon the sale or disposition of a unit if he has owned 5% or less in value of the units during the five-year period ending on the date of the disposition and if the units are regularly traded on an established securities market at the time of the sale or disposition.

Administrative Matters

Information Returns and Audit Procedures

We intend to furnish to each unitholder, within 90 days after the close of each calendar year, specific tax information, including a Schedule K-1, which describes his share of our income, gain, loss and deduction for our preceding taxable year. In preparing this information, which will not be reviewed by Baker & Hostetler LLP, we will take various accounting and reporting positions, some of which have been mentioned earlier, to determine each unitholder s share of income, gain, loss and deduction. We cannot assure you that those positions will yield a result that conforms to the requirements of the Code, regulations or administrative interpretations of the IRS. Neither we nor Baker & Hostetler LLP can assure prospective unitholders that the IRS will not successfully contend in court that those positions are impermissible. Any challenge by the IRS could negatively affect the value of the units.

The IRS may audit our federal income tax information returns. Adjustments resulting from an IRS audit may require each unitholder to adjust a prior year s tax liability, and possibly may result in an audit of his return. Any audit of a unitholder s return could result in adjustments not related to our returns as well as those related to our returns.

Partnerships generally are treated as separate entities for purposes of federal tax audits, judicial review of administrative adjustments by the IRS and tax settlement proceedings. The tax treatment of partnership items of income, gain, loss and deduction are determined in a partnership proceeding rather than in separate proceedings with the partners. The Code requires that one partner be designated as the Tax Matters Partner for these purposes. Our limited liability company agreement names Kolja Rockov, our Executive Vice President and Chief Financial Officer as our Tax Matters Partner, subject to redetermination by our board of directors from time to time.

The Tax Matters Partner has made and will make some elections on our behalf and on behalf of unitholders. In addition, the Tax Matters Partner can extend the statute of limitations for assessment of tax deficiencies against unitholders for items in our returns. The Tax Matters Partner may bind a unitholder with less than a 1% interest in profits in us to a settlement with the IRS unless that unitholder elects, by filing a statement with the IRS, not to give that authority to the Tax Matters Partner. The Tax Matters Partner may seek judicial review, by which all the unitholders are bound, of a final partnership administrative adjustment and, if the Tax Matters Partner fails to seek judicial review, judicial review may be sought by any unitholder having at least a 1% interest in profits or by any group of unitholders having in the aggregate at least a 5%

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interest in profits. However, only one action for judicial review will go forward, and each unitholder with an interest in the outcome may participate.

A unitholder must file a statement with the IRS identifying the treatment of any item on his federal income tax return that is not consistent with the treatment of the item on our return. Intentional or negligent disregard of this consistency requirement may subject a unitholder to substantial penalties.

Nominee Reporting

Persons who hold an interest in us as a nominee for another person are required to furnish to us:

1) the name, address and taxpayer identification number of the beneficial owner and the nominee;

2) whether the beneficial owner is:

a) a person that is not a United States person;

b) a foreign government, an international organization or any wholly-owned agency or instrumentality of either of the foregoing; or

c) a tax-exempt entity;

3) the amount and description of units held, acquired or transferred for the beneficial owner; and

4) specific information including the dates of acquisitions and transfers, means of acquisitions and transfers, and acquisition cost for purchases, as well as the amount of net proceeds from sales.

Brokers and financial institutions are required to furnish additional information, including whether they are United States persons and specific information on units they acquire, hold or transfer for their own account. A penalty of $50 per failure, up to a maximum of $100,000 per calendar year, is imposed by the Code for failure to report that information to us. The nominee is required to supply the beneficial owner of the units with the information furnished to us.

Accuracy-Related Penalties

An additional tax equal to 20% of the amount of any portion of an underpayment of tax that is attributable to one or more specified causes, including negligence or disregard of rules or regulations, substantial understatements of income tax and substantial valuation misstatements, is imposed by the Code. No penalty will be imposed, however, for any portion of an underpayment if it is shown that there was a reasonable cause for that portion and that the taxpayer acted in good faith regarding that portion.

A substantial understatement of income tax in any taxable year exists if the amount of the understatement exceeds the greater of 10% of the tax required to be shown on the return for the taxable year or $5,000 ($10,000 for most corporations). The amount of any understatement subject to penalty generally is reduced if any portion is attributable to a position adopted on the return:

(1) for which there is, or was, substantial authority; or

(2) as to which there is a reasonable basis and the pertinent facts of that position are disclosed on the return.

