BERRY PETROLEUM CO
Form 10-Q
May 12, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the Quarterly Period Ended March 31, 2014

OR

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

for the transition period from_______________ to _______________

Commission file number 1-9735

BERRY PETROLEUM COMPANY, LLC
(Successor in interest to Berry Petroleum Company)
(Exact name of registrant as specified in its charter)

Delaware	77-0079387
(State of incorporation or organization)	(I.R.S. Employer Identification Number)

600 Travis, Suite 5100
Houston, Texas 77002
(Address of principal executive offices, including zip code)

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

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

Pursuant to the terms of its senior note indentures, the registrant is a voluntary filer of reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934, and has filed all such reports as required by its senior note indentures during the preceding 12 months.

The registrant meets the conditions set forth in General Instructions H(1)(a) and (b) of Form 10-Q as it is an indirect wholly owned subsidiary of Linn Energy, LLC, which is a reporting company under the Securities Exchange Act of 1934 and which has filed with the SEC all materials required to be filed pursuant to Section 13, 14 or 15(d) thereof, and the registrant is therefore filing this Form 10-Q with a reduced disclosure format.

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x Smaller reporting company ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x
On December 16, 2013, the registrant was acquired (see Note 1 of Notes to the Condensed Financial Statements), as a result of which 100% of its membership interest is currently held by a single member and the registrant deregistered its equity under the Securities Exchange Act of 1934.

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Glossary of Terms

As commonly used in the oil and natural gas industry and as used in this Quarterly Report on Form 10-Q, the following terms have the following meanings:
Bbl. One stock tank barrel or 42 United States gallons liquid volume.
Bbls/d. Bbls per day.
Bcf. One billion cubic feet.
BOE. Barrel of oil equivalent, determined using a ratio of one Bbl of oil, condensate or natural gas liquids to six Mcf of natural gas.
BOE/d. BOE per day.
Btu. One British thermal unit, which is the heat required to raise the temperature of a one-pound mass of water from 58.5 degrees to 59.5 degrees Fahrenheit.
MBbls. One thousand barrels of oil or other liquid hydrocarbons.
MBbls/d. MBbls per day.
Mcf. One thousand cubic feet.
MMBbls. One million barrels of oil or other liquid hydrocarbons.
MBOE. One thousand barrels of oil equivalent.
MBOE/d. MBOE per day.
MMBOE. One million barrels of oil equivalent.
MMBtu. One million British thermal units.
MMcf. One million cubic feet.
MMcf/d. MMcf per day.
Mwh. One thousands kilowatts of electricity used continuously for one hour.
Mwh/d. Mwh per day.
NGL. Natural gas liquids, which are the hydrocarbon liquids contained within natural gas.

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PART I – FINANCIAL INFORMATION
Item 1. Financial Statements
BERRY PETROLEUM COMPANY, LLC
CONDENSED BALANCE SHEETS
(Unaudited)
(in thousands)

	March 31, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$5,519	$51,041
Accounts receivable – trade, net	138,228	122,855
Derivative instruments	3,626	5,596
Other current assets	32,114	30,833
Total current assets	179,487	210,325
Noncurrent assets:		
Oil and natural gas properties (successful efforts method)	4,957,390	4,813,659
Less accumulated depletion and amortization	(76,083)	(10,394)
	4,881,307	4,803,265
Other property and equipment	84,957	83,126
Less accumulated depreciation	(1,972)	(233)
	82,985	82,893
Derivative instruments	2,660	2,511
Other noncurrent assets	9,699	8,051
	12,359	10,562
Total noncurrent assets	4,976,651	4,896,720
Total assets	$5,156,138	$5,107,045
LIABILITIES AND MEMBER'S EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$250,684	$264,271
Derivative instruments	16,209	20,393
Other accrued liabilities	28,887	28,993
Current portion of long-term debt	207,502	211,558
Total current liabilities	503,282	525,215
Noncurrent liabilities:		
Credit facility	1,173,175	1,173,175
Senior notes, net	915,121	916,428
Derivative instruments	891	4,649
Other noncurrent liabilities	188,484	192,091
Total noncurrent liabilities	2,277,671	2,286,343
Commitments and contingencies (Note 10)		
Member’s equity:		

Additional paid-in capital	2,315,460	2,315,460
Accumulated income (deficit)	59,725	(19,973)
	2,375,185	2,295,487
Total liabilities and member’s equity	$5,156,138	$5,107,045

