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UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended September 30, 2008

OR  
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from to

Commission file number: 000-50067

**CROSSTEX ENERGY, L.P.**

*(Exact name of registrant as specified in its charter)*

Delaware  
*(State of organization)*  
2501 CEDAR SPRINGS  
DALLAS, TEXAS  
*(Address of principal executive offices)*

16-1616605  
*(I.R.S. Employer Identification No.)*  
75201  
*(Zip Code)*

(214) 953-9500

*(Registrant's telephone number, including area code)*

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

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

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

As of October 31, 2008, the Registrant had 44,890,356 common units and 3,875,340 senior subordinated series D units outstanding.

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**CROSSTEX ENERGY, L.P.**  
**Condensed Consolidated Balance Sheets**

	September 30, 2008 (Unaudited)	December 31, 2007
(In thousands)		
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 96,855	\$ 142
Accounts and notes receivable, net:		
Trade, accrued revenue and other	458,797	497,311
Related party	73	38
Fair value of derivative assets	15,021	8,589
Natural gas and natural gas liquids, prepaid expenses and other	20,754	16,062
Asset held for disposition	33,313	—
Total current assets	624,813	522,142
Property and equipment, net of accumulated depreciation of \$273,315 and \$213,327, respectively	1,528,870	1,425,162
Fair value of derivative assets	3,973	1,337
Intangible assets, net of accumulated amortization of \$80,306 and \$60,118, respectively	587,021	610,076
Goodwill	24,540	24,540
Other assets, net	7,972	9,617
Total assets	<u>\$ 2,777,189</u>	<u>\$ 2,592,874</u>
<b>LIABILITIES AND PARTNERS' EQUITY</b>		
Current liabilities:		
Accounts payable, drafts payable and accrued gas purchases	\$ 508,047	\$ 479,398
Fair value of derivative liabilities	17,804	21,066
Current portion of long-term debt	9,412	9,412
Other current liabilities	58,055	59,154
Total current liabilities	593,318	569,030
Long-term debt	1,325,457	1,213,706
Obligations under capital lease	19,100	3,553
Deferred tax liability	8,853	8,518
Fair value of derivative liabilities	9,272	9,426
Minority interest	4,162	3,815
Commitments and contingencies	—	—
Partners' equity	817,027	784,826
Total liabilities and partners' equity	<u>\$ 2,777,189</u>	<u>\$ 2,592,874</u>

See accompanying notes to condensed consolidated financial statements.

**CROSSTEX ENERGY, L.P.**  
**Consolidated Statements of Operations**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Unaudited)			
	(In thousands, except per unit amounts)			
<b>Revenues:</b>				
Midstream	\$ 1,310,226	\$ 926,726	\$ 4,087,683	\$ 2,721,193
Treating	19,036	13,080	48,106	40,160
Profit on energy trading activities	648	587	2,332	2,180
Total revenues	<u>1,329,910</u>	<u>940,393</u>	<u>4,138,121</u>	<u>2,763,533</u>
<b>Operating costs and expenses:</b>				
Midstream purchased gas	1,213,547	841,580	3,796,074	2,503,523
Treating purchased gas	6,164	1,617	11,618	6,208
Operating expenses	46,997	31,690	127,408	87,645
General and administrative	16,897	16,127	49,695	43,010
(Gain) loss on sale of property	68	2	(1,591)	(1,819)
(Gain) loss on derivatives	1,295	526	(7,193)	(3,969)
Depreciation and amortization	32,828	27,465	96,927	76,845
Total operating costs and expenses	<u>1,317,796</u>	<u>919,007</u>	<u>4,072,938</u>	<u>2,711,443</u>
Operating income	12,114	21,386	65,183	52,090
<b>Other income (expense):</b>				
Interest expense, net	(17,056)	(20,735)	(54,377)	(56,681)
Other	92	254	7,674	522
Total other income (expense)	<u>(16,964)</u>	<u>(20,481)</u>	<u>(46,703)</u>	<u>(56,159)</u>
Income (loss) from continuing operations before minority interest and taxes	(4,850)	905	18,480	(4,069)
Minority interest in subsidiary	(44)	(136)	(238)	(186)
Income tax provision	(1,683)	(236)	(2,352)	(655)
Income (loss) from continuing operations	(6,577)	533	15,890	(4,910)
Income from discontinued operations	1,334	1,597	4,320	4,652
Net income (loss)	<u>\$ (5,243)</u>	<u>\$ 2,130</u>	<u>\$ 20,210</u>	<u>\$ (258)</u>
General partner interest in net income	\$ 5,810	\$ 4,737	\$ 27,861	\$ 13,444
Limited partners' interest in net loss	<u>\$ (11,053)</u>	<u>\$ (2,607)</u>	<u>\$ (7,651)</u>	<u>\$ (13,702)</u>
<b>Net loss per limited partners' unit:</b>				
Basic and diluted common unit	<u>\$ (0.25)</u>	<u>\$ (0.10)</u>	<u>\$ (3.11)</u>	<u>\$ (0.51)</u>
Basic and diluted senior subordinated series C units (see Note 5(e))	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 9.44</u>	<u>\$ —</u>
Basic and diluted senior subordinated series D units (see Note 5(e))	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

See accompanying notes to condensed consolidated financial statements.

CROSSTEX ENERGY, L.P.

Consolidated Statements of Changes in Partners' Equity  
Nine Months Ended September 30, 2008

	Common Units		Subordinated Units		Sr. Subordinated C Units		Sr. Subordinated D Units		General Partner Interest		Accumulated Other Comprehensive Income	Total
	\$	Units	\$	Units	\$	Units	\$	Units	\$	Units		
	(In thousands)											
Balance, December 31, 2007	\$ 337,171	23,868	\$ (14,679)	4,668	\$ 359,319	12,830	\$ 99,942	3,875	\$ 24,551	923	\$ (21,478)	\$ 784,826
Issuance of common units	99,928	3,333	—	—	—	—	—	—	—	—	—	99,928
Proceeds from exercise of unit options	729	47	—	—	—	—	—	—	—	—	—	729
Conversion of subordinated units	341,816	17,498	17,503	(4,668)	(359,319)	(12,830)	—	—	—	—	—	—
Conversion of restricted units for common units, net of units withheld for taxes	(1,373)	133	—	—	—	—	—	—	—	—	—	(1,373)
Capital contributions	—	—	—	—	—	—	—	—	2,183	72	—	2,183
Stock-based compensation	—	—	—	—	—	—	—	—	3,480	—	—	8,250
Distributions	(71,627)	—	(2,847)	—	—	—	—	—	(33,522)	—	—	(107,996)
Net income (loss)	(7,565)	—	(86)	—	—	—	—	—	27,861	—	—	20,210
Hedging gains or losses reclassified to earnings	—	—	—	—	—	—	—	—	—	—	20,186	20,186
Adjustment in fair value of derivatives	—	—	—	—	—	—	—	—	—	—	(9,910)	(9,910)
Balance, September 30, 2008	\$ 703,740	44,879	\$ —	—	\$ —	—	\$ 99,942	3,875	\$ 24,551	995	\$ (11,208)	\$ 817,027

See accompanying notes to condensed consolidated financial statements.

## CROSSTEX ENERGY, L.P.

## Consolidated Statements of Comprehensive Income

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
			(Unaudited)	
			(In thousands)	
Net income (loss)	\$ (5,243)	\$ 2,130	\$ 20,210	\$ (258)
Hedging gains (losses) reclassified to earnings	8,603	(1,023)	20,186	(4,300)
Adjustment in fair value of derivatives	20,363	(6,087)	(9,916)	(10,425)
Comprehensive income (loss)	<u>\$ 23,723</u>	<u>\$ (4,980)</u>	<u>\$ 30,480</u>	<u>\$ (14,983)</u>

See accompanying notes to condensed consolidated financial statements.

**CROSSTEX ENERGY, L.P.**  
**Consolidated Statements of Cash Flows**

	Nine Months Ended September 30,	
	2008	2007
	(Unaudited) (In thousands)	
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 20,210	\$ (258)
<b>Adjustments to reconcile net income (loss) to net cash provided by operating activities:</b>		
Depreciation and amortization	98,640	78,525
Gain on sale of property	(1,591)	(1,819)
Minority interest in subsidiary	238	186
Deferred tax expense	298	133
Non-cash stock-based compensation	8,250	8,635
Non-cash derivatives (gain) loss	(2,216)	2,669
Amortization of debt issue costs	2,055	1,953
<b>Changes in assets and liabilities:</b>		
Accounts receivable, accrued revenue, and other	38,479	(19,513)
Natural gas and natural gas liquids, prepaid expenses and other	(4,732)	(15,113)
Accounts payable, accrued gas purchases and other accrued liabilities	57,984	47,857
Fair value of derivatives	—	1,088
Net cash provided by operating activities	<u>217,615</u>	<u>104,343</u>
<b>Cash flows from investing activities:</b>		
Additions to property and equipment	(218,268)	(328,677)
Proceeds from sale of property	3,775	2,977
Net cash used in investing activities	<u>(214,493)</u>	<u>(325,700)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from borrowings	1,357,260	1,012,000
Payments on borrowings	(1,245,508)	(782,659)
Proceeds from capital lease obligations	18,348	—
Payments on capital lease obligations	(789)	—
Decrease in drafts payable	(28,931)	(37,988)
Debt refinancing costs	(369)	(879)
Conversion of restricted units, net of units withheld for taxes	(1,373)	(329)
Distributions to partners	(107,996)	(63,729)
Proceeds from exercise of unit options	729	1,590
Net proceeds from common unit offering	99,928	—
Issuance of subordinated units	—	99,942
Contributions from partners	2,183	2,790
Contributions from minority interest	109	—
Net cash provided by financing activities	<u>93,591</u>	<u>230,738</u>
Net increase (decrease) in cash and cash equivalents	96,713	9,381
Cash and cash equivalents, beginning of period	<u>142</u>	<u>824</u>
Cash and cash equivalents, end of period	<u>\$ 96,855</u>	<u>\$ 10,205</u>
Cash paid for interest	<u>\$ 55,636</u>	<u>\$ 57,925</u>
Cash paid for income taxes	<u>\$ 1,229</u>	<u>\$ 38</u>

See accompanying notes to condensed consolidated financial statements.

**CROSSTEX ENERGY, L.P.**

**Notes to Condensed Consolidated Financial Statements  
September 30, 2008  
(Unaudited)**

**(1) General**

*Unless the context requires otherwise, references to "we", "us", "our" or the "Partnership" mean Crosstex Energy, L.P. and its consolidated subsidiaries.*

Crosstex Energy, L.P., a Delaware limited partnership formed on July 12, 2002, is engaged in the gathering, transmission, treating, processing and marketing of natural gas and natural gas liquids (NGLs). The Partnership connects the wells of natural gas producers in the geographic areas of its gathering systems in order to purchase the gas production, treats natural gas to remove impurities to ensure that it meets pipeline quality specifications, processes natural gas for the removal of NGLs and transports natural gas and NGLs to a variety of markets. In addition, the Partnership purchases natural gas and NGLs from producers not connected to its gathering systems for resale and markets natural gas and NGLs on behalf of producers for a fee.

Crosstex Energy GP, L.P. is the general partner of the Partnership. Crosstex Energy GP, L.P. is a wholly-owned subsidiary of Crosstex Energy, Inc. (CEI).

The accompanying condensed consolidated financial statements are prepared in accordance with the instructions to Form 10-Q, are unaudited and do not include all the information and disclosures required by generally accepted accounting principles for complete financial statements. All adjustments that, in the opinion of management, are necessary for a fair presentation of the results of operations for the interim periods have been made and are of a recurring nature unless otherwise disclosed herein. The results of operations for such interim periods are not necessarily indicative of results of operations for a full year. All significant intercompany balances and transactions have been eliminated in consolidation. Certain reclassifications have been made to the consolidated financial statements for the prior years to conform to the current presentation. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our annual report on Form 10-K for the year ended December 31, 2007.

**(a) Management's Use of Estimates**

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management of the Partnership to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from these estimates.

**(b) Long-Term Incentive Plans**

The Partnership accounts for share-based compensation in accordance with the provisions of Statement of Financial Accounting Standards No. 123R, "Share-Based Compensation" (SFAS No. 123R), which requires compensation related to all stock-based awards, including stock options, be recognized in the consolidated financial statements.

The Partnership and CEI each have similar share-based payment plans for employees, which are described below. Share-based compensation associated with the CEI share-based compensation plans awarded to officers and employees of the Partnership are recorded by the Partnership since CEI has no operating activities other than its



CROSSTEX ENERGY, L.P.

Notes to Condensed Consolidated Financial Statements — (Continued)

interest in the Partnership. Amounts recognized in the consolidated financial statements with respect to these plans are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Cost of share-based compensation charged to general and administrative expense	\$ 1,382	\$ 3,029	\$ 6,867	\$ 7,458
Cost of share-based compensation charged to operating expense	503	520	1,383	1,177
Total amount charged to expense	<u>\$ 1,885</u>	<u>\$ 3,549</u>	<u>\$ 8,250</u>	<u>\$ 8,635</u>

*Restricted Units*

The restricted units are valued at their fair value at the date of grant which is equal to the market value of common units on such date. A summary of the restricted unit activity for the nine months ended September 30, 2008 is provided below:

Crosstex Energy, L.P. Restricted Units:	Nine Months Ended September 30, 2008	
	Number of Units	Weighted Average Grant-Date Fair Value
Non-vested, beginning of period	504,518	\$ 34.29
Granted	419,872	29.98
Vested*	(179,333)	32.89
Forfeited	(33,918)	29.54
Reduced estimated performance units	(154,499)	31.66
Non-vested, end of period	<u>556,640</u>	<u>\$ 32.49</u>
Aggregate intrinsic value, end of period (in thousands)	<u>\$ 10,164</u>	

\* Vested units include 44,680 units withheld for payroll taxes paid on behalf of employees.

During the nine months ended September 30, 2008, the Partnership's executive officers were granted restricted units, the number of which may increase or decrease based on the accomplishment of certain performance targets. The target number of restricted units for all executives of 175,982 for 2008 will be increased (up to a maximum of 300% of the target number of units) or decreased (to a minimum of 30% of the target number of units) based on the Partnership's average growth rate (defined as the percentage increase or decrease in distributable cash flow per common unit over the three-year period from January 2008 through January 2011) for grants issued in 2008 compared to the Partnership's target three-year average growth rate of 9.0%. The restricted units granted for the nine months ended September 30, 2008 reflects the 175,982 performance-based restricted unit grants for executive officers at target levels of performance. The Partnership made an adjustment to non-vested end of period units outstanding in the three months ended September 30, 2008 to reflect estimated performance at minimum levels. The performance-based restricted units are included in the current share-based compensation calculations as required by SFAS No. 123(R) when it is deemed probable of achieving the performance criteria.

**CROSSTEX ENERGY, L.P.**

**Notes to Condensed Consolidated Financial Statements — (Continued)**

The Partnership's executive officers were granted restricted units during 2008 and 2007, the number of which may increase or decrease based on the accomplishment of certain performance targets. The minimum number of restricted units for all executives of 52,795 and 14,319 for 2008 and 2007, respectively, are included in the non-vested, end of period units column in the table above. Target performance grants were previously included in the non-vested, end of period column and were included in share-based compensation as it appeared probable that target thresholds would be achieved. However, during the third quarter of 2008, the Partnership's assets were negatively impacted by hurricanes Gustav and Ike. The Partnership has also been negatively impacted by the recent tightening of capital markets. The Partnership expects that its access to capital will be limited due to the lack of liquidity in the capital markets, which will in turn limit its ability to grow until capital for growth is accessible. The impact of these events was significant enough to make the achievement of target performance goals less than probable. Therefore, an expense of \$0.7 million previously recorded for target performance-based restricted units has been retroactively reversed and is shown as a reduction to stock-based compensation expense and a reduction in the number of estimated performance units outstanding of 154,499 units in the quarter ending September 30, 2008. All performance-based awards greater than the minimum performance grant levels will be subject to reevaluation and adjustment until the restricted units vest.

A summary of the restricted units aggregate intrinsic value (market value at vesting date) and fair value (market value at date of grant) of units vested during the three and nine months ended September 30, 2008 and 2007 are provided below (in thousands):

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
<b>Crosstex Energy, L.P. Restricted Units:</b>				
Aggregate intrinsic value of units vested	\$ 303	\$ 514	\$ 5,515	\$ 1,216
Fair value of units vested	\$ 463	\$ 498	\$ 5,898	\$ 751

As of September 30, 2008, there was \$8.8 million of unrecognized compensation cost related to non-vested restricted units. That cost is expected to be recognized over a weighted-average period of 2.7 years.

*Unit Options*

The following weighted average assumptions were used for the Black-Scholes option pricing model for grants during the three and nine months ended September 30, 2008 and 2007:

	<u>Three Months Ended</u>		<u>Nine Months Ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
<b>Crosstex Energy, L.P. Unit Options Granted:</b>				
Weighted average distribution yield	7.90%	5.75%	7.15%	5.75%
Weighted average expected volatility	27.0%	32.0%	29.98%	32.0%
Weighted average risk free interest rate	2.99%	4.55%	1.81%	4.40%
Weighted average expected life	6 years	6 years	6 years	6 years
Weighted average contractual life	10 years	10 years	10 years	10 years
Weighted average fair value of unit options granted	\$ 2.13	\$ 7.23	\$ 3.48	\$ 6.23

CROSTEX ENERGY, L.P.

Notes to Condensed Consolidated Financial Statements — (Continued)

A summary of the unit option activity for the nine months ended September 30, 2008 is provided below:

	Nine Months Ended September 30, 2008	
	Number of Units	Weighted Average Exercise Price
<b>Crosstex Energy, L.P. Unit Options:</b>		
Outstanding, beginning of period	1,107,309	\$ 29.65
Granted	402,185	31.58
Exercised	(45,578)	15.17
Forfeited	(68,901)	31.13
Expired	(47,301)	33.86
Outstanding, end of period	1,347,714	\$ 30.49
Options exercisable at end of period	563,099	
Weighted average contractual term (years) end of period:		
Options outstanding	7.6	
Options exercisable	6.7	
Aggregate intrinsic value end of period (in thousands):		
Options outstanding	\$ 652	
Options exercisable	\$ 640	

A summary of the unit options intrinsic value exercised (market value in excess of exercise price at date of exercise) and fair value of units vested (value per Black-Scholes option pricing model at date of grant) during the three and nine months ended September 30, 2008 and 2007 are provided below (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
<b>Crosstex Energy, L.P. Unit Options:</b>				
Intrinsic value of units options exercised	\$ 71	\$ 208	\$ 742	\$ 1,595
Fair value of units vested	\$ 77	\$ 75	\$ 265	\$ 169

As of September 30, 2008, there was \$2.1 million of unrecognized compensation cost related to non-vested unit options. That cost is expected to be recognized over a weighted-average period of 1.6 years.

*CEI Restricted Shares*

CEI's restricted shares are included at their fair value at the date of grant which is equal to the market value of the common stock on such date. A summary of the restricted share activity for the nine months ended September 30, 2008 is provided below:

	Nine Months Ended September 30, 2008	
	Number of Shares	Weighted Average Grant-Date Fair Value
<b>Crosstex Energy, Inc. Restricted Shares:</b>		
Non-vested, beginning of period	860,275	\$ 21.16
Granted	347,263	33.46
Vested*	(356,004)	17.95
Forfeited	(63,105)	21.88
Reduced estimated performance shares	(153,038)	32.10
Non-vested, end of period	635,391	\$ 27.57
Aggregate intrinsic value, end of period (in thousands)	\$ 15,866	

\* Vested shares include 101,875 shares withheld for payroll taxes paid on behalf of employees.

**CROSSTEX ENERGY, L.P.**

**Notes to Condensed Consolidated Financial Statements — (Continued)**

During the nine months ended September 30, 2008, the Partnership's executive officers were granted restricted shares, the number of which may increase or decrease based on the accomplishment of certain performance targets. The target number of restricted shares for all executives of 166,971 for 2008 will be increased (up to a maximum of 300% of the target number of units) or decreased (to a minimum of 30% of the target number of units) based on the Partnership's average growth rate (defined as the percentage increase or decrease in distributable cash flow per common unit over the three-year period from January 2008 through January 2011) for grants issued in 2008 compared to the Partnership's target three-year average growth rate of 9.0%. The restricted shares granted for the nine months ended September 30, 2008 reflects the 166,971 performance-based restricted share grants for executive officers at target levels of performance. The Partnership made an adjustment to non-vested end of period units outstanding in the three months ended September 30, 2008 to reflect estimated performance at minimum levels. The performance-based restricted shares are included in the current share-based compensation calculations as required by SFAS No. 123(R) when it is deemed probable of achieving the performance criteria.

