LEGACY RESERVES LP
Form 10-Q
November 06, 2009

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 September 30, 2009

or

o 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 1-33249

Legacy Reserves LP
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	16-1751069 (I.R.S. Employer Identification No.)
303 W. Wall, Suite 1400 Midland, Texas (Address of principal executive offices)	79701 (Zip code)

(432) 689-5200
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

£ Yes £ 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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

34,885,474 units representing limited partner interests in the registrant were outstanding as of November 5, 2009.

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GLOSSARY OF TERMS

Bbl. One stock tank barrel or 42 U.S. gallons liquid volume.

Bcf. Billion cubic feet.

Boe. One barrel of oil equivalent, determined using a ratio of six Mcf of natural gas to one Bbl of crude oil, condensate or natural gas liquids.

Boe/d. Barrels of oil equivalent per day.

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

Developed acreage. The number of acres that are allocated or assignable to productive wells or wells capable of production.

Development project. A drilling or other project which may target proven reserves, but which generally has a lower risk than that associated with exploration projects.

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

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

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

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

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

MBoe. One thousand barrels of crude oil equivalent, using a ratio of six Mcf of natural gas to one Bbl of crude oil, condensate or natural gas liquids.

Mcf. One thousand cubic feet.

MGal. One thousand gallons of natural gas liquids or other liquid hydrocarbons.

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

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

MMBtu. One million British thermal units.

MMcf. One million cubic feet.

MMGal. One million gallons of natural gas liquids or other liquid hydrocarbons.

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

NGLs or natural gas liquids. The combination of ethane, propane, butane and natural gasolines that when removed from natural gas become liquid under various levels of higher pressure and lower temperature.

NYMEX. New York Mercantile Exchange.

Oil. Crude oil, condensate and natural gas liquids.

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

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

Proved developed non-producing or PDNP’s. Proved oil and natural gas reserves that are developed behind pipe, shut-in or can be recovered through improved recovery only after the necessary equipment has been installed, or when the costs to do so are relatively minor. Shut-in reserves are expected to be recovered from (1) completion intervals which are open at the time of the estimate but which have not started producing, (2) wells that were shut-in for market conditions or pipeline connections, or (3) wells not capable of production for mechanical reasons. Behind-pipe reserves are expected to be recovered from zones in existing wells that will require additional completion work or future recompletion prior to the start of production.

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

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

Proved undeveloped reserves or PUDs. Proved oil and natural gas reserves that are expected to be recovered from new wells on undrilled acreage or from existing wells where a relatively major expenditure is required for recompletion. Reserves on undrilled acreage shall be limited to those drilling units offsetting productive units that are reasonably certain of production when drilled. Proved reserves for other undrilled units can be claimed only where it can be demonstrated with certainty that there is continuity of production from the existing productive formation. Under no circumstances should estimates for proved undeveloped reserves be attributable to any acreage for which an application of fluid injection or other improved recovery technique is contemplated, unless such techniques have been proven effective by actual tests in the area and in the same reservoir.

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

Reserve acquisition cost. The total consideration paid for an oil and natural gas property or set of properties, which includes the cash purchase price and any value ascribed to units issued to a seller adjusted for any post-closing items.

R/P ratio (reserve life). The reserves as of the end of a period divided by the production volumes for the same period.

Reserve replacement. The replacement of oil and natural gas produced with reserve additions from acquisitions, reserve additions and reserve revisions.

Reserve replacement cost. An amount per Boe equal to the sum of costs incurred relating to oil and natural gas property acquisition, exploitation, development and exploration activities (as reflected in our year-end financial statements for the relevant year) divided by the sum of all additions and revisions to estimated proved reserves, including reserve purchases. The calculation of reserve additions for each year is based upon the reserve report of our independent engineers. Management uses reserve replacement cost to compare our company to others in terms of our historical ability to increase our reserve base in an economic manner. However, past performance does not necessarily reflect future reserve replacement cost performance. For example, increases in oil and natural gas prices in recent years have increased the economic life of reserves adding additional reserves with no required capital expenditures. On the other hand, increases in oil and natural gas prices have increased the cost of reserve purchases and reserves added through development. The reserve replacement cost may not be indicative of the economic value added of the reserves due to differing lease operating expenses per barrel and differing timing of production.