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

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BERRY PETROLEUM COMPANY, LLC
CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)
(in thousands)

	Successor Three Months Ended March 31, 2014	Predecessor Three Months Ended March 31, 2013
Revenues and other:		
Oil, natural gas and natural gas liquids sales	$333,116	$266,772
Electricity sales	9,969	7,589
Gains (losses) on oil and natural gas derivatives	3,465	(737)
Marketing revenues	4,846	2,027
Other revenues	(16)	472
	351,380	276,123
Expenses:		
Lease operating expenses	90,031	75,268
Electricity generation expenses	8,383	5,296
Transportation expenses	7,993	7,694
Marketing expenses	2,598	1,878
General and administrative expenses	43,491	22,226
Exploration costs	—	3,429
Depreciation, depletion and amortization	68,631	68,478
Taxes, other than income taxes	23,029	13,970
Losses (gains) on sale of assets and other, net	3,367	(23)
	247,523	198,216
Other income and (expenses):		
Interest expense, net of amounts capitalized	(24,001)	(24,687)
Other, net	(189)	(49)
	(24,190)	(24,736)
Income before income taxes	79,667	53,171
Income tax expense (benefit)	(31)	20,737
Net income	$79,698	$32,434

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

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BERRY PETROLEUM COMPANY, LLC
CONDENSED STATEMENT OF MEMBER'S EQUITY
(Unaudited)
(in thousands)

	Additional Paid-In Capital	Accumulated Income (Deficit)	Total Member's Equity
December 31, 2013	$2,315,460	$(19,973)	$2,295,487
Net income	—	79,698	79,698
March 31, 2014	$2,315,460	$59,725	$2,375,185

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

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BERRY PETROLEUM COMPANY, LLC
CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands)

	Successor Three Months Ended March 31, 2014	Predecessor Three Months Ended March 31, 2013
Cash flow from operating activities:		
Net income	$79,698	$32,434
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	68,631	68,478
Stock-based compensation expense	—	3,195
Amortization and write-off of deferred financing fees	(3,478)	1,709
Change in book overdraft	—	(232)
Deferred income taxes	(31)	19,648
Other, net	—	5,274
Derivatives activities:		
Total (gains) losses	(3,465)	737
Cash settlements	(2,655)	2,409
Changes in assets and liabilities:		
Increase in accounts receivable – trade, net	(15,373)	(9,507)
Increase in other assets	(1,040)	(3,057)
Decrease in accounts payable and accrued expenses	(21,127)	(22,866)
Decrease in other liabilities	(6,330)	(6,524)
Net cash provided by operating activities	94,830	91,698
Cash flow from investing activities:		
Property acquisitions	—	(2,897)
Development of oil and natural gas properties	(134,750)	(173,849)
Purchases of other property and equipment	(1,833)	(2,613)
Proceeds from sale of properties and equipment and other	—	480
Net cash used in investing activities	(136,583)	(178,879)
Cash flow from financing activities:		
Proceeds from borrowings	—	299,200
Repayments of debt	(1,188)	(208,500)
Dividends paid	—	(4,400)
Financing fees and other, net	(2,581)	(112)
Proceeds from stock option exercises	—	65
Excess tax benefit from stock-based compensation	—	721
Net cash provided by (used in) financing activities	(3,769)	86,974
Net decrease in cash and cash equivalents	(45,522)	(207)
Cash and cash equivalents:		
Beginning	51,041	312
Ending	$5,519	$105

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

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BERRY PETROLEUM COMPANY, LLC
NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)