The Partnership's executive officers were granted restricted shares during 2008 and 2007, the number of which may increase or decrease based on the accomplishment of certain performance targets. The minimum number of restricted shares for all executives of 50,090 and 16,536 for 2008 and 2007, respectively, are included in the non-vested, end of period shares column in the table above. Target performance grants were previously included in the non-vested, end of period column and were included in share-based compensation as it appeared probable that target thresholds would be achieved. However, during the third quarter of 2008, the Partnership's assets were negatively impacted by hurricanes Gustav and Ike. The Partnership has also been negatively impacted by the recent tightening of capital markets. The Partnership expects that its access to capital will be limited due to the lack of liquidity in the capital markets, which will in turn limit its ability to grow until capital for growth is accessible. The impact of these events was significant enough to make the achievement of target performance goals less than probable. Therefore, an expense of \$0.7 million previously recorded for target performance-based restricted shares has been retroactively reversed and is shown as a reduction to stock-based compensation expense and a reduction in the number of estimated performance shares outstanding by 153,038 shares in the quarter ending September 30, 2008. All performance-based awards greater than the minimum performance grant levels will be subject to reevaluation and adjustment until the restricted shares vest.

A summary of the restricted shares' aggregate intrinsic value (market value at vesting date) and fair value of shares vested (market value at date of grant) during the three and nine months ended September 30, 2008 and 2007 are provided below (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
<b>Crosstex Energy, Inc. Restricted Shares:</b>				
Aggregate intrinsic value of shares vested	\$ 606	\$ 867	\$ 12,979	\$ 2,498
Fair value of shares vested	\$ 517	\$ 603	\$ 6,390	\$ 1,076

As of September 30, 2008 there was \$8.4 million of unrecognized compensation costs related to non-vested CEI restricted stock. The cost is expected to be recognized over a weighted average period of 2.5 years.

*CEI Stock Options*

No CEI stock options have been granted to, or exercised or forfeited by any officers or employees of the Partnership during the three and nine months ended September 30, 2008 and 2007. The following is a summary of

CROSSTEX ENERGY, L.P.

Notes to Condensed Consolidated Financial Statements — (Continued)

the CEI stock options outstanding attributable to officers and employees of the Partnership as of September 30, 2008:

Outstanding stock options (7,500 exercisable)	30,000
Weighted average exercise price	\$13.33
Aggregate intrinsic value	\$349,100
Weighted average remaining contractual term	6.2 years

There were no shares vested during the three months and nine months ended September 30, 2008 and 2007. As of September 30, 2008, there was approximately \$21,000 of unrecognized compensation costs related to non-vested CEI stock options. The cost is expected to be recognized over a weighted average period of 1.0 years.

(c) **Income Taxes**

During the three months ended September 30, 2008 income tax expense was \$1.7 million which included an increase in unrecognized tax benefits of \$1.1 million and an increase in deferred taxes of \$0.5 million related to the Texas margin tax. Income tax expense for the nine months ended September 30, 2008 of \$2.4 million related mainly to the Texas margin tax, which included an increase in unrecognized tax benefits of \$1.1 million and an increase in deferred taxes of \$0.5 million.

(d) **Recent Accounting Pronouncements**

In May 2008, the Financial Accounting Standards Board (FASB) issued Staff Position FSP EITF 03-6-1 (the FSP) which requires unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents to be treated as *participating securities* as defined in EITF Issue No. 03-6, "Participating Securities and the Two-Class Method under FASB Statement No. 128," and, therefore, included in the earnings allocation in computing earnings per share under the two-class method described in FASB Statement No. 128, *Earnings per Share*. The FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those years. Upon adoption, the Partnership will consider restricted units with nonforfeitable distribution rights in the calculation of earnings per unit and will adjust all prior reporting periods retrospectively to conform to the requirements, although the impact should not be material.

In February 2007, the FASB issued SFAS No. 159, "*Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment to FASB Statement No. 115*" (SFAS 159). SFAS 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Changes in the fair value on items for which the fair value option has been elected are recognized in earnings each reporting period. SFAS 159 also establishes presentation and disclosure requirements designed to draw comparisons between the different measurement attributes elected for similar types of assets and liabilities. SFAS 159 was adopted effective January 1, 2008 and did not have a material impact on our financial statements.

In December 2007, the FASB issued SFAS No. 141R, "*Business Combinations*" (SFAS 141R) and SFAS No. 160, "*Noncontrolling Interests in Consolidated Financial Statements*" (SFAS 160). SFAS 141R requires most identifiable assets, liabilities, noncontrolling interests and goodwill acquired in a business combination to be recorded at "full fair value." The Statement applies to all business combinations, including combinations among mutual entities and combinations by contract alone. Under SFAS 141R, all business combinations will be accounted for by applying the acquisition method. SFAS 141R is effective for periods beginning on or after December 15, 2008. SFAS 160 will require noncontrolling interests (previously referred to as minority interests) to be treated as a separate component of equity, not as a liability or other item outside of permanent equity. The statement applies to the accounting for noncontrolling interests and transactions with noncontrolling interest holders in consolidated financial statements. SFAS 160 is effective for periods beginning on or after December 15, 2008 and will be applied prospectively to all noncontrolling interests, including any that arose before the effective date, except that

CROSSTEX ENERGY, L.P.

Notes to Condensed Consolidated Financial Statements — (Continued)

comparative period information must be recast to classify noncontrolling interests in equity, attribute net income and other comprehensive income to noncontrolling interests and provide other disclosures required by SFAS 160.

In March of 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133" (SFAS 161). SFAS 161 requires entities to provide greater transparency about how and why the entity uses derivative instruments, how the instruments and related hedged items are accounted for under SFAS 133 and how the instruments and related hedged items affect the financial position, results of operations and cash flows of the entity. SFAS 161 is effective for fiscal years beginning after November 15, 2008. The principal impact to the Partnership will be to require expanded disclosure regarding derivative instruments.

(2) **Asset Held for Disposition**

As part of the Partnership's strategy to increase liquidity in response to the tightening financial markets, the Partnership began marketing a non-strategic asset for sale in late September 2008. In early October 2008, the Partnership entered into an agreement to sell the asset to a third party for \$85.0 million. The transaction is expected to be completed prior to the end of November 2008. This asset was previously presented in the Partnership's Treating segment.

The consolidated balance sheet at September 30, 2008 reflects the asset held for disposition, comprised of \$33.1 million of property and equipment and \$0.2 million of intangible assets (stated at depreciated cost).

The revenues, operating expenses and depreciation and amortization expense related to the operations of the asset held for disposition have been segregated from continuing operations and reported as discontinued operations for all periods. No income taxes are attributed to income from discontinued operations. Following are revenues and income from discontinued operations (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Treating revenues	\$ 2,641	\$ 2,875	\$ 7,903	\$ 8,403
Net income from discontinued operations	\$ 1,334	\$ 1,597	\$ 4,320	\$ 4,652

(3) **Long-Term Debt**

As of September 30, 2008 and December 31, 2007, long-term debt consisted of the following (in thousands):

	September 30, 2008	December 31, 2007
Bank credit facility, interest based on Prime and/or LIBOR plus an applicable margin, interest rates (per the facility) at September 30, 2008 and December 31, 2007 were 5.73% and 6.71%, respectively	\$ 852,810	\$ 734,000
Senior secured notes, weighted average interest rate at September 30, 2008 and December 31, 2007 was 6.75%	482,059	489,118
	1,334,869	1,223,118
Less current portion	(9,412)	(9,412)
Debt classified as long-term	\$ 1,325,457	\$ 1,213,706

*Credit Facility.* As of September 30, 2008, the Partnership has a bank credit facility with a borrowing capacity of \$1.185 billion that matures in June 2011. As of September 30, 2008, \$983.0 million was outstanding under the bank credit facility, including \$130.2 million of letters of credit, leaving approximately \$202.0 million available for future borrowing. The bank credit facility is guaranteed by certain of our subsidiaries.

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Notes to Condensed Consolidated Financial Statements — (Continued)

The Partnership is subject to interest rate risk on its credit facility and has entered into interest rate swaps to reduce this risk. See Note (6) to the financial statements for a discussion of interest rate swaps. See Note (11) Subsequent Events for disclosure regarding bank amendments.

**(4) Obligations Under Capital Lease**

The Partnership entered into 9 and 10-year capital leases for certain compressor equipment. Assets under capital leases as of September 30, 2008 are summarized as follows (in thousands):

Compressor equipment	\$ 22,359
Less: Accumulated amortization	(956)
Net assets under capital lease	<u>\$ 21,403</u>

The following are the minimum lease payments to be made in the following years indicated for the capital lease in effect as of September 30, 2008 (in thousands):

2008 through 2012	\$ 10,475
Thereafter	15,268
Less: Interest	<u>(4,196)</u>
Net minimum lease payments under capital lease	21,547
Less: Current portion of net minimum lease payments	<u>(2,447)</u>
Long-term portion of net minimum lease payments	<u>\$ 19,100</u>

**(5) Partners' Capital**

*(a) Issuance of Common Units*

On April 9, 2008, the Partnership issued 3,333,334 common units in a private offering at \$30.00 per unit, which represented an approximate 7% discount from the market price. Net proceeds from the issuance, including the general partner's proportionate capital contribution and expenses associated with the issuance, were approximately \$102.0 million.

*(b) Conversion of Subordinated and Senior Subordinated Series C Units*

The subordination period for the Partnership's subordinated units ended and the remaining 4,668,000 subordinated units converted into common units representing limited partner interests of the Partnership effective February 16, 2008.

The 12,829,650 senior subordinated series C units of the Partnership also converted into common units representing limited partner interests of the Partnership effective February 16, 2008. See Note (5)(c) below for a discussion of the impact on earnings per unit resulting from the conversion of the senior subordinated series C units.

*(c) Conversion of Senior Subordinated Series D Units*

On March 23, 2007, the Partnership issued an aggregate of 3,875,340 senior subordinated series D units representing limited partner interests of the Partnership in a private offering. These senior subordinated series D units will convert into common units representing limited partner interests of the Partnership on March 23, 2009 on a one-for-one basis; provided that if the Partnership does not make distributions of available cash from operating surplus, as defined in the partnership agreement, of at least \$0.62 per unit on each outstanding common unit for the quarter ending December 31, 2008 or does not generate adjusted operating surplus, as defined in the partnership

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Notes to Condensed Consolidated Financial Statements — (Continued)

agreement, of at least \$0.62 per unit on each outstanding common unit for the quarter ending December 31, 2008, then each senior subordinated series D unit will convert into 1.05 common units.

(d) *Cash Distributions*

In accordance with its partnership agreement, the Partnership must make distributions of 100% of available cash, as defined in the partnership agreement, within 45 days following the end of each quarter. Distributions will generally be made 98% to the common and subordinated unitholders and 2% to the general partner, subject to the payment of incentive distributions as described below to the extent that certain target levels of cash distributions are achieved. Under the quarterly incentive distribution provisions, generally our general partner is entitled to 13% of amounts we distribute in excess of \$0.25 per unit, 23% of the amounts we distribute in excess of \$0.3125 per unit and 48% of amounts we distribute in excess of \$0.375 per unit. Incentive distributions totaling \$6.7 million and \$6.3 million were earned by our general partner for the three months ended September 30, 2008 and September 30, 2007, respectively. Incentive distributions totaling \$30.8 million and \$17.5 million were earned in the nine month periods ending September 30, 2008 and September 30, 2007, respectively.

The Partnership has declared a third quarter 2008 distribution of \$0.50 per unit to be paid on November 14, 2008 to unitholders of record as of November 10, 2008.

(e) *Earnings per Unit and Dilution Computations*

The Partnership's common units and subordinated units participate in earnings and distributions in the same manner for all historical periods and are therefore presented as a single class of common units for earnings per unit computations. The various series of senior subordinated units are also considered common securities, but because they do not participate in cash distributions during the subordination period, they are presented as separate classes of common equity. Each of the series of senior subordinated units were issued at a discount to the market price of the common units they are convertible into at the end of the applicable subordination period. These discounts represent beneficial conversion features (BCFs) under EITF 98-5: "Accounting for Convertible Securities with Beneficial Conversion Features or Contingently Adjustable Conversion Ratios." Under EITF 98-5 and related accounting guidance, a BCF represents a non-cash distribution that is treated in the same way as a cash distribution for earnings per unit computations. Since the conversion of all the series of senior subordinated units into common units are contingent (as described with the terms of such units) until the end of the subordination periods for each series of units, the BCF associated with each series of senior subordinated units is not reflected in earnings per unit until the end of such subordination periods when the criteria for conversion are met. Following is a summary of the BCFs attributable to the senior subordinated units outstanding during 2007 and 2008 (in thousands):

	BCF	End of Subordination Period
Senior subordinated series C units	\$ 121,112	February 2008
Senior subordinated series D units	\$ 34,297	March 2009



CROSSTEX ENERGY, L.P.

Notes to Condensed Consolidated Financial Statements — (Continued)

The following table reflects the computation of basic earnings per limited partner units for the periods presented (in thousands except per unit amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Limited partners' interest in net loss	\$ (11,053)	\$ (2,607)	\$ (7,651)	\$ (13,702)
Distributed earnings allocated to:				
Common units(1)	\$ 28,691	\$ 15,490	\$ 74,475	\$ 45,699
Senior subordinated series C units(2)			121,112	
Total distributed earnings	\$ 28,691	\$ 15,490	\$ 195,587	\$ 45,699
Undistributed loss allocated to:				
Common units(3)	\$ (39,745)	\$ (18,097)	\$ (203,238)	\$ (59,401)
Senior subordinated series C units				
Total undistributed earnings (loss)	\$ (39,745)	\$ (18,097)	\$ (203,238)	\$ (59,401)
Net income (loss) allocated to:				
Common units	\$ (11,053)	\$ (2,607)	\$ (128,763)	\$ (13,702)
Senior subordinated series C units			121,112	
Total limited partners' interest in net loss	\$ (11,053)	\$ (2,607)	\$ (7,651)	\$ (13,702)
Income from discontinued operations:				
Common units	\$ 1,334	\$ 1,597	\$ 4,320	\$ 4,652
Senior subordinated series C units				
Total income from discontinued operations	\$ 1,334	\$ 1,597	\$ 4,320	\$ 4,652
Basic and diluted net income (loss) per unit before discontinued operations:				
Basic common units	\$ (0.28)	\$ (0.16)	\$ (3.21)	\$ (0.69)
Diluted common units	\$ (0.28)	\$ (0.16)	\$ (3.21)	\$ (0.69)
Senior subordinated series C units	\$ —	\$ —	\$ —	\$ —
Basic and diluted net income (loss) on discontinued operations:				
Basic common units	\$ 0.03	\$ 0.06	\$ 0.10	\$ 0.17
Diluted common units	\$ 0.03	\$ 0.06	\$ 0.10	\$ 0.17
Senior subordinated series C units	\$ —	\$ —	\$ —	\$ —
Basic and diluted net income (loss) per unit:				
Basic and diluted common units	\$ (0.25)	\$ (0.10)	\$ (3.11)	\$ (0.51)
Senior subordinated series C units	\$ —	\$ —	\$ 9.44	\$ —
Senior subordinated series D units	\$ —	\$ —	\$ —	\$ —

(1) Represents distributions paid to common and subordinated unitholders.

CROSSTEX ENERGY, L.P.

Notes to Condensed Consolidated Financial Statements — (Continued)

- (2) Represents BCF recognized at end of subordination period for senior subordinated series C units.
- (3) All undistributed earnings and losses are allocated to common units during the subordination period.

The following are the unit amounts used to compute the basic and diluted earnings per limited partner common unit and senior subordinated series C unit for the three and nine months ended September 30, 2008 and 2007 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Basic and diluted earnings per unit:				
Weighted average limited partner common units outstanding	44,869	26,718	41,466	26,682
Weighted average senior subordinated series C units outstanding	—	—	12,830	—

All common unit equivalents were anti-dilutive in the three and nine months ended September 30, 2008 and 2007 because the limited partners were allocated a net loss in such periods.

Net income for the general partner consists of incentive distributions, a deduction for stock-based compensation attributable to CEI's stock options and restricted shares and 2% of the original Partnership's net income adjusted for the CEI stock-based compensation specifically allocated to the general partner. The remaining net income after these allocations relates to common and subordinated units (excluding senior subordinated units). The net income allocated to the general partner is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Income allocation for incentive distributions	\$ 6,674	\$ 6,281	\$ 30,772	\$ 17,545
Stock-based compensation attributable to CEI's stock options and restricted shares	(775)	(1,491)	(3,383)	(3,822)
2% general partner interest in net income (loss)	(89)	(53)	472	(279)
General partner share of net income	\$ 5,810	\$ 4,737	\$ 27,861	\$ 13,444

(6) Derivatives

Interest Rate Swaps

The Partnership is subject to interest rate risk on its credit facility and has entered into interest rate swaps to reduce this risk.

The Partnership entered into eight interest rate swaps prior to September 2008 as shown below:

Trade Date	Term	From	To	Rate	Notional Amounts (In thousands)
November 14, 2006	4 years	November 28, 2006	November 30, 2010	4.3800%	\$ 50,000
March 13, 2007	4 years	March 30, 2007	March 31, 2011	4.3950%	50,000
July 30, 2007	4 years	August 30, 2007	August 30, 2011	4.6850%	100,000
August 6, 2007	4 years	August 30, 2007	August 31, 2011	4.6150%	50,000
August 9, 2007	3 years	November 30, 2007	November 30, 2010	4.4350%	50,000
August 16, 2007*	4 years	October 31, 2007	October 31, 2011	4.4875%	100,000
September 5, 2007	4 years	September 28, 2007	September 28, 2011	4.4900%	50,000
January 22, 2008	1 year	January 31, 2008	January 31, 2009	2.8300%	100,000
					\$ 550,000

**CROSSTEX ENERGY, L.P.**

**Notes to Condensed Consolidated Financial Statements — (Continued)**

\* Amended swap is a combination of two swaps that each had a notional amount of \$50,000,000 with the same original term.

Each swap fixes the three month LIBOR rate, prior to credit margin, at the indicated rates for the specified amounts of related debt outstanding over the term of each swap agreement. In January 2008, the Partnership amended existing swaps with the counterparties in order to reduce the fixed rates and extend the terms of the existing swaps by one year. The Partnership also entered into one swap in January 2008.

The Partnership had previously elected to designate all interest rate swaps (except the November 2006 swap) as cash flow hedges for FAS 133 accounting treatment. Accordingly, unrealized gains and losses relating to the designated interest rate swaps were recorded in accumulated other comprehensive income. Immediately prior to the January 2008 amendments, these swaps were de-designated as cash flow hedges. The net present value of the unrealized loss in accumulated other comprehensive income of \$17.0 million at the de-designation dates is being reclassified to earnings over the remaining original terms of the swaps using the effective interest method. The related loss reclassified to earnings and included in (gain) loss on derivatives during the three and nine months ended September 30, 2008 is \$1.7 million and \$4.7 million, respectively.

The Partnership elected not to designate any of the amended swaps or the new swap entered into in January 2008 as cash flow hedges for FAS 133 treatment. Accordingly, unrealized gains and losses are recorded through the consolidated statement of operations in (gain) loss on derivatives over the period hedged.

In September 2008, the Partnership entered into four additional interest rate swaps. The effect of the new interest rate swaps was to convert the floating rate portion of the original swaps on \$450.0 million (all swaps except the January 22, 2008 swap that expires January 31, 2009) from three month LIBOR to one month LIBOR. The Partnership received a cash settlement in September of \$1.4 million which represented the present value of the basis point differential between one month LIBOR and three month LIBOR. The \$1.4 million was recorded in the consolidated statement of operations in (gain) loss on derivatives.

The table below aligns the new swap which receives one month LIBOR and pays three month LIBOR with the original interest rate swaps.