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

Standardized measure. The present value of estimated future net revenues to be generated from the production of proved reserves, determined in accordance with assumptions required by the Financial Accounting Standards Board and the Securities and Exchange Commission (using prices and costs in effect as of the period end date) without giving effect to non-property related expenses such as general and administrative expenses, debt service and future income tax expenses or to depreciation, depletion and amortization and discounted using an annual discount rate of 10%. Because we are a limited partnership that allocates our taxable income to our unitholders, no provisions for federal or state income taxes have been provided for in the calculation of standardized measure. Standardized measure does not give effect to derivative transactions.

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

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

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

Part I – FINANCIAL INFORMATION

Item 1. Financial Statements.

LEGACY RESERVES LP
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

ASSETS

	September 30, 2009	December 31, 2008
	(In thousands)	
Current assets:		
Cash and cash equivalents	$ 3,887	$ 2,500
Accounts receivable, net:		
Oil and natural gas	15,896	12,198
Joint interest owners	4,129	7,265
Other (Note 4)	11	60
Fair value of derivatives (Notes 6 and 7)	27,037	54,820
Prepaid expenses and other current assets	2,610	4,094
Total current assets	53,570	80,937
Oil and natural gas properties, at cost:		
Proved oil and natural gas properties, at cost, using the successful efforts method of accounting:	840,458	821,786
Unproved properties	78	78
Accumulated depletion, depreciation and amortization	(252,521)	(208,832)
	588,015	613,032
Other property and equipment, net of accumulated depreciaton and amortization of $1,269 and $765, respectively	1,558	1,851
Operating rights, net of amortization of $1,841 and $1,429, respectively	5,176	5,588
Fair value of derivatives (Notes 6 and 7)	34,703	80,085
Other assets, net of amortization of $2,317 and $1,139, respectively	4,788	1,558
Investment in equity method investee	29	21
Total assets	$ 687,839	$ 783,072

See accompanying notes to condensed consolidated financial statements.

LEGACY RESERVES LP
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

LIABILITIES AND UNITHOLDERS' EQUITY

	September 30, 2009	December 31, 2008
	(In thousands)	
Current liabilities:		
Accounts payable	$ 1,576	$ 5,950
Accrued oil and natural gas liabilities	16,052	17,200
Fair value of derivatives (Notes 6 and 7)	9,833	1,691
Asset retirement obligation (Note 8)	4,272	25,889
Other (Note 10)	4,671	6,276
Total current liabilities	36,404	57,006
Long-term debt (Note 2)	230,000	282,000
Asset retirement obligation (Note 8)	79,297	54,535
Fair value of derivatives (Notes 6 and 7)	6,667	8,768
Other long-term liabilites	48	130
Total liabilities	352,416	402,439
Commitments and contingencies (Note 5)		
Unitholders' equity:		
Limited partners' equity - 34,880,474 and 31,049,299 units issued and outstanding at September 30, 2009 and December 31 2008, respectively	335,360	380,509
General partner's equity (approximately 0.1%)	63	124
Total unitholders' equity	335,423	380,633
Total liabilities and unitholders' equity	$ 687,839	$ 783,072

See accompanying notes to condensed consolidated financial statements.