Note 1 – Basis of Presentation
Nature of Business
Berry Petroleum Company, LLC ("Berry" or the "Company") was formed as a Delaware limited liability company on December 16, 2013, and is an indirect wholly owned subsidiary of Linn Energy, LLC ("LINN Energy") engaged in the production and development of oil and natural gas. The Company's predecessor, Berry Petroleum Company, was publicly traded from 1987 until being acquired by LINN Energy on December 16, 2013 (see "LINN Energy Transaction" below and Note 2). As of March 31, 2014, Linn Acquisition Company, LLC, a direct subsidiary of LINN Energy, was the Company's sole member.
The Company's properties are located in the United States ("U.S."), in California, which includes California (South Midway-Sunset ("SMWSS")—Steam Floods, North Midway-Sunset ("NMWSS")—Diatomite and NMWSS—New Steam Flo ("NSF")), Texas (Permian Basin and east Texas), Utah (Uinta Basin) and Colorado (Piceance Basin).
LINN Energy Transaction
On December 16, 2013, the Company completed the previously-announced transactions contemplated by the merger agreement between LINN Energy, LinnCo, LLC ("LinnCo"), an affiliate of LINN Energy, and Berry under which LinnCo acquired all of the outstanding common shares of Berry and the contribution agreement between LinnCo and LINN Energy, under which LinnCo contributed Berry to LINN Energy in exchange for LINN Energy units. Under the merger agreement, as amended, Berry's shareholders received 1.68 LinnCo common shares for each Berry common share they owned, totaling 93,756,674 LinnCo common shares. Under the contribution agreement, LinnCo contributed Berry to LINN Energy in exchange for 93,756,674 newly issued LINN Energy units, after which Berry became an indirect wholly owned subsidiary of LINN Energy.
Principles of Reporting
The information reported herein reflects all normal recurring adjustments that are, in the opinion of management, necessary for the fair presentation of the results for the interim periods. Certain information and note disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP") have been condensed or omitted under Securities and Exchange Commission ("SEC") rules and regulations; as such, this report should be read in conjunction with the financial statements and notes in the Company's Annual Report on Form 10 K for the year ended December 31, 2013. The results reported in these unaudited condensed financial statements should not necessarily be taken as indicative of results that may be expected for the entire year.
Investments in noncontrolled entities over which the Company exercises significant influence are accounted for under the equity method.
The financial statements for previous periods include certain reclassifications that were made to conform to current presentation. Such reclassifications have no impact on previously reported net income (loss), member's equity or cash flows.
Predecessor and Successor Reporting
The LINN Energy transaction was accounted for under the acquisition method of accounting. Under the acquisition method of accounting, LinnCo initially, and LINN Energy upon the contribution was treated as the accounting acquirer and the Company was treated as the acquired company for financial reporting purposes. As such, the assets and liabilities of the Company were provisionally recorded at their respective fair values as of the acquisition date. Fair value adjustments related to the transaction have been pushed down to the Company, resulting in assets and liabilities of the Company being recorded at their fair values at December 16, 2013. See Note 2 for additional information.
The Company's statement of operations subsequent to the transaction includes depreciation, depletion and amortization expense on the Company's oil and natural gas properties, and other property and equipment balances resulting from the fair value adjustments made under the new basis of accounting. Certain other items of income and expense were also

impacted.

Therefore, the Company's financial information prior to the transaction is not comparable to its financial information subsequent to the transaction.

As a result of the impact of pushdown accounting, the financial statements and certain note presentations separate the Company's presentations into two distinct periods, the period before the consummation of the transaction (labeled predecessor) and the period after that date (labeled successor), to indicate the application of different basis of accounting between the periods presented.

Use of Estimates

The preparation of the accompanying condensed financial statements in conformity with GAAP requires management of the Company to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amount of assets and liabilities reported, disclosures about contingent assets and liabilities, and reported amounts of revenues and expenses. The estimates that are particularly significant to the financial statements include estimates of the Company's reserves of oil, natural gas and natural gas liquids ("NGL"), future cash flows from oil and natural gas properties, depreciation, depletion and amortization, asset retirement obligations, certain revenues and operating expenses, fair values of commodity derivatives and fair values of assets acquired and liabilities assumed. As fair value is a market-based measurement, it is determined based on the assumptions that market participants would use. These estimates and assumptions are based on management's best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Such estimates and assumptions are adjusted when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ from these estimates. Any changes in estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

Note 2 – LINN Energy Transaction

LINN Energy Transaction

On December 16, 2013, the Company completed the previously-announced transactions contemplated by the merger agreement between LINN Energy, LinnCo, an affiliate of LINN Energy, and Berry under which LinnCo acquired all of the outstanding common shares of Berry and the contribution agreement between LinnCo and LINN Energy, under which LinnCo contributed Berry to LINN Energy in exchange for LINN Energy units. Under the merger agreement, as amended, Berry's shareholders received 1.68 LinnCo common shares for each Berry common share they owned, totaling 93,756,674 LinnCo common shares. Under the contribution agreement, LinnCo contributed Berry to LINN Energy in exchange for 93,756,674 newly issued LINN Energy units, after which Berry became an indirect wholly owned subsidiary of LINN Energy. The transaction has a preliminary value of approximately $4.6 billion, including the assumption of approximately $2.3 billion of Berry's debt and net of cash acquired of approximately $451 million. On the Berry acquisition date, LinnCo contributed Berry to its affiliate, LINN Energy. As a result, the assets, liabilities and results of operations of Berry are not included in LinnCo's financial statements.