Original Swap Trade Date	New Trade Date	From	To	Notional Amounts (In thousands)
March 13, 2007	September 12, 2008	September 30, 2008	March 31, 2011	\$ 50,000
September 5, 2007	September 12, 2008	September 30, 2008	September 28, 2011	50,000
August 16, 2007	September 12, 2008	October 30, 2008	October 31, 2011	100,000
November 14, 2006	September 12, 2008	November 28, 2008	November 30, 2010	50,000
August 9, 2007	September 12, 2008	November 28, 2008	November 30, 2010	50,000
July 30, 2007	September 12, 2008	November 28, 2008	August 30, 2011	100,000
August 6, 2007	September 23, 2008	November 28, 2008	August 30, 2011	50,000
				<u>\$ 450,000</u>

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Notes to Condensed Consolidated Financial Statements — (Continued)

The components of (gain) loss on derivatives in the consolidated statements of operations relating to interest rate swaps are (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Change in fair value of derivatives that do not qualify for hedge accounting	\$ 3,852	\$ 745	\$ (2,210)	\$ 460
Realized (gain) loss on derivatives	584	(180)	2,547	(361)
	<u>\$ 4,436</u>	<u>\$ 565</u>	<u>\$ 337</u>	<u>\$ 99</u>

The fair value of derivative assets and liabilities relating to interest rate swaps are as follows (in thousands):

	September 30,	December 31,
	2008	2007
Fair value of derivative assets — current	\$ 239	\$ 68
Fair value of derivative assets — long-term	—	—
Fair value of derivative liabilities — current	(6,461)	(3,266)
Fair value of derivative liabilities — long-term	(5,642)	(8,057)
Net fair value of derivatives	<u>\$ (11,864)</u>	<u>\$ (11,255)</u>

**Commodity Swaps**

The Partnership manages its exposure to fluctuations in commodity prices by hedging the impact of market fluctuations. Swaps are used to manage and hedge prices and location risk related to these market exposures. Swaps are also used to manage margins on offsetting fixed-price purchase or sale commitments for physical quantities of natural gas and NGLs.

The Partnership commonly enters into various derivative financial transactions which it does not designate as hedges. These transactions include “swing swaps”, “third party on-system financial swaps”, “marketing financial swaps”, “storage swaps”, “basis swaps” and “processing margin swaps”. Swing swaps are generally short-term in nature (one month), and are usually entered into to protect against changes in the volume of daily versus first-of-month index priced gas supplies or markets. Third party on-system financial swaps are hedges that the Partnership enters into on behalf of its customers who are connected to its systems, wherein the Partnership fixes a supply or market price for a period of time for its customers, and simultaneously enters into the derivative transaction. Marketing financial swaps are similar to on-system financial swaps, but are entered into for customers not connected to the Partnership’s systems. Storage swaps transactions protect against changes in the value of gas that the Partnership has stored to serve various operational requirements. Basis swaps are used to hedge basis location price risk due to buying gas into one of our systems on one index and selling gas off that same system on a different index. Processing margin financial swaps are used to hedge fractionation spread risk at our processing plants relating to the option to process versus bypassing our equity gas.

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Notes to Condensed Consolidated Financial Statements — (Continued)

The components of (gain) loss on derivatives in the consolidated statements of operations, excluding interest rate swaps, are (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Change in fair value of derivatives that do not qualify for hedge accounting	\$ 99	\$ 2,248	\$ (713)	\$ 2,172
Realized (gain) loss on derivatives	(3,087)	(2,344)	(6,800)	(6,360)
Ineffective portion of derivatives qualifying for hedge accounting	(152)	57	(17)	120
	<u>\$ (3,140)</u>	<u>\$ (39)</u>	<u>\$ (7,530)</u>	<u>\$ (4,068)</u>

The fair value of derivative assets and liabilities relating to commodity swaps are as follows (in thousands):

	September 30,	December 31,
	2008	2007
Fair value of derivative assets — current	\$ 14,782	\$ 8,521
Fair value of derivative assets — long term	3,973	1,337
Fair value of derivative liabilities — current	(11,343)	(17,800)
Fair value of derivative liabilities — long term	(3,630)	(1,369)
Net fair value of derivatives	<u>\$ 3,782</u>	<u>\$ (9,311)</u>

Set forth below is the summarized notional volumes and fair value of all instruments held for price risk management purposes and related physical offsets at September 30, 2008 (all gas volumes are expressed in MMBtu's and all liquids are expressed in gallons). The remaining term of the contracts extend no later than June 2010 for derivatives except for certain basis swaps that extend to March 2012. The Partnership's counterparties to hedging contracts include BP Corporation, Total Gas & Power, Fortis, Morgan Stanley, J. Aron & Co., a subsidiary of Goldman Sachs and Sempra Energy. Changes in the fair value of the Partnership's mark to market derivatives are recorded in earnings in the period the transaction is entered into. The effective portion of changes in the fair value of cash flow hedges is recorded in accumulated other comprehensive income until the related anticipated future cash flow is recognized in earnings. The ineffective portion is recorded in earnings immediately.

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Notes to Condensed Consolidated Financial Statements — (Continued)

Transaction Type	September 30, 2008	
	Volume	Fair Value
	(In thousands)	
<i>Cash Flow Hedges:</i>		
Natural gas swaps (short contracts) (MMBtu's)	(1,098)	\$ 409
Natural gas swaps (long contracts) (MMBtu's)	90	(5)
Liquids swaps (short contracts) (gallons)	(26,856)	654
Total swaps designated as cash flow hedges		\$ 1,058
<i>Mark to Market Derivatives:*</i>		
Swing swaps (short contracts)	(656)	\$ (6)
Physical offsets to swing swap transactions (long contracts)	656	—
Swing swaps (long contracts)	465	70
Physical offsets to swing swap transactions (short contracts)	(465)	—
Basis swaps (long contracts)	93,098	1,855
Physical offsets to basis swap transactions (short contracts)	(5,148)	24,160
Basis swaps (short contracts)	(87,708)	(897)
Physical offsets to basis swap transactions (long contracts)	3,783	(23,924)
Third-party on-system financial swaps (long contracts)	4,840	(7,342)
Physical offsets to third-party on-system transactions (short contracts)	(4,530)	7,621
Third-party on-system financial swaps (short contracts)	(607)	(10)
Physical offsets to third-party on-system transactions (long contracts)	297	14
Processing margin hedges — liquids (short contracts)	(14,948)	1,472
Processing margin hedges — gas (long contracts)	1,636	(504)
Storage swap transactions (short contracts)	(173)	216
Storage swap transactions (long contracts)	30	(1)
Total mark to market derivatives		\$ 2,724

\* All are gas contracts, volume in MMBtu's, except for processing margin hedges — liquids (volume in gallons)

On all transactions where the Partnership is exposed to counterparty risk, the Partnership analyzes the counterparty's financial condition prior to entering into an agreement, establishes limits and monitors the appropriateness of these limits on an ongoing basis.

*Impact of Cash Flow Hedges*

The impact of realized gains or losses from derivatives designated as cash flow hedge contracts in the consolidated statements of operations is summarized below (in thousands):

Increase (Decrease) in Midstream Revenue	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Natural gas	\$ (811)	\$ 1,573	\$ (691)	\$ 4,321
Liquids	(3,369)	(366)	(14,305)	(614)
	\$ (4,180)	\$ 1,207	\$ (14,996)	\$ 3,707

CROSSTEX ENERGY, L.P.

Notes to Condensed Consolidated Financial Statements — (Continued)

*Natural Gas*

As of September 30, 2008, an unrealized derivative fair value net gain of \$0.4 million related to cash flow hedges of gas price risk was recorded in accumulated other comprehensive income (loss). Of this net amount, a \$0.5 million gain is expected to be reclassified into earnings through September 2009. The actual reclassification to earnings will be based on mark to market prices at the contract settlement date, along with the realization of the gain or loss on the related physical volume, which amount is not reflected above.

The settlement of cash flow hedge contracts related to October 2008 gas production increased gas revenue by approximately \$0.2 million.

*Liquids*

As of September 30, 2008, an unrealized derivative fair value net gain of \$0.7 million related to cash flow hedges of liquids price risk was recorded in accumulated other comprehensive income (loss). Of this amount, a \$0.5 million gain is expected to be reclassified into earnings through September 2009. The actual reclassification to earnings will be based on mark to market prices at the contract settlement date, along with the realization of the gain or loss on the related physical volume, which amount is not reflected above.

**Derivatives Other Than Cash Flow Hedges**

Assets and liabilities related to third party derivative contracts, swing swaps, basis swaps, storage swaps and processing margin swaps are included in the fair value of derivative assets and liabilities and the profit and loss on the mark to market value of these contracts are recorded net as (gain) loss on derivatives in the consolidated statement of operations. The Partnership estimates the fair value of all of its energy trading contracts using prices actively quoted. The estimated fair value of energy trading contracts by maturity date was as follows (in thousands):

	Maturity Periods			Total Fair Value
	Less Than One Year	One to Two Years	More Than Two Years	
September 30, 2008	\$ 2,503	\$ 146	\$ 75	\$ 2,724

**(7) Fair Value Measurements**

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS 157). SFAS 157 introduces a framework for measuring fair value and expands required disclosure about fair value measurements of assets and liabilities. SFAS 157 for financial assets and liabilities is effective for fiscal years beginning after November 15, 2007. The Partnership has adopted the standard for those assets and liabilities as of January 1, 2008 and the impact of adoption was not significant.

Fair value is defined as the price at which an asset could be exchanged in a current transaction between knowledgeable, willing parties. A liability's fair value is defined as the amount that would be paid to transfer the liability to a new obligor, not the amount that would be paid to settle the liability with the creditor. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, use of unobservable prices or inputs are used to estimate the current fair value, often using an internal valuation model. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the item being valued.

SFAS 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

CROSSTEX ENERGY, L.P.

Notes to Condensed Consolidated Financial Statements — (Continued)

The Partnership's derivative contracts primarily consist of commodity swaps and interest rate swap contracts which are not traded on a public exchange. The fair values of commodity swap contracts are determined based on inputs that are readily available in public markets or can be derived from information available in publicly quoted markets. The Partnership determines the value of interest rate swap contracts by utilizing inputs and quotes from the counterparties to these contracts. The reasonableness of these inputs and quotes is verified by comparing similar inputs and quotes from other counterparties as of each date for which financial statements are prepared.

Net assets (liabilities) measured at fair value on a recurring basis are summarized below (in thousands):

	Total	Level 1	Level 2	Level 3
Interest rate swaps*	\$ (11,864)	—	\$ (11,864)	—
Commodity swaps*	3,782	—	3,782	—
Total	<u>\$ (8,082)</u>	<u>—</u>	<u>\$ (8,082)</u>	<u>—</u>

\* Unrealized gains or losses on commodity derivatives qualifying for hedge accounting are recorded in accumulated other comprehensive income (loss) at each measurement date. Accumulated other comprehensive income also includes the net present value of unrealized losses on interest rate swaps of \$17.0 million recorded prior to de-designation in January 2008, of which \$4.7 million has been amortized to earnings through September 2008.

**(8) Other Income**

The Partnership recorded \$7.7 million in other income during the nine months ended September 30, 2008, primarily from the settlement of disputed liabilities that were assumed with an acquisition.

**(9) Commitments and Contingencies**

**(a) Employment Agreements**

Certain members of management of the Partnership are parties to employment contracts with the general partner. The employment agreements provide those senior managers with severance payments in certain circumstances and prohibit each such person from competing with the general partner or its affiliates for a certain period of time following the termination of such person's employment.

**(b) Environmental Issues**

The Partnership did not have any change in environmental quality issues in the nine months ended September 30, 2008.

**(c) Other**

The Partnership is involved in various litigation and administrative proceedings arising in the normal course of business. In the opinion of management, any liabilities that may result from these claims would not individually or in the aggregate have a material adverse effect on its financial position or results of operations.

On November 15, 2007, Crosstex CCNG Processing Ltd. (Crosstex CCNG), a wholly-owned subsidiary of the Partnership, received a demand letter from Denbury Onshore, LLC (Denbury) asserting a claim for breach of contract and seeking payment of approximately \$11.4 million in damages. The claim arises from a contract under which Crosstex CCNG processed natural gas owned or controlled by Denbury in north Texas. Denbury contends that Crosstex CCNG breached the contract by failing to build a processing plant of a certain size and design, resulting in Crosstex CCNG's failure to properly process the gas over a ten month period. Denbury also alleges that Crosstex CCNG failed to provide specific notices required under the contract. On December 4, 2007 and



**CROSSTEX ENERGY, L.P.**

**Notes to Condensed Consolidated Financial Statements — (Continued)**

February 14, 2008, Denbury sent Crosstex CCNG letters requesting that its claim be arbitrated pursuant to an arbitration provision in the contract. Although it is not possible to predict with certainty the ultimate outcome of this matter, we do not believe this will have a material adverse impact on our consolidated results of operations or financial position.

The Partnership (or its subsidiaries) is defending several lawsuits filed by owners of property located near processing facilities or compression facilities constructed by the Partnership as part of its systems in north Texas. The suits generally allege that the facilities create a private nuisance and have damaged the value of surrounding property. Claims of this nature have arisen as a result of the industrial development of natural gas gathering, processing and treating facilities in urban and occupied rural areas. Although it is not possible to predict the ultimate outcomes of these matters, the Partnership does not believe that these claims will have a material adverse impact on its consolidated results of operations or financial condition.

On July 22, 2008, SemGroup, L.P. and certain of its subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code. As of July 22, 2008, SemGroup, L.P. owed the Partnership approximately \$6.3 million, including approximately \$3.9 million for June 2008 sales and approximately \$2.3 million for July 2008 sales. The Partnership believes the July sales of \$2.3 million will receive "administrative claim" status in the bankruptcy proceeding. The Partnership evaluated these receivables for collectibility and provided a valuation allowance of \$1.6 million during the three months ended September 30, 2008.

**(10) Segment Information**

Identification of operating segments is based principally upon differences in the types and distribution channel of products. The Partnership's reportable segments consist of Midstream and Treating. The Midstream division consists of the Partnership's natural gas gathering and transmission operations and includes the south Louisiana processing and liquids assets, the processing and transmission assets located in north and south Texas, the LIG pipelines and processing plants located in Louisiana, the Mississippi System, the Arkoma system located in Oklahoma and various other small systems. Also included in the Midstream division are the Partnership's energy trading operations. The operations in the Midstream segment are similar in the nature of the products and services, the nature of the production processes, the type of customer, the methods used for distribution of products and services and the nature of the regulatory environment. The Treating division generates fees from its plants either through volume-based treating contracts or through fixed monthly payments.

The Partnership evaluates the performance of its operating segments based on operating revenues and segment profits. Corporate expenses include general partnership expenses associated with managing all reportable operating segments. Corporate assets consist principally of property and equipment, including software, for general corporate support, working capital and debt financing costs.

## CROSSTEX ENERGY, L.P.

## Notes to Condensed Consolidated Financial Statements — (Continued)

Summarized financial information concerning the Partnership's reportable segments is shown in the following table.

	Midstream	Treating	Corporate	Totals
	(In thousands)			
<b>Three months ended September 30, 2008:</b>				
Sales to external customers	\$ 1,310,226	\$ 19,036	\$ —	\$ 1,329,262
Sales to affiliates	6,663	2,097	(8,760)	—
Profit on energy trading activities	648	—	—	648
Purchased gas	(1,220,210)	(6,164)	6,663	(1,219,711)
Operating expenses	(41,266)	(7,828)	2,097	(46,997)
Segment profit	\$ 56,061	\$ 7,141	\$ —	\$ 63,202
Gain (loss) on derivatives	\$ 3,137	\$ 4	\$ (4,436)	\$ (1,295)
Depreciation and amortization	\$ (28,331)	\$ (3,160)	\$ (1,337)	\$ (32,828)
Capital expenditures (excluding acquisitions)	\$ 52,056	\$ 6,891	\$ 2,814	\$ 61,761
Identifiable assets	\$ 2,404,207	\$ 235,155	\$ 137,827	\$ 2,777,189
<b>Three months ended September 30, 2007:</b>				
Sales to external customers	\$ 926,726	\$ 13,080	\$ —	\$ 939,806
Sales to affiliates	2,182	1,239	(3,421)	—
Profit on energy trading activities	587	—	—	587
Purchased gas	(843,762)	(1,617)	2,182	(843,197)
Operating expenses	(27,568)	(5,361)	1,239	(31,690)
Segment profit	\$ 58,165	\$ 7,341	\$ —	\$ 65,506
Gain (loss) on derivatives	\$ (776)	\$ —	\$ 250	\$ (526)
Depreciation and amortization	\$ (23,879)	\$ (2,393)	\$ (1,193)	\$ (27,465)
Capital expenditures (excluding acquisitions)	\$ 91,258	\$ 4,858	\$ 2,077	\$ 98,193
Identifiable assets	\$ 2,199,868	\$ 219,659	\$ 46,725	\$ 2,466,252
<b>Nine months ended September 30, 2008:</b>				
Sales to external customers	\$ 4,087,683	\$ 48,106	\$ —	\$ 4,135,789
Sales to affiliates	12,900	5,286	(18,186)	—
Profit on energy trading activities	2,332	—	—	2,332
Purchased gas	(3,808,974)	(11,618)	12,900	(3,807,692)
Operating expenses	(111,083)	(21,611)	5,286	(127,408)
Segment profit	\$ 182,858	\$ 20,163	\$ —	\$ 203,021
Gain (loss) on derivatives	\$ 7,530	\$ —	\$ (337)	\$ 7,193
Depreciation and amortization	\$ (82,733)	\$ (9,361)	\$ (4,833)	\$ (96,927)
Capital expenditures (excluding acquisitions)	\$ 174,717	\$ 24,098	\$ 7,212	\$ 206,027
Identifiable assets	\$ 2,404,207	\$ 235,155	\$ 137,827	\$ 2,777,189

## CROSSTEX ENERGY, L.P.

## Notes to Condensed Consolidated Financial Statements — (Continued)

	Midstream	Treating	Corporate	Totals
	(In thousands)			
<b>Nine months ended September 30, 2007:</b>				
Sales to external customers	\$ 2,721,193	\$ 40,160	\$ —	\$ 2,761,353
Sales to affiliates	7,320	3,451	(10,771)	—
Profit on energy trading activities	2,180	—	—	2,180
Purchased gas	(2,510,843)	(6,208)	7,320	(2,509,731)
Operating expenses	(76,336)	(14,760)	3,451	(87,645)
Segment profit	\$ 143,514	\$ 22,643	\$ —	\$ 166,157
Gain (loss) on derivatives	\$ 4,082	\$ (14)	\$ (99)	\$ 3,969
Depreciation and amortization	\$ (65,000)	\$ (8,581)	\$ (3,264)	\$ (76,845)
Capital expenditures (excluding acquisitions)	\$ 302,057	\$ 17,753	\$ 4,824	\$ 324,634
Identifiable assets	\$ 2,199,868	\$ 219,659	\$ 46,725	\$ 2,466,252

The following table reconciles the segment profits reported above to the operating income as reported in the consolidated statements of operations (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2008	2007	2008	2007
Segment profits	\$ 63,202	\$ 65,506	\$ 203,021	\$ 166,157
General and administrative expenses	(16,897)	(16,127)	(49,695)	(43,010)
Gain (loss) on derivatives	(1,295)	(526)	7,193	3,969
Gain (loss) on sale of property	(68)	(2)	1,591	1,819
Depreciation and amortization	(32,828)	(27,465)	(96,927)	(76,845)
Operating income	\$ 12,114	\$ 21,386	\$ 65,183	\$ 52,090

**(11) Subsequent Events****(a) Asset Dispositions**

Subsequent to September 30, 2008, the Partnership executed agreements to sell certain non-strategic assets that together will generate approximately \$105.0 million in proceeds, including \$85.0 million for the asset disclosed in Note (2) Asset Held for Disposition. These transactions are expected to be completed before the end of November 2008.