LEGACY RESERVES LP
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
	(In thousands, except per unit data)			
Revenues:				
Oil sales	$ 28,637	$ 47,912	$ 69,706	$ 132,400
Natural gas liquids sales (NGL)	3,367	5,031	7,914	13,314
Natural gas sales	5,894	12,668	15,192	35,293
Total revenues	37,898	65,611	92,812	181,007
Expenses:				
Oil and natural gas production	12,517	15,784	35,988	38,827
Production and other taxes	2,251	4,096	5,491	10,654
General and administrative	4,001	2,158	11,269	8,872
Depletion, depreciation, amortization and accretion	13,302	13,082	43,472	33,223
Impairment of long-lived assets	2,375	339	3,982	447
Loss on disposal of assets	26	317	265	391
Total expenses	34,472	35,776	100,467	92,414
Operating income (loss)	3,426	29,835	(7,655)	88,593
Other income (expense):				
Interest income	3	11	9	82
Interest expense (Notes 2, 6 and 7)	(8,612)	(4,198)	(11,110)	(7,164)
Equity in income of partnerships	16	47	13	135
Realized and unrealized gain (loss) on oil, NGL and natural gas swaps and oil collar (Notes 6 and 7)	4,452	202,388	(35,214)	(54,873)
Other	(1)	(9)	9	(28)
Income (loss) before income taxes	(716)	228,074	(53,948)	26,745
Income taxes	(135)	(122)	(406)	(628)
Income (loss) from continuing operations	(851)	227,952	(54,354)	26,117
Gain on sale of discontinued operation (Note 3)	-	-	-	4,954
Net income (loss)	$ (851)	$ 227,952	$ (54,354)	$ 31,071
Income (loss) from continuing operations per unit - basic and diluted	$ (0.03)	$ 7.34	$ (1.74)	$ 0.86
Gain on discontinued operation per unit - basic and diluted	$ -	$ -	$ -	$ 0.16

Income (loss) per unit - basic and diluted (Note 9)	$ (0.03)	$ 7.34	$ (1.74)	$ 1.02
Weighted average number of units used in computing net income (loss) per unit -				
basic	31,613	31,041	31,247	30,443
diluted	31,613	31,076	31,247	30,492

See accompanying notes to condensed consolidated financial statements.

LEGACY RESERVES LP
CONDENSED CONSOLIDATED STATEMENTS OF UNITHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2009
(UNAUDITED)

	Number of Limited Partner Units	Limited Partner	General Partner	Total Unitholders' Equity
		(In thousands)		
Balance, December 31, 2008	31,049	$380,509	$124	$380,633
Units issued to Legacy Board of Directors for services	16	259	-	259
Compensation expense on restricted unit awards issued to employees	-	92	-	92
Vesting of restricted units	20	-	-	-
Net proceeds from equity offering	3,795	57,269	-	57,269
Distributions to unitholders, $1.56 per unit	-	(48,447)	(29)	(48,476)
Net loss	-	(54,322)	(32)	(54,354)
Balance, September 30, 2009	34,880	$335,360	$63	$335,423

See accompanying notes to condensed consolidated financial statements.

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LEGACY RESERVES LP
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended September 30, 2009	2008
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	$ (54,354)	$ 31,071
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depletion, depreciation, amortization and accretion	43,472	33,223
Amortization of debt issuance costs	1,178	386
Impairment of long-lived assets	3,982	447
Loss on derivatives	33,446	54,456
Equity in (income) loss of partnership	(13)	(134)
Unit-based compensation	1,836	1,295
(Gain) loss on disposal of assets	265	(4,563)
Changes in assets and liabilities:		
Increase in accounts receivable, oil and natural gas	(3,698)	(5,082)
(Increase) decrease in accounts receivable, joint interest owners	3,136	(1,016)
(Increase) decrease in accounts receivable, other	49	(356)
(Increase) decrease in other current assets	1,583	(4,451)
Increase (decrease) in accounts payable	(4,374)	1,195
Increase (decrease) in accrued oil and natural gas liabilities	(1,148)	12,573
Increase (decrease) in other liabilities	(5,561)	844
Total adjustments	74,153	88,817
Net cash provided by operating activities	19,799	119,888
Cash flows from investing activities:		
Investment in oil and natural gas properties	(16,253)	(151,372)
Increase in deposit on pending acquisition	-	(3,087)
Proceeds from sale of assets	51	-
Investment in other equipment	(212)	(1,573)
Net cash settlements on oil and natural gas swaps	45,760	(41,659)
Investment in (distribution from) equity method investee	(5)	137
Net cash provided by (used in) investing activities	29,341	(197,554)
Cash flows from financing activities:		
Proceeds from long-term debt	31,000	188,000
Payments of long-term debt	(83,000)	(67,000)
Payments of debt issuance costs	(4,546)	(519)
Proceeds from issuance of units, net	57,269	(6)
Distributions to unitholders	(48,476)	(44,745)
Net cash provided by (used in) financing activities	(47,753)	75,730
Net increase (decrease) in cash and cash equivalents	1,387	(1,936)
Cash and cash equivalents, beginning of period	2,500	9,604
Cash and cash equivalents, end of period	$ 3,887	$ 7,668