If any item of income, gain, loss or deduction included in the distributive shares of unitholders might result in that kind of an understatement of income for which no substantial authority exists, we must disclose the pertinent facts on our return. In addition, we will make a reasonable effort to furnish sufficient information for unitholders to make adequate disclosure on their returns to avoid liability for this penalty. More stringent rules apply to tax shelters, a term that in this context does not appear to include us.

A substantial valuation misstatement exists if the value of any property, or the adjusted basis of any property, claimed on a tax return is 150% or more of the amount determined to be the correct amount of the valuation or adjusted basis. No penalty is imposed unless the portion of the underpayment attributable to a substantial valuation misstatement exceeds $5,000 ($10,000 for most corporations). If the valuation claimed on a return is 200% or more than the correct valuation, the penalty imposed increases to 40%.

Reportable Transactions

If we were to engage in a *reportable transaction,* we (and possibly you and others) would be required to make a detailed disclosure of the transaction to the IRS. A transaction may be a reportable transaction based upon any of several factors, including the fact that it is a type of tax avoidance transaction publicly identified by the IRS as a *listed transaction* or that it produces certain kinds of losses for partnerships, individuals, S corporations, and trusts in excess of $2 million in any single year, or $4 million in any combination of tax years. Our participation in a reportable transaction could increase the likelihood that our federal income tax information return (and possibly your tax return) is audited by the IRS. Please read *Information Returns and Audit Procedures* above.

Moreover, if we were to participate in a reportable transaction with a significant purpose to avoid or evade tax, or in any listed transaction, you could be subject to the following:

- accuracy-related penalties with a broader scope, significantly narrower exceptions, and potentially greater amounts than described above at *Accuracy-Related Penalties,*
- for those persons otherwise entitled to deduct interest on federal tax deficiencies, nondeductibility of interest on any resulting tax liability, and
- in the case of a listed transaction, an extended statute of limitations.

We do not expect to engage in any reportable transactions.

State, Local, Foreign and Other Tax Considerations

In addition to federal income taxes, you may be subject to other taxes, including state, local and foreign income taxes, unincorporated business taxes, and estate, inheritance or intangible taxes that may be imposed by the various jurisdictions in which we do business or own property or in which you are a resident. We currently conduct business and/or own assets in West Virginia, Virginia, Pennsylvania, New York, California, Oklahoma, Kansas, New Mexico, Illinois, Indiana, Arkansas, Colorado, Kentucky, Louisiana, Mississippi, Montana, North Dakota, South Dakota and Texas. Although an analysis of those various taxes is not presented here, each prospective unitholder is urged to consider their potential impact on his investment in us. We may also own property or do business in other states or foreign jurisdictions in the future. Although you may not be required to file a return and pay taxes in some jurisdictions because your income from that jurisdiction falls below the filing and payment requirements, you will be required to file income tax returns and to pay income taxes in many of these jurisdictions in which we do business or own property and may be subject to penalties for failure to comply with those requirements.

In some jurisdictions, tax losses may not produce a tax benefit in the year incurred and may not be available to offset income in subsequent taxable years. Some of the jurisdictions may require us, or we may elect, to withhold a percentage of income from amounts to be distributed to a unitholder who is not a resident of the jurisdiction. Withholding, the amount of which may be greater or less than a particular unitholder s income tax liability to the jurisdiction, generally does not relieve a nonresident unitholder from the obligation to file an income tax return. Amounts withheld may be treated as if distributed to unitholders for purposes of determining the amounts distributed by us. Please read *Tax Consequences of Unit Ownership*

Entity-Level Collections. Based on current law and our estimate of our future operations, we anticipate that any amounts required to be withheld will not be material.

PLAN OF DISTRIBUTION

We may sell the units being offered hereby in one or more of the following ways from time to time:

to underwriters or dealers for resale to the public or to institutional investors;

directly to institutional investors;

directly to a limited number of purchasers or to a single purchaser;

through agents to the public or to institutional investors; or

through a combination of any of these methods of sale.

The prospectus supplement with respect to each series of securities will state the terms of the offering of the securities, including:

the offering terms, including the name or names of any underwriters, dealers or agents;

the purchase price of the securities and the net proceeds to be received by us from the sale;

any underwriting discounts or agency fees and other items constituting underwriters or agents compensation;

any public offering price;

any discounts or concessions allowed or reallowed or paid to dealers; and

the securities exchange on which the securities may be listed.

If we use underwriters or dealers in the sale, the securities will be acquired by the underwriters or dealers for their own account and may be resold from time to time in one or more transactions, including:

privately negotiated transactions;

at a fixed public offering price or prices, which may be changed;

in at the market offerings within the meaning of Rule 415(a)(4) of the Securities Act;

at prices related to prevailing market prices; or

at negotiated prices.