**(b) Amendments to Bank Credit Facility and Senior Secured Notes**

On November 7, 2008, the Partnership entered into the Fifth Amendment and Consent to its bank credit facility and the Waiver and Letter Amendment No. 3 to its Amended and Restated Note Purchase Agreement. The Fifth Amendment amended the agreement governing the Partnership's credit facility to, among other things, (i) increase the maximum permitted leverage ratio the Partnership must maintain for the fiscal quarters ending December 31, 2008 through September 30, 2009, (ii) lower the minimum interest coverage ratio the Partnership must maintain for the fiscal quarter ending December 31, 2008 and each fiscal quarter thereafter, (iii) permit the Partnership to sell a non-strategic asset discussed in (a) above, (iv) increase the interest rate the Partnership pays on the obligations under the credit facility and (v) lower the maximum permitted leverage ratio the Partnership must maintain if the Partnership or its subsidiaries incur unsecured note indebtedness.

CROSSTEX ENERGY, L.P.

Notes to Condensed Consolidated Financial Statements — (Continued)

Under the amended credit agreement, borrowings will bear interest at the Partnership's option at the administrative agent's reference rate plus 0.50% to 2.00% (ranges were 0% to 0.25% prior to amendment) or LIBOR plus 1.50% to 3.00% (ranges were 1.00% to 1.75% prior to amendment). The applicable margins for the Partnership's interest rate, letter of credit fees and commitment fees all vary quarterly based on the Partnership's leverage ratio. The fees charged for letters of credit range from 1.50% to 3.00% per annum (ranges were 1.00% to 1.75% prior to amendment) plus a fronting fee of 0.125% per annum. The Partnership will incur quarterly commitment fees ranging from 0.20% to 0.50% (ranges were 0.20% to 0.375% prior to amendment) on the unused amount of the credit facility.

Under the amended credit facility, the maximum leverage ratio (total funded debt to consolidated earnings before interest, taxes, depreciation and amortization) is as follows:

- 5.00 to 1.00 for any fiscal quarter ending through June 30, 2009;
- 4.75 to 1.00 for the fiscal quarter ending September 30, 2009; and
- 4.50 to 1.00 for any fiscal quarter ending thereafter.

For any fiscal quarter ending after December 31, 2010, during an acquisition period, as defined in the credit facility, the maximum leverage ratio shall be increased by 0.50 to 1.00 from the otherwise applicable rate set forth above. In addition, if the maximum leverage ratio is greater than 4.50 to 1.00 during an acquisition period, then borrowings will bear interest at the Partnership's option at the administrative agent's reference rate plus 2.25% or LIBOR plus 3.25%.

The minimum interest coverage ratio (as defined in the agreement, measured quarterly on a rolling four-quarter basis) was also lowered to 2.50 to 1.00 from 3.00 to 1.00 prior to amendment.

On November 7, 2008, the Partnership also entered into the Waiver and Letter Amendment No. 3 ("Letter Amendment No. 3") to its Amended and Restated Note Purchase Agreement with Prudential Investment Management, Inc. and the other holders of its senior secured notes. Letter Amendment No. 3 amended the agreement governing the Partnership's senior secured notes to, among other things, (i) increase the maximum permitted leverage ratio the Partnership must maintain for the fiscal quarters ending December 31, 2008 through September 30, 2009 consistent with the ratios under the amendment to the bank credit facility, (ii) lower the minimum interest coverage ratio the Partnership must maintain for the fiscal quarter ending December 31, 2008 and each fiscal quarter thereafter consistent with the ratio under the bank credit facility, (iii) permit the Partnership to sell a non-strategic asset discussed in (a) above and (iv) increase the interest rate the Partnership pays on the senior secured notes. The interest rate the Partnership pays on the senior secured notes will increase by 0.5%. In addition, the interest rate on the senior secured notes will increase by an additional 0.75% (referred to as an excess leverage fee) if its leverage ratio is greater than 3.75 to 1.00 as of the end of any fiscal quarter, commencing with the fiscal quarter ended on September 30, 2008.

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

*You should read the following discussion of our financial condition and results of operations in conjunction with the financial statements and notes thereto included elsewhere in this report.*

**Overview**

We are a Delaware limited partnership formed on July 12, 2002 to indirectly acquire substantially all of the assets, liabilities and operations of our predecessor, Crosstex Energy Services, Ltd. We have two industry segments, Midstream and Treating, with a geographic focus along the Texas Gulf Coast, in the north Texas Barnett Shale area and in Louisiana and Mississippi. Our Midstream division focuses on the gathering, processing, transmission and marketing of natural gas and natural gas liquids (NGLs), as well as providing certain producer services, while our Treating division focuses on the removal of contaminants from natural gas and NGLs to meet pipeline quality specifications. For the nine months ended September 30, 2008, 89% of our gross margin was generated in the Midstream division with the balance in the Treating division. We manage our operations by focusing on gross margin because our business is generally to purchase and resell natural gas and NGLs for a margin, or to gather, process, transport, market or treat gas and NGLs for a fee. We buy and sell most of our natural gas at a fixed relationship to the relevant index price so our margins are not significantly affected by changes in gas prices. In addition, we receive certain fees for processing based on a percentage of the liquids produced and enter into hedge contracts for our expected share of the liquids produced to protect our margins from changes in liquids prices. As explained under "Commodity Price Risk" below, we enter into financial instruments to reduce volatility in our gross margin due to price fluctuations.

Our Midstream segment margins are determined primarily by the volumes of natural gas gathered, transported, purchased and sold through our pipeline systems, processed at our processing facilities, and the volumes of NGLs handled at our fractionation facilities. Our Treating segment margins are largely a function of the number and size of treating plants in operation and fees earned for removing impurities at a non-operated processing plant. We generate revenues from five primary sources:

- purchasing and reselling or transporting natural gas on the pipeline systems we own;
- processing natural gas at our processing plants and fractionating and marketing the recovered NGLs;
- treating natural gas at our treating plants;
- recovering carbon dioxide and NGLs at a non-operated processing plant; and
- providing off-system marketing services for producers.

The bulk of our operating profits have historically been derived from the margins we realize for gathering and transporting natural gas through our pipeline systems. Generally, we buy gas from a producer, plant or transporter at either a fixed discount to a market index or a percentage of the market index. We then transport and resell the gas. The resale price is generally based on the same index price at which the gas was purchased, and, if we are to be profitable, at a smaller discount or larger premium to the index than it was purchased. We attempt to execute all purchases and sales substantially concurrently, or we enter into a future delivery obligation, thereby establishing the basis for the margin we will receive for each natural gas transaction. Our gathering and transportation margins related to a percentage of the index price can be adversely affected by declines in the price of natural gas. See "Commodity Price Risk" below for a discussion of how we manage our business to reduce the impact of price volatility.

Processing revenues are generally based on either a percentage of the liquids volume recovered, or a margin based on the value of liquids recovered less the reduced energy value in the remaining gas after the liquids are removed, or a fixed fee per unit processed. Fractionation and marketing fees are generally a fixed fee per unit of products.

We generate treating revenues under three arrangements:

- a volumetric fee based on the amount of gas treated, which accounted for approximately 14% and 12%, of the operating income in our Treating division for the nine months ended September 30, 2008 and 2007, respectively;
- a fixed fee for operating the plant for a certain period, which accounted for approximately 60% and 58% of the operating income in our Treating division for the nine months ended September 30, 2008 and 2007, respectively; and
- a fee arrangement in which the producer operates the plant, which accounted for approximately 26% and 30% of the operating income in our Treating division for the nine months ended September 30, 2008 and 2007, respectively.

Operating expenses are costs directly associated with the operations of a particular asset. Among the most significant of these costs are those associated with direct labor and supervision and associated transportation and communication costs, property insurance, ad valorem taxes, repair and maintenance expenses, measurement and utilities. These costs are normally fairly stable across broad volume ranges, and therefore do not normally decrease or increase significantly in the short term with decreases or increases in the volume of gas moved through the asset.

#### **Recent Developments**

Since early September 2008, the economy and financial markets have declined at rates and to levels that were not anticipated. In addition to these declines, our business has also been significantly impacted by the following changes:

- The majority of the Partnership's assets in Texas and Louisiana sustained minimal physical damage as a result of hurricanes Gustav and Ike, which came ashore in September. Most of the Partnership's facilities along the Gulf Coast promptly resumed operations. However, the Sabine plant, because of its proximity to the Louisiana Gulf coast, sustained some damage which should be repaired by mid-December. In addition, several offshore production platforms and pipelines transporting gas production to the Pelican and Bluewater processing plants were damaged by the storm and repair to these facilities are continuing during the fourth quarter of 2008. These storms resulted in an adverse impact to the Partnership's gross margin of approximately \$12.0 million and \$2.0 million in operating expenses in the third quarter of 2008, and the Partnership anticipates that it will experience a further negative impact to its gross margin in the fourth quarter of 2008 of approximately \$11.0 million.
- Commodity prices have continued to decline. Since the beginning of October until the beginning of November, oil prices have fallen about 35%, natural gas prices about 13% and NGL prices about 38%. These declines have impacted the Partnership's margins expected from processing for the remainder of 2008 and 2009.
- In the north Texas Barnett Shale play, continued delays in infrastructure development, equipment delivery and right-of-way access have led to further delays in the growth of volumes on the Partnership's systems.
- Gas producers have revised their drilling budgets as they react to turbulent capital market conditions. Consequently, the Partnership has adjusted its business outlook to account for the general slowdown in industry drilling activity.

#### **Our Business Strategy through 2009**

We are adjusting our overall business strategy in response to the recent events discussed above. We are implementing a strategy to increase our liquidity and improve our profitability by undertaking the following steps:

- Lowering the distribution level on our common units, which is being effected with the distribution payable in November 2008.

- Selling certain non-strategic assets. We have executed agreements to sell certain non-strategic assets that together will generate approximately \$105.0 million in proceeds. These transactions are expected to be completed before the end of November 2008.
- Reducing capital expenditures significantly through 2009. Total growth capital investments in the fourth quarter of 2008 and calendar year 2009 are currently anticipated to be approximately \$180.0 million.
- Decreasing balances outstanding under the letters of credit.

#### **Expansions**

During the nine months ended September 30, 2008, we continued the expansion of our north Texas pipeline gathering system in the Barnett Shale which was acquired in June 2006. Since the date of acquisition through September 30, 2008, we connected approximately 421 new wells to our gathering system including approximately 135 new wells connected during the nine months ended September 30, 2008. Our total throughput on the north Texas gathering systems, including throughput on our north Johnson County expansion discussed below, was approximately 771,000 MMBtu/d for the month of September 2008, up from a monthly throughput of approximately 525,000 MMBtu/d in December 2007.

We continued the construction of our 29-mile north Johnson County expansion, which is part of our north Texas pipeline gathering system, during the nine months ended September 30, 2008. The first phase of this expansion commenced operation in September 2007. The last two phases of the expansion commenced operation in May and July of 2008. The total gathering capacity for this 29-mile expansion is approximately 400 MMcf/d.

We also completed our east Texas natural gas gathering system expansion in May 2008. We added a new pipeline next to our existing system which increased capacity to approximately 100 MMcf/d and added two refrigeration plants to improve the system's ability to process the gas.

On April 28, 2008, we announced plans to construct an \$80.0 million natural gas processing facility called Bear Creek in the Barnett Shale region of north Texas. The new plant will have a gas processing capacity of 200 MMcf/d, increasing our total processing capacity in the Barnett Shale to 485 MMcf/d. The Bear Creek plant will be strategically located near our existing midstream assets in Hood County. We had originally planned to complete the Bear Creek plant by the third quarter of 2009. Although the Partnership has commenced construction of the plant, we are now planning to delay certain portions of the construction project because we do not anticipate that the additional capacity provided by the Bear Creek plant will be needed until mid to late 2010 due to reductions and/or delays in drilling activity in the Barnett Shale area.

**Results of Operations**

Set forth in the table below is certain financial and operating data for the Midstream and Treating divisions for the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Dollars in millions)			
Midstream revenues	\$ 1,310.2	\$ 926.7	\$ 4,087.7	\$ 2,721.2
Midstream purchased gas	(1,213.5)	(841.6)	(3,796.0)	(2,503.5)
Profit on energy trading activities	0.6	0.6	2.3	2.2
Midstream gross margin	97.3	85.7	294.0	219.9
Treating revenues	19.1	13.1	48.0	40.2
Treating purchased gas	(6.2)	(1.6)	(11.6)	(6.3)
Treating gross margin	12.9	11.5	36.4	33.9
Total gross margin	\$ 110.2	\$ 97.2	\$ 330.4	\$ 253.8
<b>Midstream Volumes (MMBtu/d):</b>				
Gathering and transportation	2,643,000	2,343,000	2,594,000	2,040,000
Processing	1,683,000	2,156,000	2,005,000	2,079,000
Producer services	74,000	92,000	81,000	95,000
<b>Plants in service at end of period</b>	195	195	195	195

**Three Months Ended September 30, 2008 Compared to Three Months Ended September 30, 2007**

*Gross Margin and Profit on Energy Trading Activities.* Midstream gross margin was \$97.3 million for the three months ended September 30, 2008 compared to \$85.7 million for the three months ended September 30, 2007, an increase of \$11.6 million, or 13.5%. The increase was primarily due to system expansion projects and increased throughput on our gathering and transmission systems. These increases were partially offset by margin decreases in the processing business due to a less favorable NGL market and operating downtime due to the impact of recent hurricanes. Profit on energy trading activities was unchanged for the comparative periods.

System expansion in the north Texas region and increased throughput on the North Texas Pipeline (NTP) contributed \$14.9 million of gross margin growth for the three months ended September 30, 2008 over the same period in 2007. The gathering systems in the region and NTP accounted for \$10.7 million and \$2.3 million of this increase, respectively. The processing facilities in the region contributed an additional \$1.9 million of this gross margin increase. System expansion and volume increases on the LIG system contributed margin growth of \$1.2 million during the third quarter of 2008 over the same period in 2007. Processing plants in Louisiana reported a margin decline of \$2.9 million for the comparative three month periods due to a less favorable NGL processing environment and business interruptions due to the impact of recent hurricanes. These unfavorable processing conditions also impacted the south Texas region where the Vanderbilt system and Gregory Processing Plant had margin declines of \$0.8 million and \$0.7 million, respectively.

Our processing and gathering systems were negatively impacted by events beyond our control during the third quarter that had a significant effect on gross margin results for the period. Hurricanes Gustav and Ike came ashore along the Gulf coast in September. These storms are estimated to have cost us approximately \$12.0 million in gross margin for the three months ended September 30, 2008. The lost margin was primarily experienced at gas processing facilities along the Gulf coast. However, processing facilities further inland in Louisiana and north Texas were indirectly impacted due to disruption in the NGL markets. In addition, approximately \$0.9 million in gross margin was lost at the Sabine plant in August due to downtime from fire damage. The fire occurred during an attempt to bring the plant back on line following tropical storm Eduardo.



Treating gross margin was \$12.9 million for the three months ended September 30, 2008 compared to \$11.5 million in the same period in 2007, an increase of \$1.4 million, or 12.3%. Treating plants, dew point control plants, and related equipment in service remained at 195 plants at September 30, 2008 which is unchanged from September 30, 2007. Gross margin growth for the period of \$1.1 million is attributed primarily to increased fees per plant and an increase in throughput on the volume based plants. Upstream services also contributed gross margin growth of \$0.3 million for the comparable periods.

*Operating Expenses.* Operating expenses were \$47.0 million for the three months ended September 30, 2008 compared to \$31.7 million for the three months ended September 30, 2007, an increase of \$15.3 million, or 48.3%. The increase is primarily attributable to the following factors:

- \$10.9 million increase in Midstream operating expenses primarily due to expansion and growth of our midstream assets in the NTP, NTG, and north Louisiana and east Texas areas. Chemicals and materials increased by \$2.3 million, compressor rentals increased by \$1.6 million, contractor services and labor costs increased by \$5.2 million and ad valorem taxes increased by \$1.0 million;
- \$2.0 million in Midstream operating expenses due to hurricanes Gustav and Ike. \$7.6 million total repair and replacement costs were sustained at our Sabine processing plant, \$5.6 million of which will be claimed through our property damage insurer; and
- \$2.5 million increase in Treating operating expenses, consisting of a \$0.6 million increase for materials and supplies, a \$0.8 million increase in contractor services costs to support maintenance projects and a \$0.7 million increase in labor costs as a result of market adjustments for field service employees and additional headcount.

*General and Administrative Expenses.* General and administrative expenses were \$16.9 million for the three months ended September 30, 2008 compared to \$16.1 million for the three months ended September 30, 2007, an increase of \$0.8 million, or 4.8%. The increase is primarily attributable to the following factors:

- \$1.6 million increase in bad debt expense due to the SemGroup, L.P. bankruptcy;
- \$0.8 million increase in rental expense resulting primarily from the addition of office rent for the expansion of our corporate headquarters; and
- \$1.6 million decrease in stock-based compensation expense resulting primarily from the reduction of target performance-based restricted units and restricted shares.

*Gain/Loss on Derivatives.* We had a loss on derivatives of \$1.3 million for the three months ended September 30, 2008 compared to a loss of \$0.5 million for the three months ended September 30, 2007. The derivative transaction types contributing to the net loss are as follows (in millions):

	Three Months Ended September 30,			
	2008		2007	
	Total	Realized	Total	Realized
(Gain) Loss on Derivatives:				
Interest rate swaps	\$ 4.4	\$ 0.6	\$ 0.6	\$ (0.2)
Basis swaps	(1.4)	(2.7)	(0.5)	(2.1)
Third-party on-system swaps	(0.3)	(0.3)	(0.2)	(0.7)
Processing margin hedges	(0.9)	—	0.6	0.5
Other	(0.5)	(0.1)	—	—
	<u>\$ 1.3</u>	<u>\$ (2.5)</u>	<u>\$ 0.5</u>	<u>\$ (2.5)</u>

*Depreciation and Amortization.* Depreciation and amortization expenses were \$32.8 million for the three months ended September 30, 2008 compared to \$27.5 million for the three months ended September 30, 2007, an increase of \$5.4 million, or 19.5%. The increase primarily relates to the NTP and NTG expansion project assets.

*Interest Expense.* Interest expense was \$17.1 million for the three months ended September 30, 2008 compared to \$20.7 million for the three months ended September 30, 2007, a decrease of \$3.7 million, or 17.7%. The decrease relates primarily to lower interest rates between three-month periods (weighted average rate of 6.0%

in the 2008 period compared to 7.0% in the 2007 period). Net interest expense consists of the following (in millions):

	Three Months Ended September 30,	
	2008	2007
Senior notes	\$ 8.2	\$ 8.3
Credit facility	8.4	12.8
Other	1.1	0.9
Capitalized interest	(0.5)	(1.2)
Interest income	(0.1)	(0.1)
Total	<u>\$ 17.1</u>	<u>\$ 20.7</u>

*Income taxes.* Income tax expense was \$1.7 million for the three months ended September 30, 2008 compared to \$0.2 million for the three months ended September 30, 2007, an increase of \$1.4 million. The increase relates primarily to the Texas margin tax.

***Nine Months Ended September 30, 2008 Compared to Nine Months Ended September 30, 2007***

*Gross Margin and Profit on Energy Trading Activities.* Midstream gross margin was \$294.0 million for the nine months ended September 30, 2008 compared to \$219.9 million for the nine months ended September 30, 2007, an increase of \$74.1 million, or 33.7%. The increase was primarily due to system expansion projects and increased throughput on our gathering and transmission systems. These increases were partially offset by margin decreases in the processing business due to a less favorable NGL market and operating downtime due to the impact of recent hurricanes. Profit on energy trading activities increased for the comparative periods by approximately \$0.2 million.

System expansion in the north Texas region and increased throughput on the NTP contributed \$47.8 million of gross margin growth for the nine months ended September 30, 2008 over the same period in 2007. The gathering systems in the region and NTP accounted for \$32.3 million and \$6.9 million of this increase, respectively. The processing facilities in the region contributed an additional \$8.6 million of this gross margin increase. System expansion and volume increases on the LIG system contributed margin growth of \$13.0 million during the nine months ended September 30, 2008 over the same period in 2007. Processing plants in Louisiana contributed margin growth of \$8.5 million for the comparative nine month period in 2007 due to higher NGL prices and increased volumes at the Gibson and Plaquemine plants and the Riverside fractionation facility during the first nine months of the year. These gains were offset primarily by a less favorable NGL processing environment in the third quarter and business interruptions due to the impact of recent hurricanes. The Vanderbilt system in the south Texas region had a margin increase of \$3.6 million for the comparative nine-month periods primarily due to growth in the first half of the year offset by a decline in the third quarter due to the less favorable processing conditions. The Mississippi system had a margin increase of \$2.1 million for the nine months ended due to increased throughput. The Arkoma system in Oklahoma experienced a throughput decline for the comparable periods that resulted in a negative margin variance of \$1.2 million.