The acquisition was accounted for under the acquisition method of accounting. Accordingly, the Company conducted assessments of net assets acquired and recognized amounts for identifiable assets acquired and liabilities assumed at their estimated fair values on the acquisition date, while transaction and integration costs associated with the acquisition were expensed as incurred. The initial accounting for the business combination is not complete and adjustments to provisional amounts, or recognition of additional assets acquired or liabilities assumed, may occur as more detailed analyses are completed and additional information is obtained about the facts and circumstances that existed as of the acquisition date.

As a result of being formed as a limited liability company on December 16, 2013, the date of the LINN Energy transaction, the Company ceased to be subject to federal and state income taxes, with the exception of the state of Texas. The Company's net deferred income tax liabilities were assumed by LinnCo in the merger and were not transferred to LINN Energy in the contribution.

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BERRY PETROLEUM COMPANY
NOTES TO THE CONDENSED FINANCIAL STATEMENTS – Continued
(Unaudited)

Note 3 – Oil and Natural Gas Properties
Oil and Natural Gas Capitalized Costs
Aggregate capitalized costs related to oil, natural gas and NGL production activities with applicable accumulated depletion and amortization are presented below:

	March 31, 2014	December 31, 2013
	(in thousands)	
Oil and natural gas:		
Proved properties	$3,541,516	$3,397,785
Unproved properties	1,415,874	1,415,874
	4,957,390	4,813,659
Less accumulated depletion and amortization	(76,083)	(10,394)
	$4,881,307	$4,803,265

Note 4 – Debt
The following summarizes the Company's outstanding debt:

	March 31, 2014	December 31, 2013
	(in thousands, except percentages)	
Credit facility (1)	$1,173,175	$1,173,175
10.25% senior notes due June 2014	204,936	205,257
6.75% senior notes due November 2020	299,970	300,000
6.375% senior notes due September 2022	599,163	600,000
Net unamortized premiums	18,554	22,729
Total debt, net	2,295,798	2,301,161
Less current maturities	(207,502)	(211,558)
Total long-term debt, net	$2,088,296	$2,089,603

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

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

	March 31, 2014		December 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(in thousands)			
Credit facility	$1,173,175	$1,173,175	$1,173,175	$1,173,175
Senior notes, net	1,122,623	1,138,698	1,127,986	1,128,527
Total debt, net	$2,295,798	$2,311,873	$2,301,161	$2,301,702

Credit Facility

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

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

The Company is currently in compliance with all financial and other covenants of the Credit Facility. If an event of default would occur and were continuing, the Company would be unable to make borrowings and its financial condition and liquidity would be adversely affected.

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

Senior Notes Due June 2014

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

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

Senior Notes Due November 2020

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

Senior Notes Due September 2022

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

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Repurchases of Senior Notes

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

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

Note 5 – Derivative Instruments

The Company hedges a significant portion of its forecasted oil production to reduce exposure to commodity price fluctuations and provide long-term cash flow predictability to manage its business. The current direct NGL hedging market is constrained in terms of price, volume, duration and number of counterparties, which limits the Company’s ability to effectively hedge its NGL production. As a result, currently, the Company does not directly hedge its NGL production. The Company also, from time to time, enters into derivative contracts for a portion of its natural gas consumption.

The Company enters into commodity hedging transactions primarily in the form of swap contracts, collars and three-way collars. Swap contracts are designed to provide a fixed price. Collar contracts specify floor and ceiling prices to be received as compared to floating market prices. Three-way collar contracts combine a short put (the lower price), a long put (the middle price) and a short call (the higher price) to provide a higher ceiling price as compared to a regular collar and limit downside risk to the market price plus the difference between the middle price and the lower price if the market price drops below the lower price.

The Company enters into these transactions with respect to a portion of its projected production to provide an economic hedge of the risk related to the future commodity prices received. The Company does not enter into derivative contracts for trading purposes. The Company did not designate any of these contracts as cash flow hedges; therefore, the changes in fair value of these instruments are recorded in current earnings. See Note 6 for fair value disclosures about oil and natural gas commodity derivatives.