Non-Cash Investing and Financing Activities:				
Asset retirement obligations associated with property acquisitions	$	3,025	$	15,694
Units issued in exchange for oil and natural gas properties	$	-	$	27,000
Non-cash exchange of oil and gas properties:				
Properties received in exchange	$	-	$	7,746
Properties delivered in exchange	$	-	$	(3,122)

See accompanying notes to condensed consolidated financial statements.

LEGACY RESERVES LP
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) Summary of Significant Accounting Policies

(a) Organization, Basis of Presentation and Description of Business

Legacy Reserves LP and its affiliated entities are referred to as Legacy, LRLP or the Partnership in these financial statements.

Certain information and footnote disclosures normally included in the financial statements prepared in accordance with generally accepted accounting principles in the United States ("GAAP") have been condensed or omitted in this Form 10-Q pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). These condensed consolidated financial statements should be read in connection with the consolidated financial statements and notes thereto included in the Partnership's Annual Report on Form 10-K for the year ended December 31, 2008.

LRLP, a Delaware limited partnership, was formed by its general partner, Legacy Reserves GP, LLC ("LRGPLLC"), on October 26, 2005 to own and operate oil and natural gas properties. LRGPLLC is a Delaware limited liability company formed on October 26, 2005, and owns less than a 0.1% general partner interest in LRLP.

Significant information regarding rights of the limited partners includes the following:

• Right to receive, within 45 days after the end of each quarter, distributions of available cash, if distributions are declared.

• No limited partner shall have any management power over LRLP's business and affairs; the general partner shall conduct, direct and manage LRLP's activities.

• The general partner may be removed if such removal is approved by the unitholders holding at least 66 2/3 percent of the outstanding units, including units held by LRLP's general partner and its affiliates, provided that a unit majority has elected a successor general partner.

• Right to receive information reasonably required for tax reporting purposes within 90 days after the close of the calendar year.

In the event of a liquidation, all property and cash in excess of that required to discharge all liabilities will be distributed to the unitholders and LRLP's general partner in proportion to their capital account balances, as adjusted to reflect any gain or loss upon the sale or other disposition of Legacy's assets in liquidation.

Legacy owns and operates oil and natural gas producing properties located primarily in the Permian Basin of West Texas and Southeast New Mexico and the Mid-continent region. Legacy has acquired oil and natural gas producing properties and undrilled leaseholds.

Legacy reviews events occurring after the balance sheet date which could affect its financial position and/or results of operations for the period. Legacy continues to review and evaluate events through the date on which the financial statements are issued, which, for the three- and nine-month periods ending September 30, 2009, is November 5, 2009.

The accompanying condensed consolidated financial statements have been prepared on the accrual basis of accounting whereby revenues are recognized when earned, and expenses are recognized when incurred. These condensed consolidated financial statements as of September 30, 2009 and for the three and nine months ended September 30, 2009 and 2008 are unaudited. In the opinion of management, such financial statements include the adjustments and accruals which are necessary for a fair presentation of the results for the interim periods. These interim results are not necessarily indicative of results for a full year. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted in these financial statements for and as of the three and nine months ended September 30, 2009 and 2008.

(b) Recently Issued Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Codification ("ASC") 805-10 (formerly Statement of Financial Accounting Standards No. 141 (revised 2007), Business Combinations). ASC 805-10 establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired. ASC 805-10 also establishes disclosure requirements that will enable users to evaluate the nature and financial effects of the business combination. ASC 805-10 is effective for acquisitions that occur in an entity's fiscal year that begins after December 15, 2008, which is the Partnership's fiscal year 2009. However, since Legacy did not consummate any material business combinations during the nine months ended September 30, 2009, the adoption did not materially affect its consolidated financial statements.