Our processing and gathering systems were negatively impacted by events beyond our control during the third quarter that had a significant effect on gross margin results for the period. Hurricanes Gustav and Ike came ashore along the Gulf coast in September. These storms are estimated to have cost us approximately \$12.0 million in gross margin and \$1.5 million in repair costs for the three months ended September 30, 2008. The lost margin was primarily experienced at gas processing facilities along the Gulf coast. However, processing facilities further inland in Louisiana and north Texas were indirectly impacted due to disruption in the NGL markets. In addition, approximately \$0.9 million in gross margin was lost at the Sabine plant in August due to downtime from fire damage. The fire occurred during an attempt to bring the plant back on line following tropical storm Eduardo.

Treating gross margin was \$36.4 million for the nine months ended September 30, 2008 compared to \$33.9 million for the same period in 2007, an increase of \$2.5 million, or 7.5%. Treating plants, dew point control plants and related equipment in service remained at 195 plants at September 30, 2008 which is unchanged from September 30, 2007. Gross margin growth for the period of \$1.6 million is attributed primarily to increased fees per

plant and an increase in throughput on the volume based plants. Upstream services also contributed gross margin growth of \$1.0 million for the comparable periods.

*Operating Expenses.* Operating expenses were \$127.4 million for the nine months ended September 30, 2008 compared to \$87.6 million for the nine months ended September 30, 2007, an increase of \$39.8 million, or 45.4%. The increase is primarily attributable to the following factors:

- \$29.6 million increase in Midstream operating expenses primarily due to expansion and growth of our midstream assets in the NTP, NTG, and north Louisiana and east Texas areas. Chemicals and materials increased by \$6.8 million, equipment rental increased by \$6.0 million, contractor services and labor costs increased \$11.9 million and ad valorem taxes increased \$1.8 million;
- \$2.0 million in Midstream operating expenses due to hurricanes Gustav and Ike. \$7.6 million total repair and replacement costs were sustained at our Sabine processing plant, \$5.6 million of which will be claimed through our property damage insurer;
- \$6.8 million increase in Treating operating expenses including \$2.1 million for materials and supplies, contractor services costs of \$1.5 million to support maintenance projects and labor costs of \$1.9 million as a result of market adjustments for field service employees and additional headcount;
- \$1.1 million increase in technical services operating expenses;
- \$0.2 million increase in stock-based compensation expense.

*General and Administrative Expenses.* General and administrative expenses were \$49.7 million for the nine months ended September 30, 2008 compared to \$43.0 million for the nine months ended September 30, 2007, an increase of \$6.7 million, or 15.5%. The increase is primarily attributable to the following factors:

- \$3.0 million increase in labor and benefits related to staff additions associated with the requirements of the NTP and the NTG assets and the expansion in north Louisiana;
- \$1.6 million increase in bad debt expense due to the SemGroup, L.P. bankruptcy;
- \$1.3 million increase in rental expense resulting primarily from the addition of office rent for the expansion of our corporate headquarters;
- \$1.4 million increase in other expenses, including professional fees and services and travel and training expenses; and
- \$0.6 million decrease in stock-based compensation expense resulting primarily from the reduction of estimated performance-based restricted units and restricted shares.

*Gain on Sale of Property.* The \$1.6 million gain on sale of property for the nine months ended September 30, 2008 represents disposition of various small Treating and Midstream assets. The \$1.8 million gain on sale of property for the nine months ended September 30, 2007 consisted of the disposition of unused catalyst material for \$1.0 million and the sale of a treating plant for \$1.0 million, partially offset by losses of \$0.2 million on disposition of other treating equipment.

*Gain/Loss on Derivatives.* We had a gain on derivatives of \$7.2 million for the nine months ended September 30, 2008 compared to a gain of \$4.0 million for the nine months ended September 30, 2007. The derivative transaction types contributing to the net gain are as follows (in millions):

	Nine Months Ended September 30,			
	2008		2007	
	Total	Realized	Total	Realized
<b>(Gain) Loss on Derivatives:</b>				
Basis swaps	\$ (6.1)	\$ (6.3)	\$ (5.7)	\$ (4.9)
Third-party on-system swaps	(0.5)	(0.5)	(0.1)	(0.5)
Processing margin hedges	(0.8)	0.2	1.1	0.6
Puts	—	—	0.8	—
Other	0.2	2.4*	(0.1)	(2.0)
	<u>\$ (7.2)</u>	<u>\$ (4.2)</u>	<u>\$ (4.0)</u>	<u>\$ (6.8)</u>

\* Includes realized interest rate swaps of \$0.8 million not received until fourth quarter.

*Depreciation and Amortization.* Depreciation and amortization expenses were \$96.9 million for the nine months ended September 30, 2008 compared to \$76.8 million for the nine months ended September 30, 2007, an increase of \$20.1 million, or 26.1%. Midstream depreciation and amortization increased \$18.6 million due to the NTP, NTG and north Louisiana expansion project assets. Software additions and depreciation acceleration of Dallas office leasehold improvements accounted for an increase between periods of \$1.5 million.

*Interest Expense.* Interest expense was \$54.4 million for the nine months ended September 30, 2008 compared to \$56.7 million for the nine months ended September 30, 2007, a decrease of \$2.3 million, or 4.1%. The decrease relates primarily to lower interest rates between nine-month periods (weighted average rate of 6.1% in 2008 compared to 7.0% in 2007). Net interest expense consists of the following (in millions):

	Nine Months Ended September 30,	
	2008	2007
Senior notes	\$ 24.6	\$ 25.1
Credit facility	29.1	33.5
Other	3.3	2.8
Capitalized interest	(2.2)	(4.3)
Realized interest rate swap gains	(0.2)	—
Interest income	(0.2)	(0.4)
Total	<u>\$ 54.4</u>	<u>\$ 56.7</u>

*Income taxes.* Income tax expense was \$2.4 million for the nine months ended September 30, 2008 compared to \$0.7 million for the nine months ended September 30, 2007, an increase of \$1.7 million. The increase relates primarily to the Texas margin tax.

*Other Income.* We recorded \$7.7 million in other income during the nine months ended September 30, 2008, primarily from the settlement of disputed liabilities that were assumed with an acquisition.

**Critical Accounting Policies**

Information regarding the Partnership's Critical Accounting Policies is included in Item 7 of the Partnership's Annual Report on Form 10-K for the year ended December 31, 2007.

**Liquidity and Capital Resources**

*Cash Flows.* Net cash provided by operating activities was \$217.6 million for the nine months ended September 30, 2008 compared to \$104.3 million for the nine months ended September 30, 2007. Income before non-cash income and expenses for comparative periods were as follows (in millions):

	Nine Months Ended September 30,	
	2008	2007
Income before non-cash income and expenses	\$ 125.9	\$ 90.0
Changes in working capital	\$ 91.7	\$ 14.3

The primary reason for the increased income before non-cash income and expenses of \$35.9 million from 2007 to 2008 was increased operating income from our expansions in north Texas and north Louisiana during 2007 and 2008. Our changes in working capital may fluctuate significantly between periods even though our trade receivables and payables are typically collected and paid in 30 to 60 day pay cycles. A large volume of our revenues are collected and a large volume of our gas purchases are paid near each month end or the first few days of the following month so receivable and payable balances at any month end may fluctuate significantly depending on the timing of these receipts and payments. In addition, although we strive to minimize our natural gas and NGLs in inventory, these working inventory balances may fluctuate significantly from period-to-period due to operational reasons and due to changes in natural gas and NGL prices. Our working capital also includes our mark to market derivative assets and liabilities associated with our derivative cash flow hedges which may fluctuate significantly due to the changes in natural gas and NGL prices. The changes in working capital during the nine months ended September 30, 2007 and 2008 are due to the impact of the fluctuations discussed above.

*Cash Flows from Investing Activities.* Net cash used in investing activities was \$214.5 million and \$325.7 million for the nine months ended September 30, 2008 and 2007, respectively. Our primary investing activities were capital expenditures for internal growth, net of accrued amounts, as follows (in millions):

	Nine Months Ended September 30,	
	2008	2007
Growth capital expenditures	\$ 205.5	\$ 322.5
Maintenance capital expenditures	12.8	6.2
Total	\$ 218.3	\$ 328.7

Net cash invested in Midstream assets was \$178.2 million for the nine months ended September 30, 2008, down from \$304.8 million for 2007. Midstream spending declined in the nine month period from 2007 to 2008 because the north Louisiana project was in progress and is reflected in the midstream capital expenditures for 2007. Net cash invested in Treating assets was \$32.9 million for the nine months ended September 30, 2008 and \$18.8 million for the nine months ended September 30, 2007. Net cash invested in other corporate assets was \$7.2 million for the nine months ended September 30, 2008 and \$5.1 million for the nine months ended September 30, 2007.

Cash flows from investing activities for the nine months ended September 30, 2008 and 2007 also includes proceeds from property sales of \$3.8 million and \$3.0 million, respectively. These sales primarily related to sales of various small Midstream and Treating assets.

*Cash Flows from Financing Activities.* Net cash provided by financing activities was \$93.6 million and \$230.7 million for the nine months ended September 30, 2008 and 2007, respectively. Our financing activities primarily relate to funding of capital expenditures. Our financings have primarily consisted of borrowings under our

bank credit facility, borrowings under capital lease obligations, equity offerings and senior note repayments during 2008 and 2007 as follows (in millions):

	Nine Months Ended September 30,	
	2008	2007
Net borrowings under bank credit facility	\$ 118.8	\$ 237.0
Senior note repayments	(7.1)	(7.1)
Net borrowings under capital lease obligations	17.6	—
Senior subordinated unit offerings(1)	—	102.6
Common unit offerings(1)	102.0	—

(1) Includes our general partner's proportionate contribution and is net of costs associated with the offering.

Distributions to unitholders and our general partner represent our primary use of cash in financing activities. We will distribute available cash, as defined in our partnership agreement, within 45 days after the end of each quarter. Total cash distributions made during the nine months ended were as follows (in millions):

	Nine Months Ended September 30,	
	2008	2007
Common units	\$ 71.6	\$ 36.5
Subordinated units	2.9	9.2
General partner	33.5	18.0
Total	\$ 108.0	\$ 63.7

In order to reduce our interest costs, we do not borrow money to fund outstanding checks until they are presented to the bank. Fluctuations in drafts payable are caused by timing of disbursements, cash receipts and draws on our revolving credit facility. We borrow money under our \$1.185 billion credit facility to fund checks as they are presented. As of September 30, 2008, we had approximately \$202.0 million of available borrowing capacity under this facility. Changes in drafts payable for the nine months ended 2008 and 2007 were as follows (in millions):

	Nine Months Ended September 30,	
	2008	2007
Decrease in drafts payable	\$ 28.9	\$ 38.0

*Potential Shutdown of Blue Water Plant in First Quarter of 2009.* We own a 59.27% interest in the Blue Water gas processing plant located near Crowley, Louisiana and we also operate this plant. The Blue Water facility is connected to continental shelf and deepwater production volumes through the Blue Water pipeline system which is owned by Tennessee Gas Pipeline (TGP). During 2008, TGP sought and received approval from the Federal Energy Regulatory Commission, or FERC, to acquire Columbia Gulf Transmission's ownership share in the Blue Water pipeline. TGP intends to reverse the flow of the gas on the pipeline thereby removing access to all the gas processed at our Blue Water plant from the Blue Water offshore system. This action was originally planned for September 2008, but has been postponed until first quarter of 2009 due to damage sustained on the pipeline as a result of hurricane activity in the third quarter of 2008. We are continuing to evaluate alternative sources of new gas for the Blue Water plant which may include moving gas from our LIG system over to the Blue Water system or relocating the Blue Water plant to support our LIG system. The Blue Water plant contributed gross margin of \$0.8 million and \$3.3 million and incurred operating expenses of \$0.3 million and \$0.9 million for the three and nine months ended September 30, 2008, respectively. The net book value of the Blue Water plant was \$28.5 million as of September 30, 2008.

*Off-Balance Sheet Arrangements.* We had no off-balance sheet arrangements as of September 30, 2008.

*Capital Requirements of the Partnership.* As discussed under "Recent Events" and "Our Business Strategy through 2009", we will be reducing our budgeted capital expansion projects during the remainder of 2008 and for

2009 to approximately \$180.0 million which will be funded from our cash flow from operations and from proceeds from sales of certain non-strategic assets, including approximately \$105.0 million from transactions expected to close before the end of November 2008. Global market and economic conditions have been, and continue to be, disruptive and volatile. The cost of capital in the debt and equity capital markets has increased substantially, while the availability of funds from those markets has diminished significantly. If we need to raise capital, we cannot be certain that additional capital will be available to the extent required and on acceptable terms.

Since a portion of our cash flow from operations will be used to fund our capital projects during the remainder of 2008 and for 2009, we have reduced our quarterly distribution rate from \$0.63 per common unit to \$0.50 per common unit with respect to the third quarter 2008 and anticipate that the distribution level will remain at a reduced level with respect to the remainder of 2008 and 2009. Our ability to pay distributions to our unit holders and to fund planned capital expenditures will depend upon our future operating performance, which will be affected by prevailing economic conditions in our industry and financial, business and other factors, some of which are beyond our control.

*Total Contractual Cash Obligations.* A summary of our total contractual cash obligations as of September 30, 2008 is as follows (in millions):

	Total	Payments Due by Period					Thereafter
		2008	2009	2010	2011	2012	
Long-term debt	\$ 1,334.9	\$ 2.4	\$ 9.4	\$ 20.3	\$ 884.8	\$ 93.0	\$ 325.0
Interest payable on fixed long-term debt obligations	171.7	8.1	32.1	31.0	29.8	26.3	44.4
Capital lease obligations	25.7	0.6	2.5	2.5	2.4	2.4	15.3
Operating leases	99.1	7.1	25.9	22.0	20.7	16.6	6.8
Unconditional purchase obligations	31.5	14.2	17.3	—	—	—	—
Total contractual obligations	\$ 1,662.9	\$ 32.4	\$ 87.2	\$ 75.8	\$ 937.7	\$ 138.3	\$ 391.5

The above table does not include any physical or financial contract purchase commitments for natural gas.

The unconditional purchase obligations for 2008 relate to purchase commitments for equipment.

#### Indebtedness

As of September 30, 2008 and December 31, 2007, long-term debt consisted of the following (in thousands):

	September 30, 2008	December 31, 2007
Bank credit facility, interest based on Prime and/or LIBOR plus an applicable margin, interest rates (per the facility) at September 30, 2008 and December 31, 2007 were 5.73% and 6.71%, respectively	\$ 852,810	\$ 734,000
Senior secured notes, weighted average interest rate at September 30, 2008 and December 31, 2007 was 6.75%	482,059	489,118
	1,334,869	1,223,118
Less current portion	(9,412)	(9,412)
Debt classified as long-term	\$ 1,325,457	\$ 1,213,706

*Credit Facility.* As of September 30, 2008, we had a bank credit facility with a borrowing capacity of \$1.185 billion that matures in June 2011. As of September 30, 2008, \$983.0 million was outstanding under the bank credit facility, including \$130.2 million of letters of credit, leaving approximately \$202.0 million available for future borrowing. The bank credit facility is guaranteed by certain of our subsidiaries.

We were in compliance with all debt covenants as of September 30, 2008 and expect to be in compliance with debt covenants for the next twelve months. If we do not comply with the covenants and restrictions in our credit facility agreement or instruments governing our other indebtedness, we could be in default under those agreements,

and the debt incurred under those agreements, together with accrued interest, could then be declared immediately due and payable. If we are unable to repay any borrowings when due, the lenders under our credit facility agreement and our senior secured noteholders could proceed against their collateral, which includes substantially all of the assets we own. If the indebtedness under our credit facility agreement and our other debt instruments is accelerated, we may not have sufficient assets to repay amounts due under our credit facility agreement or our other debt instruments. Our ability to comply with these provisions of our credit facility agreement and other agreements governing our other indebtedness may be affected by the factors discussed in this "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" or other events beyond our control.

On November 7, 2008, we entered into the Fifth Amendment and Consent to our bank credit facility and the Waiver and Letter Amendment No. 3 to our Amended and Restated Note Purchase Agreement. For a description of these amendments, please read "Item 5. Other Information" below.

#### Recent Accounting Pronouncements

In May 2008, the FASB issued Staff Position FSP EITF 03-6-1 (the FSP) which requires unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents to be treated as *participating securities* as defined in EITF Issue No. 03-6, "Participating Securities and the Two-Class Method under FASB Statement No. 128," and, therefore, included in the earnings allocation in computing earnings per share under the two-class method described in FASB Statement No. 128, *Earnings per Share*. The FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. Upon adoption, we will consider restricted units with nonforfeitable distribution rights in the calculation of earnings per unit and will adjust all prior reporting periods retrospectively to conform to the requirements.

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, "*Fair Value Measurements*" (SFAS 157). SFAS 157 defines and introduces a framework for measuring fair value and expands required disclosure about fair value measurements of assets and liabilities. SFAS 157 for financial assets and liabilities is effective for fiscal years beginning after November 15, 2007. We have adopted the standard for those assets and liabilities as of January 1, 2008 and the impact of adoption was not significant.

In February 2007, the FASB issued SFAS No. 159, "*Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment to FASB Statement No. 115*" (SFAS 159). SFAS 159 permits entities to choose to measure many financial assets and financial liabilities at fair value. Changes in the fair value on items for which the fair value option has been elected are recognized in earnings each reporting period. SFAS 159 also establishes presentation and disclosure requirements designed to draw comparisons between the different measurement attributes elected for similar types of assets and liabilities. SFAS 159 was adopted effective January 1, 2008 and did not have a material impact on our financial statements.

In December 2007, the FASB issued SFAS No. 141R, "*Business Combinations*" (SFAS 141R) and SFAS No. 160, "*Noncontrolling Interests in Consolidated Financial Statements*" (SFAS 160). SFAS 141R requires most identifiable assets, liabilities, noncontrolling interests and goodwill acquired in a business combination to be recorded at "full fair value." The Statement applies to all business combinations, including combinations among mutual entities and combinations by contract alone. Under SFAS 141R, all business combinations will be accounted for by applying the acquisition method. SFAS 141R is effective for periods beginning on or after December 15, 2008. SFAS 160 will require noncontrolling interests (previously referred to as minority interests) to be treated as a separate component of equity, not as a liability or other item outside of permanent equity. The statement applies to the accounting for noncontrolling interests and transactions with noncontrolling interest holders in consolidated financial statements. SFAS 160 is effective for periods beginning on or after December 15, 2008 and will be applied prospectively to all noncontrolling interests, including any that arose before the effective date except that comparative period information must be recast to classify noncontrolling interests in equity, attribute net income and other comprehensive income to noncontrolling interests, and provide other disclosures required by SFAS 160.

In March of 2008, the FASB issued SFAS No. 161, "*Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133*" (SFAS 161). SFAS 161 requires entities to provide greater transparency about how and why the entity uses derivative instruments, how the instruments and related hedged items are accounted for under SFAS 133 and how the instruments and related hedged items affect the financial



position, results of operations and cash flows of the entity. SFAS 161 is effective for fiscal years beginning after November 15, 2008. The principal impact to us will be to require expanded disclosure regarding derivative instruments.

**Disclosure Regarding Forward-Looking Statements**

This Quarterly Report on Form 10-Q includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that are based on information currently available to management as well as management’s assumptions and beliefs. Statements included in this report which are not historical facts are forward-looking statements. These statements can be identified by the use of forward-looking terminology including “forecast,” “may,” “believe,” “will,” “expect,” “anticipate,” “estimate,” “continue” or other similar words. These statements discuss future expectations, contain projections of results of operations or of financial condition or state other “forward-looking” information. Such statements reflect our current views with respect to future events based on what we believe are reasonable assumptions; however, such statements are subject to certain risks and uncertainties. In addition to specific uncertainties discussed elsewhere in this Form 10-Q, the risk factors set forth in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2007, and those set forth in Part II, “Item 1A. Risk Factors” of this report, if any, may affect our performance and results of operations. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may differ materially from those in the forward-looking statements. We disclaim any intention or obligation to update or review any forward-looking statements or information, whether as a result of new information, future events or otherwise.