BERRY PETROLEUM COMPANY
NOTES TO THE CONDENSED FINANCIAL STATEMENTS – Continued
(Unaudited)

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

	April 1 - December 31, 2014	2015
Oil positions:		
Fixed price swaps (NYMEX WTI):		
Hedged volume (MBbls)	3,713	—
Average price ($/Bbl)	$91.26	$—
Collars (NYMEX WTI):		
Hedged volume (MBbls)	550	—
Average floor price ($/Bbl)	$90.00	$—
Average ceiling price ($/Bbl)	$102.87	$—
Three-way collars (NYMEX WTI):		
Hedged volume (MBbls)	2,338	1,095
Short put ($/Bbl)	$72.11	$70.00
Long put ($/Bbl)	$93.76	$90.00
Short call ($/Bbl)	$109.79	$101.62
Three-way collars (ICE Brent):		
Hedged volume (MBbls)	275	—
Short put ($/Bbl)	$80.00	$—
Long put ($/Bbl)	$100.00	$—
Short call ($/Bbl)	$114.05	$—
Oil basis differential positions:		
ICE Brent - NYMEX WTI basis swaps:		
Hedged volume (MBbls)	2,750	2,920
Hedged differential ($/Bbl)	$11.60	$11.60
Oil timing differential positions:		
Trade month roll swaps (NYMEX WTI): (1)		
Hedged volume (MBbls)	1,375	—
Hedged differential ($/Bbl)	$0.32	$—

(1) The Company hedges the timing risk associated with the sales price of oil in the Permian Basin. In this operating area, the Company generally sells oil for the delivery month at a sales price based on the average NYMEX WTI price during that month, plus an adjustment calculated as a spread between the weighted average prices of the delivery month, the next month and the following month during the period when the delivery month is prompt (the “trade month roll”).

Settled derivatives on oil production for the three months ended March 31, 2014, included volumes of 2,250 MBbls at an average contract price of $92.16 per Bbl. The oil derivatives are settled based on the average closing price of NYMEX light crude oil for each day of the delivery month.

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BERRY PETROLEUM COMPANY
NOTES TO THE CONDENSED FINANCIAL STATEMENTS – Continued
(Unaudited)

Balance Sheet Presentation

The Company's commodity derivatives are presented on a net basis in "derivative instruments" on the balance sheets. The following summarizes the fair value of derivatives outstanding on a gross basis:

	March 31, 2014	December 31, 2013
	(in thousands)	
Assets:		
Commodity derivatives	$28,273	$28,291
Liabilities:		
Commodity derivatives	$39,087	$45,226

By using derivative instruments to economically hedge exposures to changes in commodity prices, the Company exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Company, which creates credit risk. The Company's counterparties are current participants or affiliates of participants in its Credit Facility or were participants or affiliates of participants in its Credit Facility at the time it originally entered into the derivatives. The Credit Facility is secured by the Company's oil and natural gas reserves; therefore, the Company is not required to post any collateral. The Company does not receive collateral from its counterparties. The maximum amount of loss due to credit risk that the Company would incur if its counterparties failed completely to perform according to the terms of the contracts, based on the gross fair value of financial instruments, was approximately $28 million at March 31, 2014. The Company minimizes the credit risk in derivative instruments by: (i) limiting its exposure to any single counterparty; (ii) entering into derivative instruments only with counterparties that meet the Company's minimum credit quality standard, or have a guarantee from an affiliate that meets the Company's minimum credit quality standard; and (iii) monitoring the creditworthiness of the Company's counterparties on an ongoing basis. In accordance with the Company's standard practice, its commodity derivatives are subject to counterparty netting under agreements governing such derivatives and therefore the risk of loss is somewhat mitigated.

Gains (Losses) on Derivatives

Gains (losses) on oil and natural gas derivatives were net gains of approximately $3 million for the three months ended March 31, 2014, and net losses of approximately $737,000 for the three months ended March 31, 2013. These amounts are reported on the condensed statements of operations in "gains (losses) on oil and natural gas derivatives."

Note 6 – Fair Value Measurements on a Recurring Basis

The Company accounts for its commodity derivatives at fair value (see Note 5) on a recurring basis. The Company determines the fair value of its oil and natural gas derivatives utilizing pricing models that use a variety of techniques, including market quotes and pricing analysis. Inputs to the pricing models include publicly available prices and forward price curves generated from a compilation of data gathered from third parties. Company management validates the data provided by third parties by understanding the pricing models used, obtaining market values from other pricing sources, analyzing pricing data in certain situations and confirming that those instruments trade in active markets. Assumed credit risk adjustments, based on published credit ratings, public bond yield spreads and credit default swap spreads, are applied to the Company's commodity derivatives.