In March, 2008, the FASB issued guidance that requires disclosures related to objectives and strategies for using derivatives; the fair-value amounts of, and gains and losses on, derivative instruments; and credit-risk-related contingent features in derivative agreements. This guidance was effective as of the beginning of an entity's fiscal year beginning after December 15, 2008, which will is the Partnership's fiscal year 2009. The effect on Legacy's disclosures for derivative instruments as a result of the adoption of this guidance in 2009 was not significant since the Partnership does not account for any of its derivative transactions as cash flow hedges.

In December 2008, the SEC released Final Rule, Modernization of Oil and Gas Reporting. The new disclosure requirements include provisions that permit the use of new technologies to determine proved reserves if those technologies have been demonstrated empirically to lead to reliable conclusions about reserves volumes. The new requirements also will allow companies to disclose their probable and possible reserves to investors. In addition, the new disclosure requirements require companies to: (a) report the independence and qualifications of its reserves preparer or auditor; (b) file reports when a third party is relied upon to prepare reserves estimates or conducts a reserves audit; and (c) report oil and natural gas reserves using an average price based upon the prior 12-month period rather than year-end prices. The use of average prices will affect the Partnership's future depletion calculation. The new disclosure requirements are effective for annual reports on Form 10-K for fiscal years ending on or after December 31, 2009. The Partnership is currently assessing the impact that adoption of this rule will have on its financial disclosures which will vary depending on changes in commodity prices.

In May 2009, the FASB issued ASC 855-10 (formerly SFAS No. 165, Subsequent Events). ASC 855-10 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Although there is new terminology, the standard is based on the same principles as those that currently exist. This guidance, which includes a new required disclosure of the date through which an entity has evaluated subsequent events, is effective for interim or annual periods ending after June 15, 2009. Legacy adopted this guidance for the nine-month period ending September 30, 2009. The adoption of this guidance did not have an impact on Legacy's financial position or results of operations.

In June 2009, the FASB issued ASC 105-10 (formerly SFAS No. 168, The FASB Accounting Standards CodificationTM and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162), which establishes the FASB Accounting Standards CodificationTM ("Codification") as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. This guidance shall be effective for financial statements issued for interim and annual periods ending after September 15, 2009. On the effective date of this guidance, all then-existing non-SEC accounting and reporting standards are superseded, except as noted within ASC 105-10. Concurrently, all non-grandfathered, non-SEC accounting literature not included in the Codification is deemed non-authoritative with some exceptions as noted within the literature. The adoption of this guidance did not have an impact on Legacy's financial position or results of operations.

(2) Credit Facility

In March 2006, as an integral part of the formation of Legacy, Legacy entered into a credit agreement with a senior credit facility (the "Legacy Facility") with oil and natural gas properties pledged as collateral for borrowings. The initial terms of the Legacy Facility permitted borrowings in the lesser amount of (i) the borrowing base, or (ii) $300 million, increased to $500 million pursuant to the third amendment effective October 24, 2007. The initial borrowing base, set on March 16, 2006, was $130 million. The borrowing base, which was redetermined pursuant to the fourth amendment to the credit agreement, was increased to $272 million as of April 24, 2008 and further increased to $320 million coincident with the closing of the COP III Acquisition, which closed on April 30, 2008. On October 6, 2008, the borrowing base was increased to $383.76 million pursuant to the fifth amendment and further increased to $410 million with the addition of two additional banks to the credit facility. Under the Legacy Facility, as amended, interest on debt outstanding was charged based on Legacy's selection of a LIBOR rate plus 1.50% to 2.125%, or the alternate base rate ("ABR") which equaled the higher of the prime rate or the Federal funds effective rate plus 0.50%, plus an applicable margin between 0% and 0.50%.

On March 27, 2009, Legacy entered into a new three-year secured revolving credit facility with BNP Paribas as administrative agent (the "New Credit Agreement"). Borrowings under the New Credit Agreement mature on April 1, 2012. The New Credit Agreement permits borrowings in the lesser amount of (i) the borrowing base, or (ii) $600 million. The borrowing base under the New Credit Agreement is $340 million as of September 30, 2009. The borrowing base is redetermined every six months and will be adjusted based upon changes in the fair market value of Legacy's oil and natural gas assets. Under the New Credit Agreement, interest on debt outstanding is charged based on Legacy's selection of a LIBOR rate plus 2.25% to 3.0%, or the alternate base rate ("ABR") which equals the highest of the prime rate, the Federal funds effective rate plus 0.50% or LIBOR plus 1.50%, plus an applicable margin between 0.75% and 1.50%.