Any initial public offering price and any discounts or concessions allowed or reallowed or paid to dealers may be changed from time to time.

If underwriters are used in the sale of any securities, the securities may be offered either to the public through underwriting syndicates represented by managing underwriters, or directly by underwriters. Generally, the underwriters obligations to purchase the securities will be subject to certain conditions precedent. The underwriters will be obligated to purchase all of the securities if they purchase any of the securities.

We may enter into derivative transactions with third parties, or sell securities not covered by this prospectus to third parties in privately negotiated transactions. If the applicable prospectus supplement indicates, in connection with those derivatives, the third parties may sell securities covered by this prospectus and the applicable prospectus supplement, including short sale transactions. If so, the third party may use securities pledged by us or borrowed from us or others to settle those sales or to close out any related open borrowings of units, and may use securities received from us in settlement of those derivatives to close out any related open borrowings of units. The third party in such sale transactions will be an underwriter and, if not identified in this prospectus, will be identified in the applicable prospectus supplement or a post-effective amendment to this registration statement.

If indicated in an applicable prospectus supplement, we may sell the securities through agents from time to time. The applicable prospectus supplement will name any agent involved in the offer or sale of the securities and any commissions we pay to them. Generally, any agent will be acting on a best efforts basis for the period of its appointment. We may authorize underwriters, dealers or agents to solicit offers by certain purchasers to purchase the securities from us at the public offering price set forth in the applicable prospectus supplement pursuant to delayed delivery contracts providing for payment and delivery on a specified date in the future. The delayed delivery contracts will be subject only to those conditions set forth in the applicable

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prospectus supplement, and the applicable prospectus supplement will set forth any commissions we pay for solicitation of these delayed delivery contracts.

Offered securities may also be offered and sold, if so indicated in the applicable prospectus supplement, in connection with a remarketing upon their purchase or otherwise, by one or more remarketing firms, acting as principals for their own accounts or as agents for us. Any remarketing firm will be identified and the terms of its agreements, if any, with us and its compensation will be described in the applicable prospectus supplement.

Agents, underwriters and other third parties described above may be entitled to indemnification by us against certain civil liabilities under the Securities Act, or to contribution with respect to payments which the agents or underwriters may be required to make in respect thereof. Agents, underwriters and such other third parties may be customers of, engage in transactions with, or perform services for us in the ordinary course of business.

Any units sold will be listed on The NASDAQ Global Select Market, upon official notice of issuance. Any underwriters to whom securities are sold by us for public offering and sale may make a market in the securities, but such underwriters will not be obligated to do so and may discontinue any market making at any time without notice.

LEGAL MATTERS

Baker & Hostetler LLP, Houston, Texas, will issue an opinion for us regarding the legality of the securities offered by this prospectus and the applicable prospectus supplement. Baker & Hostetler LLP will also render an opinion on the material tax considerations regarding the securities. If the securities are being distributed in an underwritten offering, certain legal matters will be passed upon for the underwriters by counsel identified in the applicable prospectus supplement.

EXPERTS

The consolidated financial statements of Linn Energy, LLC as of December 31, 2008 and 2007, and for each of the years in the three-year period ended December 31, 2008 and management s assessment of the effectiveness of internal control over financial reporting as of December 31, 2008, and the Statement of Revenues and Direct Operating Expenses Assets acquired from Lamamco Drilling Company for the year ended December 31, 2007, have been incorporated by reference herein in reliance upon the reports incorporated by reference herein of KPMG LLP, independent registered public accounting firm, and upon the authority of said firm as experts in accounting and auditing.

Certain estimates of our proved oil and gas reserves incorporated by reference herein were based in part upon an engineering report prepared by DeGolyer and MacNaughton, independent petroleum engineers. These estimates are included herein in reliance on the authority of such firm as an expert in such matters.

DISCLOSURE OF SEC POSITION ON INDEMNIFICATION FOR SECURITIES ACT LIABILITIES

Subject to any terms, conditions or restrictions set forth in our limited liability company agreement and our indemnity agreements with our executive officers and directors, Section 18-108 of the Delaware Act empowers a Delaware limited liability company to indemnify and hold harmless any member or manager or other persons from and against all claims and demands whatsoever.

To the extent that the indemnification provisions of our limited liability company agreement purport to include indemnification for liabilities arising under the Securities Act, in the opinion of the SEC, such indemnification is contrary to public policy and is therefore unenforceable.

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4,500,000 Units

Representing Limited Liability Company Interests

PRELIMINARY PROSPECTUS SUPPLEMENT

RBC Capital Markets
Barclays Capital
Citi

May , 2009