Fair Value Hierarchy

In accordance with applicable accounting standards, the Company has categorized its financial instruments, based on the priority of inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

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NOTES TO THE CONDENSED FINANCIAL STATEMENTS – Continued
(Unaudited)

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

	March 31, 2014		
	Level 2	Netting [1]	Total
	(in thousands)		
Assets:			
Commodity derivatives	$28,273	$(21,987)	$6,286
Liabilities:			
Commodity derivatives	$39,087	$(21,987)	$17,100

	December 31, 2013		
	Level 2	Netting [1]	Total
	(in thousands)		
Assets:			
Commodity derivatives	$28,291	$(20,184)	$8,107
Liabilities:			
Commodity derivatives	$45,226	$(20,184)	$25,042

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

Note 7 – Asset Retirement Obligations

Asset retirement obligations associated with retiring tangible long-lived assets are recognized as a liability in the period in which a legal obligation is incurred and becomes determinable and are included in “other accrued liabilities” and “other noncurrent liabilities” on the balance sheets. Accretion expense is included in “depreciation, depletion and amortization” on the statements of operations. The fair value of additions to the asset retirement obligations is estimated using valuation techniques that convert future cash flows to a single discounted amount. Significant inputs to the valuation include estimates of: (i) plug and abandon costs per well based on existing regulatory requirements; (ii) remaining life per well; (iii) future inflation factors (2.0% for the three months ended March 31, 2014); and (iv) a credit-adjusted risk-free interest rate (average of 5.5% for the three months ended March 31, 2014). These inputs require significant judgments and estimates by the Company’s management at the time of the valuation and are the most sensitive and subject to change.

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

Asset retirement obligations at December 31, 2013	$94,830
Liabilities added from drilling	1,412
Current year accretion expense	1,316
Settlements	(1,566)
Asset retirement obligations at March 31, 2014	$95,992

Note 8 – Income Taxes

The Company is a limited liability company treated as a disregarded entity for federal and state income tax purposes, with the exception of the state of Texas. As such, with the exception of the state of Texas, the Company is not a taxable entity, it does not directly pay federal and state income taxes and recognition has not been given to federal and state income taxes for the operations of the Company. Prior to the LINN Energy transaction, the Company was a Subchapter C-corporation subject to federal and state income taxes. Amounts recognized for income taxes purposes are reported in “income tax expense (benefit)” on the condensed statements of operations.

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NOTES TO THE CONDENSED FINANCIAL STATEMENTS – Continued
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Note 9 – Equity Incentive Compensation Plans

The successor Company does not have any equity incentive compensation (“EIC”) plans under which it grants stock awards and, therefore, recognized no direct stock compensation expense for the three months ended March 31, 2014. Prior to the LINN Energy transaction, the Company granted equity awards to its employees under its EIC plans. The total compensation expense recognized by the predecessor Company in the condensed statement of operations for grants under the Company’s EIC plans was approximately $3 million for the three months ended March 31, 2013. In connection with the LINN Energy transaction, effective December 16, 2013, the predecessor Company’s equity awards were exchanged for LinnCo common shares or LINN Energy equity awards.

Note 10 – Commitments and Contingencies

East Texas Gathering System

The Company has entered into certain long-term natural gas gathering agreements for its east Texas production. The agreements contain embedded leases and the transaction has been accounted for as a financing obligation. The fair value of the property associated with this transaction was recorded in the amount of approximately $13 million and is being depreciated over the remaining useful life of the asset. Under the agreements, portions of the payments are recorded as gathering expense and interest expense with the balance recorded as a reduction to the financing obligation. There are no minimum payments required under these agreements.