As of September 30, 2009, Legacy had outstanding borrowings of $230 million at a weighted-average interest rate of 3.0%. Legacy had approximately $109.7 million of availability remaining under the New Credit Agreement as of September 30, 2009. For the three- and nine-month periods ended September 30, 2009, Legacy paid in cash $2.6 million and $10.3 million, respectively, of interest expense on the Legacy Facility and New Credit Agreement, which does not include the $4.3 million of upfront fees paid in cash related to the New Credit Agreement. These fees will be amortized over the life of the New Credit Agreement. The New Credit Agreement contains certain loan covenants requiring minimum financial ratio coverages, including the current ratio and EBITDA to interest expense. At September 30, 2009, Legacy was in compliance with all aspects of the New Credit Agreement.

Long-term debt consists of the following at September 30, 2009 and December 31, 2008:

	September 30, 2009	December 31, 2008
	(In thousands)	
Legacy Facility- due April 2012	$230,000	$282,000

(3) Acquisitions

COP III Acquisition

On April 30, 2008, Legacy purchased certain oil and natural gas properties located primarily in the Permian Basin and to a lesser degree in Oklahoma and Kansas from a third party for a net purchase price of $79.2 million. The purchase price was paid with the issuance of 1,345,291 newly issued units valued at $27.0 million and $52.2 million paid in cash (“COP III Acquisition”). The effective date of this purchase was January 1, 2008. The $79.2 million purchase price was allocated with $19.6 million recorded as lease and well equipment and $59.6 million as leasehold cost. Asset retirement obligations of $4.0 million were recorded in connection with this acquisition. The operating results from these COP III Acquisition properties have been included from their acquisition on April 30, 2008.

Reeves Unit Exchange

On May 2, 2008, Legacy entered into a non-monetary exchange with Devon Energy in which Legacy exchanged its 12.9% non-operated working interest in the Reeves Unit for a 60% interest in two operated properties. Legacy and Devon agreed upon a fair value of $7.7 million, prior to a net purchase price adjustment decrease of approximately $1.2 million, for both the Reeves Unit working interest and the acquired properties. Prior to the exchange, Legacy’s basis in the Reeves Unit was $2.8 million. Due to the commercial substance of the transaction, the excess fair value of $3.7 million above the carrying value of the Reeves Unit was recorded as a gain on sale of discontinued operation for the year ended December 31, 2008. Due to immateriality, Legacy has not reflected the operating results of the Reeves Unit separately as a discontinued operation for any of the periods presented.

Pantwist Acquisition

On October 1, 2008, Legacy purchased all of the membership interests of Pantwist LLC (the “Pantwist Acquisition”) from Cano Petroleum, Inc. for a net purchase price of $40.6 million. Pantwist owns certain oil and natural gas properties in Carson, Gray, Hutchison and Moore counties in the Texas Panhandle. The effective date of this purchase was July 1, 2008. The $40.6 million purchase price was allocated with $3.5 million recorded as lease and well equipment and $37.1 million of leasehold costs. Asset retirement obligations of $2.2 million were recorded in connection with this acquisition. The operations of the Pantwist properties have been included from their acquisition on October 1, 2008.

Pro Forma Operating Results

The following table reflects the unaudited pro forma results of operations as though the COP III and Pantwist Acquisitions had each occurred on January 1, 2008. The pro forma amounts are not necessarily indicative of the results that may be reported in the future:

	Three Months Ended September 30,	Nine Months Ended September 30,

	2009	2008	2009	2008
	(In thousands, except per unit data)			
Revenues	$37,898	$67,888	$92,812	$196,030
Net income (loss)	$(851)	$228,738	$(54,354)	$36,407
Loss per unit - basic and diluted:	$(0.03)	$7.37	$(1.74)	