**Item 3. *Quantitative and Qualitative Disclosures about Market Risk***

Market risk is the risk of loss arising from adverse changes in market rates and prices. Our primary market risk is the risk related to changes in the prices of natural gas and NGLs. In addition, we are also exposed to the risk of changes in interest rates on our floating rate debt.

**Interest Rate Risk**

We are exposed to interest rate risk on our variable rate bank credit facility. At September 30, 2008, our bank credit facility had outstanding borrowings of \$852.8 million which approximated fair value. We manage a portion of our interest rate exposure on our variable rate debt by utilizing interest rate swaps, which allow us to convert a portion of variable rate debt into fixed rate debt. In January 2008, we amended our existing interest rate swaps covering \$450.0 million of the variable rate debt to extend the period by one year (coverage periods end from November 2010 through October 2011) and reduce the interest rates to a range of 4.38% to 4.68%. In September 2008, we entered into additional interest rate swaps covering the \$450.0 million that converted the floating rate portion of the original swaps from three month LIBOR to one month LIBOR. In addition, we entered into one new interest rate swap in January 2008 covering \$100.0 million of the variable rate debt for a period of one year at an interest rate of 2.83%. As of September 30, 2008, the fair value of these interest rate swaps was reflected as a liability of \$11.8 million (\$6.2 million in net current liabilities and \$5.6 million in long-term liabilities) on our financial statements. We estimate that a 1% increase or decrease in the interest rate would increase or decrease the fair value of these interest rate swaps by approximately \$11.5 million. Considering the interest rate swaps and the amount outstanding on our bank credit facility as of September 30, 2008, we estimate that a 1% increase or decrease in the interest rate would change our annual interest expense by approximately \$3.0 million for period when the entire portion of the \$550.0 million of interest rate swaps are outstanding and \$8.5 million for annual periods after 2011 when all the interest rate swaps lapse.

At September 30, 2008, we had total fixed rate debt obligations of \$482.1 million, consisting of our senior secured notes with a weighted average interest rate of 6.75%. The fair value of these fixed rate obligations was approximately \$361.7 million as of September 30, 2008. We estimate that a 1% increase or decrease in interest rates would increase or decrease the fair value of the fixed rate debt (our senior secured notes) by \$15.1 million based on the debt obligations as of September 30, 2008.

**Commodity Price Risk**

Approximately 4.1% of the natural gas we market is purchased at a percentage of the relevant natural gas index price, as opposed to a fixed discount to that price. As a result of purchasing the natural gas at a percentage of the index price, our resale margins are higher during periods of high natural gas prices and lower during periods of lower natural gas prices.

Another price risk we face is the risk of mismatching volumes of gas bought or sold on a monthly price versus volumes bought or sold on a daily price. We enter each month with a balanced book of gas bought and sold on the same basis. However, it is normal to experience fluctuations in the volumes of gas bought or sold under either basis, which leaves us with short or long positions that must be covered. We use financial swaps to mitigate the exposure at the time it is created to maintain a balanced position.

We have commodity price risk associated with our processed volumes of natural gas. We currently process gas under three main types of contractual arrangements:

1. *Processing margin contracts:* Under this type of contract, we pay the producer for the full amount of inlet gas to the plant, and we make a margin based on the difference between the value of liquids recovered from the processed natural gas as compared to the value of the natural gas volumes lost ("shrink") in processing. Our margins from these contracts are high during periods of high liquids prices relative to natural gas prices, and can be negative during periods of high natural gas prices relative to liquids prices. However, we control our risk on our current processing margin contracts primarily through our ability to bypass processing when it is not profitable for us, or by contracts that revert to a minimum fee.

2. *Percent of proceeds contracts:* Under these contracts, we receive a fee in the form of a percentage of the liquids recovered, and the producer bears all the cost of the natural gas shrink. Therefore, our margins from these contracts are greater during periods of high liquids prices. Our margins from processing cannot become negative under percent of proceeds contracts, but do decline during periods of low NGL prices.

3. *Fee based contracts:* Under these contracts we have no commodity price exposure and are paid a fixed fee per unit of volume that is treated or conditioned.

Gas processing margins by contract type, gathering and transportation margins and treating margins as a percent of total margin for the comparative quarterly and year-to-date periods are as follows:

	For the Three Months Ended		For the Nine Months Ended	
	2008	2007	2008	2007
Gathering and transportation margin	40.1%	42.8%	42.6%	44.7%
Gas processing margins:				
Processing margin	26.4%	17.3%	23.0%	13.3%
Percent of proceeds	16.0%	21.1%	16.3%	20.2%
Fee based	5.8%	7.0%	7.1%	8.4%
Total gas processing	48.2%	45.4%	46.4%	41.9%
Treating margin	11.7%	11.8%	11.0%	13.4%
Total	100.0%	100.0%	100.0%	100.0%

We have hedges in place at September 30, 2008 covering liquids volumes we expect to receive under percent of proceeds contracts as set forth in the following table. The relevant payment index price is the monthly average of the

daily closing price for deliveries of commodities into Mont Belvieu, Texas as reported by the Oil Price Information Service (OPIS).

Period	Underlying	Notional Volume	We Pay	We Receive	Fair Value Asset/(Liability) (In thousands)
October 2008-December 2009	Ethane	183 (MBbbls)	Index	\$0.640 - \$0.858/gal	\$ 883
October 2008-December 2009	Propane	193 (MBbbls)	Index	\$1.057 - \$1.493/gal	(349)
October 2008-December 2009	Iso Butane	50 (MBbbls)	Index	\$1.295 - \$1.812/gal	151
October 2008-December 2009	Normal Butane	68 (MBbbls)	Index	\$1.278 - \$1.797/gal	230
October 2008-December 2009	Natural Gasoline	146 (MBbbls)	Index	\$1.573 - \$2.181/gal	(261)
					<u>\$ 654</u>

We also have hedges in place at September 30, 2008 covering the fractionation spread risk related to our processing margin contracts as set forth in the following table:

Period	Underlying	Notional Volume	We Pay	We Receive	Fair Value Asset/(Liability) (In thousands)
October 2008-December 2008	Ethane	159 (MBbbls)	Index	\$0.79/gal	\$ 953
October 2008-December 2008	Propane	81 (MBbbls)	Index	\$1.52/gal	241
October 2008-December 2008	Iso Butane	26 (MBbbls)	Index	\$1.72/gal	98
October 2008-December 2008	Normal Butane	28 (MBbbls)	Index	\$1.70/gal	104
October 2008-December 2008	Natural Gasoline	62 (MBbbls)	Index	\$2.085/gal	76
October 2008-December 2008	Natural Gas	17,785 (MMBtu/d)	\$7.375 - \$7.875/MMBtu	Index	(504)
					<u>\$ 968</u>

We have hedged our expected exposure to declines in prices for natural gas and NGL volumes produced for our account in the approximate percentages set forth below:

	2008	2009
Natural gas	74%	34%
NGLs	59%	19%

Our primary commodity risk management objective is to reduce volatility in our cash flows. We maintain a Risk Management Committee, including members of senior management, which oversees all hedging activity. We enter into hedges for natural gas and NGLs using NYMEX futures or over-the-counter derivative financial instruments with only certain well-capitalized counterparties which have been approved by our Risk Management Committee.

The use of financial instruments may expose us to the risk of financial loss in certain circumstances, including instances when (1) sales volumes are less than expected requiring market purchases to meet commitments or (2) our counterparties fail to purchase the contracted quantities of natural gas or otherwise fail to perform. To the extent that we engage in hedging activities we may be prevented from realizing the benefits of favorable price changes in the physical market. However, we are similarly insulated against unfavorable changes in such prices.

As of September 30, 2008, outstanding natural gas swap agreements, NGL swap agreements, swing swap agreements, storage swap agreements and other derivative instruments were a net fair value asset of \$3.8 million. The aggregate effect of a hypothetical 10% increase in gas and NGL prices would result in a decrease of approximately \$5.5 million in the net asset fair value of these contracts as of September 30, 2008.

**Item 4. Controls and Procedures**

**(a) Evaluation of Disclosure Controls and Procedures**

We carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer of Crosstex Energy GP, LLC, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report pursuant to Exchange Act Rules 13a-15 and 15d-15. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2008 in alerting them in a timely manner to material information required to be disclosed in our reports filed with the Securities and Exchange Commission.

**(b) Changes in Internal Control Over Financial Reporting**

There has been no change in our internal controls over financial reporting that occurred in the three months ended September 30, 2008 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

**PART II — OTHER INFORMATION**

**Item 1A. Risk Factors**

Information about risk factors for the three months ended September 30, 2008 does not differ materially from that set forth in Part I, Item 1A, of our Annual Report on Form 10-K for the year ended December 31, 2007.

**Item 5. Other Information**

On November 7, 2008, we entered into the Fifth Amendment and Consent (the "Fifth Amendment") to our credit facility with Bank of America, N.A., as administrative agent, and the banks and other parties thereto. A copy of the Fifth Amendment is filed as Exhibit 10.1 to this Quarterly Report on Form 10-Q. The Fifth Amendment amended the agreement governing our credit facility to, among other things, (i) increase the maximum permitted leverage ratio we must maintain for the fiscal quarters ending December 31, 2008 through September 30, 2009, (ii) lower the minimum interest coverage ratio we must maintain for the fiscal quarter ending December 31, 2008 and each fiscal quarter thereafter, (iii) permit us to sell a non-strategic asset described in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations — Our Business Strategy through 2009", (iv) increase the interest rate we pay on the obligations under the credit facility and (v) lower the maximum permitted leverage ratio we must maintain if we or our subsidiaries incur unsecured note indebtedness.

Under the amended credit agreement, borrowings will bear interest at our option at the administrative agent's reference rate plus 0.50% to 2.00% (ranges were 0% to 0.25% prior to amendment) or LIBOR plus 1.50% to 3.00% (ranges were 1.00% to 1.75% prior to amendment). The applicable margins for our interest rate, letter of credit fees and commitment fees all vary quarterly based on our leverage ratio. The fees charged for letters of credit range from 1.50% to 3.00% per annum (ranges were 1.00% to 1.75% prior to amendment) plus a fronting fee of 0.125% per annum. We will incur quarterly commitment fees ranging from 0.20% to 0.50% (ranges were 0.20% to 0.375% prior to amendment) on the unused amount of the credit facility. Based on our forecasted leverage ratios for the fourth quarter of 2008 and 2009, we expect the applicable margins to be at the higher end of these ranges for our interest rate, letter of credit fees and commitment fees.

Under the amended credit facility, the maximum leverage ratio (total funded debt to consolidated earnings before interest, taxes, depreciation and amortization) is as follows:

- 5.00 to 1.00 for any fiscal quarter ending through June 30, 2009;
- 4.75 to 1.00 for the fiscal quarter ending September 30, 2009; and
- 4.50 to 1.00 for any fiscal quarter ending thereafter.

For any fiscal quarter ending after December 31, 2010, during an acquisition period, as defined in the credit facility, the maximum leverage ratio shall be increased by 0.50 to 1.00 from the otherwise applicable rate set forth above. In addition, if the maximum leverage ratio is greater than 4.50 to 1.00 during an acquisition period, then borrowings will bear interest at our option at the administrative agent's reference rate plus 2.25% or LIBOR plus 3.25%.

The minimum interest coverage ratio (as defined in the agreement, measured quarterly on a rolling four-quarter basis) was also lowered to 2.50 to 1.00 from 3.00 to 1.00 prior to amendment.

On November 7, 2008, we also entered into the Waiver and Letter Amendment No. 3 ("Letter Amendment No. 3") to the Amended and Restated Note Purchase Agreement with Prudential Investment Management, Inc. and the other holders of our senior secured notes. A copy of Letter Amendment No. 3 is filed as Exhibit 10.2 to this Quarterly Report on Form 10-Q. Letter Amendment No. 3 amended the agreement governing our senior secured notes to, among other things, (i) increase the maximum permitted leverage ratio we must maintain for the fiscal quarters ending December 31, 2008 through September 30, 2009 consistent with the ratios under the amendment to the bank credit facility, (ii) lower the minimum interest coverage ratio we must maintain for the fiscal quarter ending December 31, 2008 and each fiscal quarter thereafter consistent with the ratio under the amendment to the bank credit facility, (iii) permit us to sell certain a non-strategic asset described in "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations — Our Business Strategy through 2009" and (iv) increase the interest rate we pay on the senior secured notes. The interest rate we pay on the senior secured notes will increase by 0.5%. In addition, the interest rate on the senior secured notes will increase by an additional 0.75% (referred to as an excess leverage fee) if our leverage ratio is greater than 3.75 to 1.00 as of the end of any fiscal quarter, commencing with the fiscal quarter ended on September 30, 2008. Based on our forecasted leverage ratios for the fourth quarter of 2008 and 2009, we expect to pay such excess leverage fee.

**Item 6. Exhibits**

The exhibits filed as part of this report are as follows (exhibits incorporated by reference are set forth with the name of the registrant, the type of report and registration number or last date of the period for which it was filed, and the exhibit number in such filing):

<u>Number</u>	<u>Description</u>
3.1	— Certificate of Limited Partnership of Crosstex Energy, L.P. (incorporated by reference to Exhibit 3.1 to our Registration Statement on Form S-1, file No. 333-97779).
3.2	— Sixth Amended and Restated Agreement of Limited Partnership of Crosstex Energy, L.P., dated as of March 23, 2007 (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K dated March 23, 2007, filed with the Commission on March 27, 2007).
3.3	— Amendment No. 1 to Sixth Amended and Restated Agreement of Limited Partnership of Crosstex Energy, L.P. dated December 20, 2007 (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K dated December 20, 2007, filed with the Commission on December 21, 2007).
3.4	— Amendment No. 2 to Sixth Amended and Restated Agreement of Limited Partnership of Crosstex Energy, L.P. (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K dated March 27, 2008, filed with the Commission on March 28, 2008).
3.5	— Certificate of Limited Partnership of Crosstex Energy Services, L.P. (incorporated by reference to Exhibit 3.3 to our Registration Statement on Form S-1, file No. 333-97779).
3.6	— Second Amended and Restated Agreement of Limited Partnership of Crosstex Energy Services, L.P., dated as of April 1, 2004 (incorporated by reference to Exhibit 3.5 to our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2004).
3.7	— Certificate of Limited Partnership of Crosstex Energy GP, L.P. (incorporated by reference to Exhibit 3.5 to our Registration Statement on Form S-1, file No. 333-97779).
3.8	— Agreement of Limited Partnership of Crosstex Energy GP, L.P., dated as of July 12, 2002 (incorporated by reference to Exhibit 3.6 to our Registration Statement on Form S-1, file No. 333-97779).

[Table of Contents](#)

<b>Number</b>	<b>Description</b>
3.9	— Certificate of Formation of Crosstex Energy GP, LLC (incorporated by reference to Exhibit 3.7 to our Registration Statement on Form S-1, file No. 333-97779).
3.10	— Amended and Restated Limited Liability Company Agreement of Crosstex Energy GP, LLC, dated as of December 17, 2002 (incorporated by reference to Exhibit 3.8 to our Registration Statement on Form S-1, file No. 333-97779).
10.1*	— Fifth Amendment and Consent to Fourth Amended and Restated Credit Agreement, effective as of November 7, 2008, among Crosstex Energy, L.P., Bank of America, N.A. and certain other parties.
10.2*	— Waiver and Letter Amendment No. 3 to Amended and Restated Note Purchase Agreement, effective as of November 7, 2008, among Crosstex Energy, L.P., Prudential Investment Management, Inc. and certain other parties.
31.1*	— Certification of the principal executive officer.
31.2*	— Certification of the principal financial officer.
32.1*	— Certification of the principal executive officer and principal financial officer of the Company pursuant to 18 U.S.C. Section 1350.

\* Filed herewith.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CROSTEX ENERGY, L.P.

By: Crosstex Energy GP, L.P.,  
its general partner

By: Crosstex Energy GP, LLC,  
its general partner

By: /s/ William W. Davis  
William W. Davis  
Executive Vice President and  
Chief Financial Officer

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November 10, 2008

## EXHIBIT INDEX

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\* Filed herewith.



**FIFTH AMENDMENT AND CONSENT**

THIS FIFTH AMENDMENT AND CONSENT TO FOURTH AMENDED AND RESTATED CREDIT AGREEMENT (this "Amendment") is entered into as of November 7, 2008 by and among each of the persons listed on the signature pages hereof as banks (the "Banks"), Crosstex Energy, L.P., a Delaware limited partnership (the "Borrower"), and Bank of America, N.A., as administrative agent (in such capacity, the "Administrative Agent") and as collateral agent (in such capacity, the "Collateral Agent").

**ARTICLE I****BACKGROUND**

A. The Banks, the Administrative Agent and the Borrower are parties to that certain Fourth Amended and Restated Credit Agreement dated as of November 1, 2005, as amended by the First Amendment dated as of February 24, 2006, the Second Amendment dated as of June 29, 2006, the Third Amendment dated as of March 28, 2007 and the Fourth Amendment dated as of September 19, 2007 (as so amended, the "Credit Agreement"). Terms defined in the Credit Agreement and not otherwise defined herein have the same respective meanings when used herein.

B. Crosstex Seminole Gas, L.P. ("Crosstex Seminole"), a Subsidiary of the Borrower and a Guarantor, owns an undivided 12.4% interest (the "Seminole Plant Interest") in a certain gas processing plant known as the Seminole Gas Processing Plant (previously known as the Seminole CO2 Recovery Plant) and as described in that certain Unit Agreement which is recorded in Volume 189, Page 559 of the Oil and Gas Records of Gaines County, Texas.

C. Crosstex Seminole intends to sell the Seminole Plant Interest in exchange for Net Cash Proceeds (calculated without subtracting taxes paid or reasonably estimated to be payable as a result of such sale) equal to at least \$75,000,000.00 (the "Seminole Plant Sale").

D. The Seminole Plant Sale is prohibited under Section 6.04 of the Credit Agreement.

E. The Borrower has requested, and the Banks have agreed, to consent to the Seminole Plant Sale and to make certain amendments to the Credit Agreement, each as provided for herein.

**ARTICLE II****AGREEMENT**

NOW THEREFORE, in consideration of the covenants, conditions and agreements hereinafter set forth, and for other good and valuable consideration, the receipt and adequacy of which are all hereby acknowledged, the parties hereto covenant and agree as follows:

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Section 1. Amendments. The Credit Agreement is hereby amended as follows:

(a) The definition of “Acquisition Adjustment Period” in Section 1.01 of the Credit Agreement is hereby amended by replacing “the Second Amendment Effective Date” with “December 31, 2010”.

(b) The definition of “Applicable Margin” in Section 1.01 of the Credit Agreement is hereby amended by (i) replacing “if at any time during an Acquisition Adjustment Period, the Leverage Ratio is greater than 4.50 to 1.00, then the Applicable Margin shall be, with respect to Eurodollar Rate Advances, 2.00% and with respect to Reference Rate Advances, 0.50%” with “if at any time during an Acquisition Adjustment Period, the Leverage Ratio is greater than 4.50 to 1.00, then the Applicable Margin shall be, with respect to Eurodollar Rate Advances, 3.25% and with respect to Reference Rate Advances, 2.25%” and (ii) replacing the pricing grid in its entirety as follows:

Leverage Ratio	Eurodollar Rate Advances	Reference Rate Advances	Commitment Fees	Letter of Credit Fees
= 4.25	3.00%	2.00%	0.500%	3.00%
= 3.75 and < 4.25	2.75%	1.75%	0.500%	2.75%
= 3.25 and < 3.75	2.25%	1.25%	0.375%	2.25%
= 2.75 and < 3.25	2.00%	1.00%	0.300%	2.00%
= 2.25 and < 2.75	1.75%	0.75%	0.250%	1.75%
< 2.25	1.50%	0.50%	0.200%	1.50%

(c) The definition of “EBITDA” in Section 1.01 of the Credit Agreement is hereby amended by (i) replacing “For purposes of calculating the Leverage Ratio only” with “For purposes of calculating (x) the Leverage Ratio and (y) for any period ending prior to the Fifth Amendment Effective Date, the Interest Charge Coverage Ratio” and (ii) adding the following paragraph to the end of such definition:

Notwithstanding the foregoing, such pro forma adjustments to EBITDA (x) for the periods of calculation ending December 31, 2008 and March 31, 2009 shall be limited to 20% of the total actual EBITDA for such period, (y) for the period of calculation ending June 30, 2009 shall be limited to 15% of the total actual EBITDA for such period and (z) for periods of calculation ending thereafter, shall be limited to 10% of the total actual EBITDA for such period, in each case, which total actual EBITDA shall be determined without including any such pro forma adjustments to EBITDA.