Carry and Earning Agreement

In January 2011, the Company entered into an amendment relating to certain contractual obligations to a third-party co-owner of certain Piceance Basin assets in Colorado. The amendment waives a $200,000 penalty for each well not spud by February 2011 and requires the Company to reassign to such third party, by January 31, 2020, all of the interest acquired by the Company from the third party in each 160-acre tract in which the Company has not drilled and completed a well that is producing or capable of producing from a designated formation, or deeper formation, on January 1, 2020. The amendment also requires the Company to pay the first $9 million of costs incurred in connection with the construction of either an extension of the existing access road or a new access road, including the third party’s 50% share. Pursuant to the terms of a further amendment entered into in April 2014, if by September 30, 2015, the Company does not expend $9 million on the construction of either the extension of the road or a new road, the Company is obligated to pay the third party 50% of the difference between $12 million and the actual amount expended on road construction as of such date. Under the terms of the amendment, this deadline is subject to further extension to no later than December 31, 2015. Due to the need to obtain regulatory approvals, among other reasons, the Company has not yet commenced construction of either an extension of the existing access road or a new access road and may be unable to do so by the extended deadline, thus triggering the payment obligation to the third party.

Legal Matters

Department of the Interior Notice of Proposed Debarment

On June 14, 2012, the Company received a Notice of Proposed Debarment issued by the United States Department of the Interior (“DOI”). Pursuant to the notice, the DOI’s Office of the Inspector General proposed to debar the Company from participation in certain federal contracts and assistance activities, including oil and natural gas leases, for a period of three years. The basis for the proposed debarment relates to the Company’s purported noncompliance with Bureau of Land Management (“BLM”) regulations relating to the operation of certain equipment, and the submission of related site facility diagrams, in its Uinta operations. In 2011, the Company entered into a settlement agreement with the BLM and paid a $2 million civil penalty relating to the matter. The Company contested the proposed debarment and believes the matter is without merit; nevertheless, in June 2013, the Company entered into an agreement with the DOI to resolve the matter administratively through an independent compliance review. The independent compliance review has concluded and the final compliance review reports have been submitted to the DOI. The Company has been informed that the DOI intends to make follow-up inquiries to the Company in the near future, but has not received any further communications to date.

Other

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The Company is involved in various other lawsuits, claims and inquiries, most of which are routine to the nature of its business. In the opinion of management, the resolution of these matters will not have a material effect on its business, financial condition, results of operations or liquidity; however, cash flow could be significantly impacted in the reporting periods in which such matters are resolved.

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

Note 11 – Related Party Transactions

LINN Energy

All former employees of the Company that were retained after the LINN Energy transaction are now employed by Linn Operating, Inc. (“LOI”), a subsidiary of LINN Energy, and along with other LOI personnel, provide services and support to the Company in accordance with an agency agreement and power of attorney between the Company and LOI. For the three months ended March 31, 2014, the Company incurred management fee expenses of approximately $36 million for services provided by LOI.

The Company’s $205 million of June 2014 Senior Notes matures on June 1, 2014. In March 2014, the Company and LINN Energy entered into a parent support agreement under which LINN Energy agreed to provide the Company with funds in an amount sufficient to enable the Company to pay its June 2014 Senior Notes in full upon maturity.

Other

One of LINN Energy’s directors is the President and Chief Executive Officer of Superior Energy Services, Inc. (“Superior”), which provides oilfield services to the Company. For the three months ended March 31, 2014, the Company paid approximately $78,000 to Superior or its subsidiaries for services rendered to the Company. The transactions associated with these payments were consummated on terms equivalent to those that prevail in arm’s-length transactions.

Note 12 – Supplemental Disclosures to the Condensed Balance Sheets and Condensed Statements of Cash Flows

“Other accrued liabilities” reported on the condensed balance sheets include the following:

	March 31, 2014	December 31, 2013
	(in thousands)	
Accrued interest	$19,138	$18,926
Accrued compensation	6,340	6,749
Asset retirement obligations (current portion)	3,318	3,318
Other	91	—
	$28,887	$28,993

BERRY PETROLEUM COMPANY
NOTES TO THE CONDENSED FINANCIAL STATEMENTS – Continued
(Unaudited)

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

	Successor Three Months Ended March 31, 2014	Predecessor Three Months Ended March 31, 2013
(in thousands)		
Cash payments for interest, net of amounts capitalized	$27,163	$20,629
Cash payments for income taxes	$—	$—
Noncash investing activities:		
Accrued capital expenditures	$7,540	$32,379
Asset retirement obligations	$1,412	$7,022

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion contains forward-looking statements that reflect the Company's future plans, estimates, beliefs and expected performance. The forward-looking statements are dependent upon events, risks and uncertainties that may be outside the Company's control. The Company's actual results could differ materially from those discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, market prices for oil, natural gas and NGL, production volumes, estimates of proved reserves, capital expenditures, economic and competitive conditions, credit and capital market conditions, regulatory changes and other uncertainties, as well as those factors set forth in "Cautionary Statement" below and in Item 1A. "Risk Factors" in this Quarterly Report on Form 10-Q and in the Annual Report on Form 10-K for the year ended December 31, 2013, and elsewhere in the Annual Report. In light of these risks, uncertainties and assumptions, the forward-looking events discussed may not occur.