(d) The definition of “Interest Expense” in Section 1.01 of the Credit Agreement is hereby amended by inserting “prior to the Fifth Amendment Effective Date” immediately after “on a pro forma basis at any time”.

(e) The definition of “Reference Rate” in Section 1.01 of the Credit Agreement is hereby restated in its entirety as follows:

“Reference Rate” means for any day a fluctuating rate per annum equal to the highest of the following, in each case, to the extent determinable by the Administrative Agent: (a) the Federal Funds Rate plus  $\frac{1}{2}$  of 1%, (b) the Eurodollar Rate with respect to Interest Periods of one month determined as of approximately 11:00 a.m. (London time) on such day plus 1.50% and (c) the rate of interest in effect for such day as publicly announced from time to time by Bank of America as its “prime rate.” The “prime rate” is a rate set by Bank of America based upon various factors including Bank of America’s costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate. Any change in such rate announced by Bank of America shall take effect at the opening of business on the day specified in the public announcement of such change.

(f) Section 1.01 of the Credit Agreement is hereby amended by adding the following new defined terms in their appropriate alphabetical order:

“Defaulting Bank” means any Bank that (a) has failed to fund any portion of the Advances or L/C Advances required to be funded by it hereunder within one Business Day of the date required to be funded by it hereunder unless such failure has been cured, (b) has otherwise failed to pay over to the Administrative Agent, the Collateral Agent, the Issuing Bank or any other Bank any other amount required to be paid by it hereunder within one Business Day of the date when due, unless the subject of a good faith dispute or unless such failure has been cured, or (c) has been deemed insolvent or become the subject of a bankruptcy or other similar proceeding.

“Fifth Amendment Effective Date” means November 7, 2008.

“Impacted Bank” means (a) any Bank that is a Defaulting Bank and (b) any Bank as to which (i) the Borrower, the Administrative Agent or the Issuing Bank has a good faith belief that such Bank has defaulted in fulfilling its obligations under one or more other syndicated credit facilities or (ii) an entity that controls such Bank has been deemed insolvent or become subject to a bankruptcy or other similar proceeding.

(g) Section 2.13(a)(iii)(C) of the Credit Agreement is hereby restated in its entirety as follows:

(C) if a default of any Bank’s obligations to fund under Section 2.13(c) exists or any Bank is at such time an Impacted Bank hereunder, unless the Issuing Bank has entered into arrangements satisfactory to the Issuing Bank with the Borrower or such Bank to eliminate the Issuing Bank’s risk with respect to such Bank.

(h) Section 2.14 of the Credit Agreement is hereby amended by replacing “Defaulting Bank” with “Impacted Bank”.

(i) Section 6.13 of the Credit Agreement is hereby amended by replacing “3.00 to 1.00” with “2.50 to 1.00”.

(j) Section 6.14(a) of the Credit Agreement is hereby restated in its entirety as follows:

(a) If no Unsecured Note Indebtedness is outstanding on the applicable date of determination, the Borrower shall not, as of the end of any fiscal quarter, permit the Leverage Ratio for the Borrower and its Subsidiaries on a Consolidated basis to be greater than (i) 5.00 to 1.00 for any fiscal quarter ending during the period commencing on the Fifth Amendment Effective Date and ending June 30, 2009, (ii) 4.75 to 1.00 for the fiscal quarter ending September 30, 2009, and (iii) 4.50 to 1.00 for any fiscal quarter ending thereafter; provided, however, that, for any fiscal quarter ending after December 31, 2010, during an Acquisition Adjustment Period, the maximum permitted Leverage Ratio shall be increased by 0.50 to 1.00 from the otherwise applicable ratio set forth above.

(k) Section 6.14(b) of the Credit Agreement is hereby amended by (i) replacing “5.50 to 1.00” with “5.25 to 1.00” and (ii) inserting “, for any fiscal quarter ending after December 31, 2010,” immediately after “provided, however, that”.

(l) Section 6.14(c) of the Credit Agreement is hereby amended by (i) replacing “4.50 to 1.00” with “4.25 to 1.00” and (ii) inserting “, for any fiscal quarter ending after December 31, 2010,” immediately after “provided, however, that”.

Section 2. Consent. The Banks hereby consent to (a) the amendment of the Note Agreement pursuant to the Waiver and Letter Amendment No. 3 to Amended and Restated Note Purchase Agreement, substantially in the form attached hereto as Exhibit A (the “Note Agreement Amendment”) and (b) the Seminole Plant Sale and the release of the Seminole Plant Interest from the Lien of the Collateral Agent under the Credit Documents contemporaneously with the consummation of the Seminole Plant Sale and agree (i) that the Seminole Plant Sale shall not constitute a Default or Event of Default under the Credit Agreement as a result of a violation of Section 6.04 of the Credit Agreement and (ii) that the consideration for the Seminole Plant Sale shall not be included in the calculation of the limitation on dispositions in Section 6.04(g) of the Credit Agreement; provided that (x) the Seminole Plant Sale is consummated on or before January 31, 2009 on terms and conditions reasonably satisfactory to the Administrative Agent and (y) the Net Cash Proceeds of the Seminole Plant Sale are used to prepay the Advances to the extent required by Section 2.04(b)(ii) of the Credit Agreement. Such consent is limited to the extent described herein and shall not be construed to be a consent to or a permanent waiver of Section 6.04 of the Credit Agreement or any other terms, provisions, covenants, warranties or agreements contained in the Credit Agreement or in any of the other Credit Documents. The Administrative Agent, the Collateral Agent and the Banks reserve the right to exercise any rights and remedies available to them in connection with any present or future Defaults or Events of Default with respect to the Credit Agreement or any other provision of any Credit Document.

Section 3. Conditions Precedent. The amendment to the Credit Agreement in Section 1(c)(i) shall become effective as of November 1, 2005 and the other amendments to the Credit Agreement in Section 1 and the consent under the Credit Agreement in Section 2 shall become effective as of the date first set forth above upon the satisfaction of the following conditions precedent:

(a) The Administrative Agent shall have received each of the following:

- (1) this Amendment, duly executed by the Borrower, the Majority Banks, the Administrative Agent and the Collateral Agent;
- (2) the acknowledgment attached to this Amendment, duly executed by each Guarantor; and
- (3) an executed copy of the Note Agreement Amendment.

(b) The Borrower shall have paid the fees required by the Fee Letter dated as of November 7, 2008 between the Borrower and the Agent and all costs and expenses that have been invoiced and are payable pursuant to Section 9.04 of the Credit Agreement.

Section 4. Representations and Warranties. The Borrower represents and warrants to the Banks, the Administrative Agent and the Collateral Agent as set forth below:

(a) The execution, delivery and performance by the Borrower of this Amendment are within the Borrower's legal powers, have been duly authorized by all necessary partnership action and do not (i) contravene the Borrower Partnership Agreement, (ii) violate any applicable Governmental Rule, the violation of which could reasonably be expected to have a Material Adverse Effect, (iii) conflict with or result in the breach of, or constitute a default under, any loan agreement, indenture, mortgage, deed of trust or lease, or any other contract or instrument binding on or affecting the Borrower or any Subsidiary or any of their respective properties, the conflict, breach or default of which could reasonably be expected to have a Material Adverse Effect, or (iv) result in or require the creation or imposition of any Lien upon or with respect to any of the properties of the Borrower, other than Liens permitted by the Credit Agreement.

(b) No Governmental Action is required for the due execution, delivery or performance by the Borrower of this Amendment.

(c) Assuming due execution and delivery by the Majority Banks, the Administrative Agent and the Collateral Agent, this Amendment constitutes legal, valid and binding obligations of the Borrower, enforceable against the Borrower in accordance with its terms, except as the enforceability thereof may be limited by bankruptcy, insolvency, moratorium, reorganization or other similar laws affecting creditors' rights generally or by general principles of equity (regardless of whether such enforceability is considered in any proceeding in law or in equity).

(d) The execution, delivery and performance of this Amendment do not adversely affect the enforceability of any Lien of the Security Documents.

(e) The quarterly and annual financial statements most recently delivered to the Banks pursuant to Sections 5.01(c) and (d) of the Credit Agreement fairly present in all material respects the Consolidated financial condition of the Borrower and its Subsidiaries as of the respective dates thereof and the Consolidated results of the operations of the Borrower and its Subsidiaries for the respective fiscal periods ended on such dates, all in accordance with GAAP applied on a consistent basis (subject to normal year-end audit adjustments and the absence of footnotes in the case of the quarterly financial statements). Since December 31, 2007, no Material Adverse Effect has occurred. The Borrower and its Subsidiaries have no material contingent liabilities except as disclosed in such financial statements or the notes thereto.

(f) There is no pending or, to the knowledge of the Borrower, threatened action or proceeding affecting the Borrower or any Subsidiary before any Governmental Person, referee or arbitrator that could reasonably be expected to have a Material Adverse Effect.

(g) The representations and warranties made by the Borrower and the Guarantors contained in Article IV of the Credit Agreement and in each of the other Credit Documents are true and correct in all material respects on and as of the date hereof, as though made on and as of such date, other than any such representations or warranties that, by their terms, refer to a specific date, in which case as of such specific date.

(h) No event has occurred and is continuing, or would result from the effectiveness of this Amendment, which constitutes a Default.

Section 5. Covenant. As soon as available and in any event prior to the consummation of the Seminole Plant Sale, the Borrower shall provide the Administrative Agent with an executed copy of the purchase and sale agreement between Crosstex Seminole and the purchaser of the Seminole Plant Interest providing for the Seminole Plant Sale in form and substance reasonably acceptable to the Administrative Agent.

Section 6. Reference to and Effect on the Credit Agreement.

(a) On and after the effective date of this Amendment each reference in the Credit Agreement to "this Agreement," "hereunder," "hereof," "herein" or words of like import shall mean and be a reference to the Credit Agreement, and each reference in the other Credit Documents to "the Credit Agreement," "thereunder," "thereof," "therein" or words of like import referring to the Credit Agreement, shall mean and be a reference to the Credit Agreement as amended by this Amendment.

(b) Except as specifically amended above, the Credit Agreement and the other Credit Documents shall remain in full force and effect and are hereby ratified and confirmed. Without limiting the generality of the foregoing, the Security Documents and all of the Collateral described therein do and shall continue to secure the payment of all obligations stated to be secured thereby under the Credit Documents.

(c) Except as expressly set forth herein, the execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of the Administrative Agent or any Bank under any of the Credit Documents or constitute a waiver of any provision of any of the Credit Documents.

Section 7. Execution in Counterparts. This Amendment may be executed in any number of counterparts and by the parties hereto in separate counterparts, each which when so executed and delivered shall be deemed to be an original and all of which when taken together shall constitute but one and the same instrument. Delivery of an executed counterpart of a signature page to this Amendment by telecopier shall be effective as delivery of an originally executed counterpart of this Amendment.

Section 8. Governing Law; Binding Effect. This Amendment shall be governed by, and construed and enforced in accordance with, the laws of the State of Texas, and shall be binding upon the Borrower, the Administrative Agent, the Collateral Agent, each Bank and their respective successors and assigns.

Section 9. Costs and Expenses. The Borrower agrees to pay on demand all costs and expenses of the Administrative Agent in connection with the preparation, execution and delivery of this Amendment and the other instruments and documents to be delivered hereunder, including the reasonable fees and out-of-pocket expenses of counsel for the Administrative Agent with respect thereto and with respect to advising the Administrative Agent as to its rights and responsibilities hereunder and thereunder.

THIS WRITTEN AMENDMENT AND THE CREDIT DOCUMENTS REPRESENT THE FINAL AGREEMENT AMONG THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES.

THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

[Remainder of this page blank; signature pages follow]

Executed as of the date first set forth above.

CROSTEX ENERGY, L.P.

By: Crosstex Energy GP, L.P., General Partner

By: Crosstex Energy GP, LLC,  
General Partner

By: /s/ Michael Garberding

Name: Michael Garberding

Title: Vice President — Finance

Signature Page to Fifth Amendment and Consent  
Crosstex Energy, L.P.

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Each of the undersigned, as guarantors under the Second Amended and Restated Subsidiary Guaranty dated as of November 1, 2005 (the "Guaranty"), hereby (a) consents to this Amendment, and (b) confirms and agrees that the Guaranty is and shall continue to be in full force and effect and is ratified and confirmed in all respects, except that, on and after the effective date of the Amendment each reference in the Guaranty to "the Credit Agreement," "thereunder," "thereof," "therein" or any other expression of like import referring to the Credit Agreement shall mean and be a reference to the Credit Agreement as modified by this Amendment.

CROSSTEX ENERGY SERVICES, L.P.

By: Crosstex Operating GP, LLC, its general partner

By: /s/ Michael Garberding

Name: Michael Garberding

Title: Vice President — Finance

CROSSTEX OPERATING GP, LLC

CROSSTEX ENERGY SERVICES GP, LLC

CROSSTEX LIG, LLC

CROSSTEX TUSCALOOSA, LLC

CROSSTEX LIG LIQUIDS, LLC

CROSSTEX PROCESSING SERVICES, LLC

CROSSTEX PELICAN, LLC

By: /s/ Michael Garberding

Name: Michael Garberding

Title: Vice President — Finance

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Crosstex Energy, L.P.

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CROSSTEX ACQUISITION MANAGEMENT, L.P.  
CROSSTEX MISSISSIPPI PIPELINE, L.P.  
CROSSTEX SEMINOLE GAS, L.P.  
CROSSTEX ALABAMA GATHERING SYSTEM, L.P.  
CROSSTEX MISSISSIPPI INDUSTRIAL GAS SALES, L.P.  
CROSSTEX GULF COAST TRANSMISSION LTD.  
CROSSTEX GULF COAST MARKETING LTD.  
CROSSTEX CCNG GATHERING LTD.  
CROSSTEX CCNG PROCESSING LTD.  
CROSSTEX CCNG TRANSMISSION LTD.  
CROSSTEX TREATING SERVICES, L.P.  
CROSSTEX NORTH TEXAS PIPELINE, L.P.  
CROSSTEX NORTH TEXAS GATHERING, L.P.  
CROSSTEX NGL MARKETING, L.P.  
CROSSTEX NGL PIPELINE, L.P.

By: Crosstex Energy Services GP, LLC, general partner  
of each above limited partnership

By: /s/ Michael Garberding

Name: Michael Garberding

Title: Vice President — Finance

SABINE PASS PLANT FACILITY JOINT VENTURE

By: Crosstex Processing Services, LLC, as general  
partner, and

By: Crosstex Pelican, LLC, as general partner

By: /s/ Michael Garberding

Name: Michael Garberding

Title: Vice President — Finance

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BANK OF AMERICA, N.A.,  
as Administrative Agent, Collateral Agent, a Bank and  
an Issuing Bank

By: /s/ Jeffrey H. Rathkamp  
Name: Jeffrey H. Rathkamp  
Title: Managing Director

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UNION BANK OF CALIFORNIA, N.A.

By: /s/ Timothy Brendel

Name: Timothy Brendel

Title: Assistant Vice President

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SUNTRUST BANK

By: /s/ Carmen Malizia

Name: Carmen Malizia

Title: Vice President

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BMO CAPITAL MARKETS FINANCING, INC.

By: /s/ Gumaro Tijerina

Name: Gumaro Tijerina

Title: Vice President

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WACHOVIA BANK, NATIONAL ASSOCIATION

By: /s/ Shannan Townsend

Name: Shannan Townsend

Title: Director

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BAYERISCHE HYPO-UND VEREINSBANK AG, NEW YORK  
BRANCH

By: /s/ Yoram Danker

Name: Yoram Danker

Title: Managing Director

By: /s/ Miriam Trautmann

Name: Miriam Trautmann

Title: Director

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Crosstex Energy, L.P.

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BNP PARIBAS

By: /s/ Larry Robinson

Name: Larry Robinson

Title: Director

By: /s/ Gregory E. George

Name: Gregory E. George

Title: Managing Director

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Crosstex Energy, L.P.

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CITIBANK, N.A.

By: /s/ David E. Hunt

Name: David E. Hunt

Title: Vice President

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THE BANK OF NOVA SCOTIA

By: \_\_\_\_\_

Name:

Title:

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SCOTIABANC INC.

By: \_\_\_\_\_

Name:

Title:

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ROYAL BANK OF CANADA

By: /s/ Jason S. York

Name: Jason S. York

Title: Authorized Signatory

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U.S. BANK NATIONAL ASSOCIATION

By: /s/ Daria Mahoney

Name: Daria Mahoney

Title: Vice President

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FORTIS CAPITAL CORP.

By: /s/ Casey Lowary

Name: Casey Lowary

Title: Director

By: /s/ Darrell Holley

Name: Darrell Holley

Title: Managing Director

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GUARANTY BANK

By: /s/ Christopher S. Parada

Name: Christopher S. Parada

Title: Senior Vice President

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JPMORGAN CHASE BANK, N.A.

By: /s/ Kenneth J. Fatur

Name: Kenneth J. Fatur

Title: Managing Director

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NATIXIS

By: /s/ Daniel Payer

Name: Daniel Payer

Title: Director

By: /s/ Louis P. Laville, III

Name: Louis P. Laville, III

Title: Managing Director

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WELLS FARGO BANK, N.A.

By: \_\_\_\_\_

Name:

Title:

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KEY BANK, N.A.

By: /s/ Todd Coker

Name: Todd Coker

Title: AVP

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COMERICA BANK

By: /s/ Rebecca Wilson

Name: Rebecca Wilson

Title: Assistant Vice President

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SUMITOMO MITSUI BANKING CORPORATION

By: \_\_\_\_\_  
Name:  
Title:

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SOCIETE GENERALE

By: /s/ Stephen W. Warfel

Name: Stephen W. Warfel

Title: Managing Director

Signature Page to Fifth Amendment and Consent  
Crosstex Energy, L.P.

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STERLING BANK

By: /s/ Jeff Forbis

Name: Jeff Forbis

Title: Senior Vice President

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COMPASS BANK

By: /s/ Greg Determann

Name: Greg Determann

Title: Vice President

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Crosstex Energy, L.P.

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BANK OF SCOTLAND

By: /s/ Julia R. Franklin

Name: Julia R. Franklin

Title: Assistant Vice President

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MIZUHO CORPORATE BANK, LTD.

By: /s/ Leon Mo

Name: Leon Mo

Title: Senior Vice President

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Crosstex Energy, L.P.

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NATIONAL CITY BANK

By: /s/ Tom Garbach

Name: Tom Garbach

Title: Vice President

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Crosstex Energy, L.P.

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COOPERATIVE CENTRALE RAIFFEISEN-BOERENLEENBANK  
BA  
"RABOBANK NEDERLAND" NEW YORK BRANCH

By: /s/ Jeff P. Geisbauer

Name: Jeff P. Geisbauer  
Title: Vice President

By: /s/ Rebecca O. Morrow

Name: Rebecca O. Morrow  
Title: Executive Director

Signature Page to Fifth Amendment and Consent  
Crosstex Energy, L.P.

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**EXHIBIT A**

Note Agreement Amendment

See attached.

## WAIVER AND LETTER AMENDMENT NO. 3

to

AMENDED AND RESTATED  
NOTE PURCHASE AGREEMENT

As of November 7, 2008

To: Each of the Holders listed  
on Exhibit A attached hereto

Ladies and Gentlemen:

We refer to the Amended and Restated Note Purchase Agreement, dated as of March 31, 2005, as amended as of June 22, 2005, November 1, 2005, March 13, 2006 and June 29, 2006, as Amended and Restated as of July 25, 2006 and as amended by Letter Amendment No. 1 to Amended and Restated Note Purchase Agreement, dated as of March 30, 2007, and Letter Amendment No. 2 to Amended and Restated Note Purchase Agreement, dated as of September 19, 2007 (as so amended and restated and amended, the "**Agreement**"), among Crosstex Energy, L.P., a Delaware limited partnership (the "**Company**"), on one hand, and each of you (the "**Holder**s"), on the other hand. Unless otherwise defined in this Waiver and Letter Amendment No. 3 to Amended and Restated Note Purchase Agreement (this "**Amendment**"), the terms defined in the Agreement shall be used herein as therein defined.