The following discussion and analysis should be read in conjunction with the financial statements and related notes included in this Quarterly Report on Form 10-Q and in the Company's Annual Report on Form 10-K for the year ended December 31, 2013. The reference to a "Note" herein refers to the accompanying Notes to Condensed Financial Statements contained in Item 1. "Financial Statements."

Executive Overview

Berry Petroleum Company, LLC ("Berry" or the "Company") was formed as a Delaware limited liability company on December 16, 2013, and is an indirect wholly owned subsidiary of Linn Energy, LLC ("LINN Energy") engaged in the production and development of oil and natural gas. The Company's predecessor, Berry Petroleum Company, was publicly traded from 1987 until being acquired by LINN Energy in December 2013 (see "LINN Energy Transaction" below and Note 2). After being acquired and as of March 31, 2014, Linn Acquisition Company, LLC, a direct subsidiary of LINN Energy, was the Company's sole member. The Company's principal reserves and producing properties are located in California (South Midway-Sunset ("SMWSS")—Steam Floods, North Midway-Sunset ("NMWSS")—Diatomite, NMWSS—New Steam Floods ("NSF")), Texas (Permian Basin and east Texas), Utah (Uinta Basin) and Colorado (Piceance Basin).

Results for the three months ended March 31, 2014, included the following:

- oil, natural gas and NGL sales of approximately $333 million compared to $267 million for the first quarter of 2013;
- average daily production of 47.4 MBOE/d compared to 39.7 MBOE/d for the first quarter of 2013;
- net income of approximately $80 million compared to $32 million for the first quarter of 2013;
- net cash provided by operating activities of approximately $95 million compared to $92 million for the first quarter of 2013;
- capital expenditures, excluding acquisitions, of approximately $137 million compared to $176 million for the first quarter of 2013; and
- 71 wells drilled (all successful) compared to 80 wells drilled (all successful) for the first quarter of 2013.

LINN Energy Transaction

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

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Continued

Predecessor and Successor Reporting

As a result of the impact of pushdown accounting on the acquisition date (see Note 1), the Company's financial statements and certain note presentations are separated into two distinct periods, the period before the consummation of the LINN Energy transaction (labeled predecessor) and the period after that date (labeled successor), to indicate the application of different basis of accounting between the periods presented. Despite this separate GAAP presentation, the successor had no independent oil and natural gas operations prior to the acquisition, and, accordingly, there were no operational activities that changed as a result of the acquisition of the predecessor.

Results of Operations

Three Months Ended March 30, 2014, Compared to Three Months Ended March 20, 2013

(in thousands)	Successor Three Months Ended March 31, 2014	Predecessor Three Months Ended March 31, 2013	Variance
Revenues and other:			
Oil sales	$294,901	$244,455	$50,446
Natural gas sales	28,945	15,995	12,950
NGL sales	9,270	6,322	2,948
Total oil, natural gas and NGL sales	333,116	266,772	66,344
Electricity sales	9,969	7,589	2,380
Gains (losses) on oil and natural gas derivatives	3,465	(737)	4,202
Marketing and other revenues	4,830	2,499	2,331
	351,380	276,123	75,257
Expenses:			
Lease operating expenses	90,031	75,268	14,763
Electricity generation expenses	8,383	5,296	3,087
Transportation expenses	7,993	7,694	299
Marketing expenses	2,598	1,878	720
General and administrative expenses	43,491	22,226	21,265
Exploration costs	—	3,429	(3,429)
Depreciation, depletion and amortization	68,631	68,478	153
Taxes, other than income taxes	23,029	13,970	9,059
Losses (gains) on sale of assets and other, net	3,367	(23)	3,390
	247,523	198,216	49,307
Other income and (expenses)	(24,190)	(24,736)	546
Income before income taxes	79,667	53,171	26,496
Income tax expense (benefit)	(31)	20,737	(20,768)
Net income	$79,698	$32,434	$47,264

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Continued

	Successor Three Months Ended March 31, 2014	Predecessor Three Months Ended March 31, 2013	Variance
Average daily production:			