Crosstex Seminole Gas, L.P. ("**Crosstex Seminole**"), a Subsidiary of the Company and a Guarantor, owns an undivided 12.4% interest (the "**Seminole Plant Interest**") in a certain gas processing plant known as the Seminole Gas Processing Plant (previously known as the Seminole CO2 Recovery Plant) and as described in that certain Unit Agreement which is recorded in Volume 189, Page 559 of the Oil and Gas Records of Gaines County, Texas. Crosstex Seminole intends to sell the Seminole Plant Interest in exchange for Net Cash Proceeds (calculated without subtracting taxes paid or reasonably estimated to be payable as a result of such sale) equal to at least \$75,000,000.00 (the "**Seminole Plant Sale**"). The Seminole Plant Sale is prohibited under paragraph 6C(5) of the Agreement.

The Company has requested that the Holders waive the provisions of paragraphs 4F(i) and 6C(5) of the Agreement with respect to the Seminole Plant Sale and agree to make certain amendments to the Agreement as hereinafter provided. Subject to the terms and conditions specified herein, and provided that the Company agrees to certain amendments to the Agreement and the Notes set forth below, the Holders have indicated their willingness to grant such waivers and to make such amendments requested by the Company as more particularly set forth herein.

Accordingly, subject to satisfaction of the conditions set forth in paragraph 4 hereof, and in reliance on the representations and warranties of the Company set forth in paragraph 3 hereof,

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the Holders hereby agree with the Company to amend the Agreement and the Notes as provided in paragraph 1 below effective as of the Amendment No. 3 Effective Date (as defined in paragraph 4 below) and grant the waivers with respect to the Seminole Plant Sale below effective at the time provided in paragraph 2 below.

**1. Amendments.**

(a) **Paragraph 1A. Authorization of Series A Notes; Exhibit A-1; Series A Notes.** Paragraph 1A of the Agreement, Exhibit A-1 to the Agreement and each outstanding Series A Note is hereby amended to change the interest rate thereof from “6.95%” to “7.45%” in each place where it appears therein.

(b) **Paragraph 1B. Authorization of Series B Notes; Exhibit A-2; Series B Notes.** Paragraph 1B of the Agreement, Exhibit A-2 to the Agreement and each outstanding Series B Note is hereby amended to change the interest rate thereof from “6.88%” to “7.38%” in each place where it appears therein.

(c) **Paragraph 1C. Authorization of Series C Notes, Exhibit A-3; Series C Notes.** Paragraph 1C of the Agreement, Exhibit A-3 to the Agreement and each outstanding Series C Note is hereby amended to change the interest rate thereof from “6.96%” to “7.46%” in each place where it appears therein.

(d) **Paragraph 1D. Authorization of Series D Notes, Exhibit A-4; Series D Notes.** Paragraph 1D of the Agreement, Exhibit A-4 to the Agreement and each outstanding Series D Note is hereby amended to change the interest rate thereof from “6.23%” to “6.73%” in each place where it appears therein.

(e) **Paragraph 1E. Authorization of Series E Notes; Exhibit A-5; Series E Notes.** Paragraph 1E of the Agreement, Exhibit A-5 to the Agreement and each outstanding Series E Note is hereby amended to change the interest rate thereof from “6.32%” to “6.82%” in each place where it appears therein.

(f) **Paragraph 1F. Authorization of Series F Notes; Exhibit A-6; Series F Notes.** Paragraph 1F of the Agreement, Exhibit A-6 to the Agreement and each outstanding Series F Note is hereby amended to change the interest rate thereof from “6.96%” to “7.46%” in each place where it appears therein.

(g) **Paragraph 5A. Reporting Requirements.** Paragraph 5A of the Agreement is hereby amended by adding the following to the end thereof to read as follows:

“Together with any financial statements delivered under clauses (i) or (ii) hereof, the Company shall deliver a schedule showing the interest accrued on the Notes during such fiscal quarter, any Excess Leverage Fee accrued under paragraph 5R(1) hereof during such fiscal quarter and showing the computations in reasonable detail.”

(h) **Paragraph 5R. Excess Leverage Fee, RBC Fee and Interest Rate Increase.** Paragraph 5R of the Agreement is hereby amended and restated to read as follows:



“5R(1). **Excess Leverage Fee.** If the Leverage Ratio as of the end of any fiscal quarter, commencing with the fiscal quarter ending on September 30, 2008, is greater than 3.75:1.00, then for such fiscal quarter the Company agrees to pay to the holders of the Notes, in addition to the interest accruing on the Notes and in addition to any increase in such rate of interest that may result from the provisions of paragraph 5R(3), a fee (the “**Excess Leverage Fee**”), payable in arrears on or before the 45<sup>th</sup> day after the end of such fiscal quarter, equal to the product of (i) 0.75%, multiplied by (ii) the daily average outstanding principal balance of the Notes during such fiscal quarter. Notwithstanding the foregoing, no Excess Leverage Fee shall be payable with respect to any period of any fiscal quarter with respect to which a RBC Fee is payable under paragraph 5R(2). The receipt by the holders of the Notes of any Excess Leverage Fee shall not constitute a waiver of any Default or Event of Default.

5R(2). **RBC Fee.** If a RBC Event occurs or has occurred and is continuing, then, in addition to the interest accruing on the Notes, the Company agrees to pay to each Holder and in addition to any increase in such rate of interest that may result from the provisions of paragraph 5R(3), a fee (the “**RBC Fee**”) on the daily average outstanding principal amount of such Note during the continuance of such RBC Event at a rate per annum equal to 0.75%. The RBC Fee with respect to each Note shall be calculated on the same basis as interest on such Note is calculated and shall be paid in arrears on each day upon which interest for any period is due on such Note if a RBC Event continued for any part of such period; provided, however, that any portion of the RBC Fee relating to any period prior to the time the Company first received notice of the occurrence of a RBC Event that would otherwise have been payable on a prior interest payment date or dates shall be payable within five (5) Business Days after the Company receives notice of the occurrence of such RBC Event. Notwithstanding the foregoing, any Excess Leverage Fee paid with respect to any period of any fiscal quarter with respect to which a RBC Fee is payable shall be deducted from the amount of such RBC Fee payable with respect thereto. The receipt by the Holders of any RBC Fee shall not constitute a waiver of any Default or Event of Default. The holders shall use their reasonable efforts to provide notice to the Company once they have knowledge that a RBC Event is no longer continuing.

5R(3). **Interest Rate Increase.** Notwithstanding the provisions of paragraph 1A, 1B, 1C, 1D, 1E or 1F of this Agreement or the terms contained in any Note, if at any time during an Acquisition Adjustment Period the Leverage Ratio is greater than 5.25 to 1.00, then, in addition to any Excess Leverage Fee that may be payable pursuant to paragraph 5R(1) or any RBC Fee that may be payable pursuant to paragraph 5R(2), the rate of interest on each Note shall be increased by adding 0.25% to the rate of interest set forth in such Note. The payment of interest at such increased rate shall not constitute a waiver of any Default or Event of Default and the increased rate of interest on each Note resulting from any such increase shall be considered to be the coupon rate for such Note for the purposes of determining the Default Rate.”

(i) **Paragraph 6A(2). Interest Charge Coverage Ratio.** Paragraph 6A(2) of the Agreement is hereby amended by deleting the number “3.00” where it appears therein and inserting therefor the number “2.50”.

(j) **Paragraph 6A(3). Leverage Ratio.** Paragraph 6A(3) of the Agreement is hereby amended and restated to read as follows:

“(a) If no Unsecured Note Indebtedness is outstanding on the applicable date of determination, the Company shall not, as of the end of any fiscal quarter, permit the Leverage Ratio for the Company and its Subsidiaries on a Consolidated basis to be greater than (i) 5.00 to 1.00 for any fiscal quarter ending on or after December 31, 2008 and on or before June 30, 2009, (ii) 4.75 to 1.00 for the fiscal quarter ending September 30, 2009, and (iii) 4.50 to 1.00 for any fiscal quarter ending thereafter; provided, however, that, for any fiscal quarter ending after December 31, 2010, during an Acquisition Adjustment Period, the maximum permitted Leverage Ratio shall be increased by 0.50 to 1.00 from the otherwise applicable ratio set forth above.

(b) If any Unsecured Note Indebtedness is incurred or outstanding on the applicable date of determination, the Company shall not, as of the end of any fiscal quarter, permit the Leverage Ratio (calculated in accordance with paragraph 6C(2)(xi)) for the Company and its Subsidiaries on a Consolidated basis to be greater than 5.25 to 1.00 on the date any Unsecured Note Indebtedness is incurred and on the last day of any fiscal quarter ending thereafter; provided, however, that, for any fiscal quarter ending after December 31, 2010, during an Acquisition Adjustment Period, the maximum permitted Leverage Ratio shall be increased by 0.50 to 1.00 from the otherwise applicable ratio set forth above.

(c) If any Unsecured Note Indebtedness is incurred or outstanding on the applicable date of determination, the Company shall not, as of the end of any fiscal quarter, permit the Senior Leverage Ratio (calculated in accordance with paragraph 6C(2)(xi)) for the Company and its Subsidiaries on a Consolidated basis to be greater than 4.25 to 1.0 on the date any Unsecured Note Indebtedness is incurred and on the last day of any fiscal quarter ending thereafter; provided, however, that, for any fiscal quarter ending after December 31, 2010, during an Acquisition Adjustment Period, the maximum permitted Senior Leverage Ratio shall be increased by 0.50 to 1.00 from the otherwise applicable ratio set forth above.”

(k) **Paragraph 6C(5)(vii). Sales, Etc. of Property.** The following is added to the end of clause (vii) of paragraph 6C(5) of the Agreement:

“Notwithstanding the foregoing, no sale, lease, transfer or other disposition of Property during the fiscal year ended December 31, 2008 and after the Amendment No. 3 Effective Date shall be permitted under this clause (vii) other than sales, leases, transfers and dispositions of Property for consideration not exceeding \$20,000,000 in the aggregate, in each case only if consummated in accordance with the waivers given under the Waiver and Letter Amendment No. 3 to this Agreement.”

(l) **Paragraph 7A(ii). Acceleration.** Paragraph 7A(ii) of the Agreement is hereby amended and restated to read as follows:

“(ii) the Company defaults in the payment of any interest on, any Excess Leverage Fee, or any RBC Fee with respect to, any Note for more than three Business Days after the date due; or”

(m) **Paragraph 10B. Other Terms.** Paragraph 10B of the Agreement is hereby amended by amending the definition of “Acquisition Adjustment Period” to delete the date “June 29, 2006” where it appears therein and inserting therefor the date “December 31, 2010”.

(n) **Paragraph 10B. Other Terms.** The definition of “EBITDA” in Paragraph 10B of the Agreement is hereby amended by (i) replacing “For purposes of calculating the Leverage Ratio only” with “For purposes of calculating (x) the Leverage Ratio and (y) for any period ending prior to the Amendment No. 3 Effective Date, the Interest Charge Coverage Ratio” and (ii) adding the following paragraph to the end of such definition:

“Notwithstanding the foregoing, such pro forma adjustments to EBITDA (x) for the periods of calculation ending December 31, 2008 and March 31, 2009 shall be limited to 20% of the total actual EBITDA for such period, (y) for the period of calculation ending June 30, 2009 shall be limited to 15% of the total actual EBITDA for such period and (z) for periods of calculation ending thereafter, shall be limited to 10% of the total actual EBITDA for such period, in each case, which total actual EBITDA shall be determined without including any such pro forma adjustments to EBITDA.”

(o) **Paragraph 10B. Other Terms.** The definition of “Interest Expense” in Paragraph 10B of the Agreement is hereby amended by inserting “prior to the Amendment No. 3 Effective Date” immediately after “on a pro forma basis at any time”.

(p) **Paragraph 10B. Other Terms.** Paragraph 10B of the Agreement is hereby further amended by adding the following new terms in their appropriate alphabetical order as follows:

“**Amendment No. 3 Effective Date**” shall have the meaning given in the Waiver and Letter Amendment No. 3 to this Agreement, dated as of November 7, 2008.

“**Excess Leverage Fee**” shall have the meaning given in paragraph 5R(1).

“**RBC Event**” shall mean the occurrence and continuation of the following:

(i) The Securities Valuation Office of the National Association of Securities Commissioners (together with any successor organization acceding to the authority thereof, hereinafter, the “**SVO**”) after the Amendment No. 3 Effective Date increases the amount of capital required to be held in reserve by a holder of the Notes in respect of such Notes from that which was required prior to the Amendment No. 3 Effective Date; and

(ii) The amount of capital required to be held in reserve by a holder of the Notes in respect of such Notes as required by the

SVO has not subsequently been reduced to a level at or below that which was required prior to the Amendment No. 3 Effective Date.

Notwithstanding the foregoing, any changes in the capital reserve requirements imposed by the SVO that are applicable to all companies rated by the SVO generally shall not be considered a RBC Event.

“RBC Fee” shall have the meaning given in paragraph 5R(2).

(q) **Paragraph 11C. Consents to Amendments.** Paragraph 11C of the Agreement is hereby amended by inserting the word “decrease” before the words “the rate” in the first sentence of such paragraph.

## **2. Waivers.**

(a) Effective upon the Amendment No. 3 Effective Date, the Holders hereby (i) waive the provisions of paragraph 6C(5) of the Agreement with respect to the Seminole Plant Sale, consent to the release of the Seminole Plant Interest from the Lien of the Collateral Agent under the Security Documents contemporaneously with the consummation of the Seminole Plant Sale and agree that the Seminole Plant Sale shall not constitute a Default or Event of Default under the Agreement as a result of a violation of paragraph 6C(5) of the Agreement, (ii) agree that the consideration for the Seminole Plant Sale shall not be included in the calculation of the limitation on dispositions in paragraph 6C(5)(vii) of the Agreement and (iii) so long as no Default or Event of Default shall have occurred and be continuing at the time the Seminole Plant Sale is consummated, waive the requirement under paragraph 4F(i) of the Agreement that the Company make an offer to prepay the Notes as a result of the Seminole Plant Sale; *provided*, in each case, that (x) the Seminole Plant Sale is consummated on or before January 31, 2009 for Net Cash Proceeds (calculated without subtracting taxes paid or reasonably estimated to be payable as a result of such sale) equal to at least \$75,000,000, (y) the Net Cash Proceeds of the Seminole Plant Sale are used to prepay the Advances (as defined in the Bank Agreement) and (z) no reduction in the commitments of the Banks to make loans to the Company under the Bank Agreement shall result from the Seminole Plant Sale or from the application of the Net Cash Proceeds from the Seminole Plant Sale to the Advances.

(b) The foregoing waivers are limited to the extent described herein and shall not be construed to be a permanent waiver of paragraph 6C(5) or paragraph 4F(i) of the Agreement, a waiver of paragraph 6C(5) or paragraph 4F(i) of the Agreement with respect to any other sale, lease, transfer or other disposition of any Property by the Company or any Subsidiary, whether or not under similar circumstances, or a waiver of any other term, provision, covenant, warranty or agreement contained in the Agreement or in any of the other Loan Documents. The Holders reserve the right to exercise any rights and remedies available to them in connection with any present or future Defaults or Events of Default with respect to the Agreement or any other provision of any Loan Document.

**3. Representations and Warranties.** In order to induce the Holders to enter into this Amendment, the Company hereby represents and warrants as follows:

(a) The execution, delivery and performance by the Company and the Guarantors of this Amendment, the Agreement, as amended hereby, and each of the documents described in paragraph 4 hereof to which each is a party, have in each case been duly authorized by all necessary limited liability company, limited partnership or other organizational action and do not and will not (i) contravene the terms of the Company Partnership Agreement or the partnership or limited liability company agreement or certificate of formation (or other organizational documents) of the General Partner, the Company or any of their Subsidiaries, (ii) conflict with or result in any breach or contravention of, or the creation of any Lien under, any document evidencing any contractual obligation to which the General Partner, the Company or any of their Subsidiaries is a party and which could subject any holder of Notes to any liability, (iii) conflict with or result in any breach or contravention of any order, injunction, writ or decree of any governmental authority binding on the General Partner, the Company, any of their Subsidiaries or their respective properties, (iv) violate any applicable law binding on or affecting the General Partner, the Company or any of their Subsidiaries, or (v) adversely affect the enforceability of any Lien of the Security Documents other than Liens being released in connection with the Seminole Plant Sale.

(b) Each of the representations and warranties contained in paragraph 8 of the Agreement is true and correct in all material respects on and as of the date hereof, and will be true and correct in all material respects immediately upon, and as of the date of, the effectiveness of this Amendment in each case except to the extent that such representations and warranties specifically refer to an earlier date, in which case they shall be true and correct in all material respects as of such earlier date.

(c) On and as of the date hereof, and after giving effect to this Amendment, no Default or Event of Default exists under the Agreement.

(d) No Governmental Action or consent of any other Person under any agreement to which the Company or any of its Subsidiaries is a party (other than consents that have been obtained) is required for the due execution, delivery or performance by the Company or the Guarantors of this Amendment, the Agreement, as amended hereby, or each of the documents described in paragraph 4 hereof to be executed by the Company or any Guarantor.

(e) This Amendment, the Agreement, as amended hereby, and each of the documents described in paragraph 4 hereof to be executed by the Company or any Guarantor, constitute legal, valid and binding obligations of the Company or such Guarantor, as applicable, enforceable against the Company or such Guarantor, as applicable, in accordance with their respective terms, except as the enforceability thereof may be limited by bankruptcy, insolvency, moratorium, reorganization or other similar laws affecting creditors' rights generally or by general principles of equity (regardless of whether such enforceability is considered in any proceeding in law or in equity).

(f) The quarterly and annual financial statements most recently delivered to each Holder pursuant to paragraphs 5A(i) and 5A(ii) of the Agreement fairly present the Consolidated financial condition of the Company and its Subsidiaries as of the respective dates thereof and the Consolidated results of the operations of the Company and its Subsidiaries for the respective fiscal periods ended on such dates, all in accordance with GAAP applied on a consistent basis

(subject to normal year-end audit adjustments and the absence of footnotes in the case of the quarterly financial statements). Since December 31, 2007, no event has occurred which could result in a Material Adverse Effect. The Company and its Subsidiaries have no material contingent liabilities except as disclosed in such financial statements or the notes thereto.

(g) There is no pending or, to the knowledge of the Company, threatened action or proceeding affecting the Company or any Subsidiary before any Governmental Person, referee or arbitrator that could reasonably be expected to have a Material Adverse Effect.

(h) Neither the Company, the General Partner, the Ultimate General Partner nor any of their Subsidiaries have paid, or agreed to pay, any fees or other compensation to the lenders under the Bank Agreement for or with respect to the Amendment to Bank Agreement (as defined below) except for an amendment fee of 0.25% of the amount of the Commitments (as defined in the Bank Agreement as in effect on the date hereof) under the Bank Agreement and an arrangement fee payable to the Administrative Agent, the amendment to the definition of "Applicable Margin" in the Bank Agreement as set forth in the Amendment to Bank Agreement and the reimbursement of legal fees and expenses incurred in connection with the Amendment to Bank Agreement.

**4. Conditions to Effectiveness.** When each of the following conditions have been satisfied (i) the amendment to the Agreement in Section 1(n)(i) shall become effective as of November 1, 2005 and (ii) the other amendments to the Agreement in Section 1 and the waivers under the Agreement in Section 2 shall become effective as of the date (the "**Amendment No. 3 Effective Date**") first above written:

(a) Each Holder shall have received the following, each to be dated the date of execution and delivery thereof unless otherwise indicated, and each to be in form and substance satisfactory to the Required Holder(s) and executed and delivered by each of the parties thereto:

(i) this Amendment, duly executed by the Company, the Guarantors and the Holders; and

(ii) an executed copy of an amendment to the Bank Agreement providing for waivers and amendments to the Bank Agreement substantially the same as the waivers and amendments to the Agreement as set forth in this Amendment (the "**Amendment to Bank Agreement**"); and

(b) each Holder shall have received a payment of an amendment fee in an amount equal to 25 basis points times the aggregate principal amount of the Notes held by such Holder on the date of this Amendment.

**5. Affirmative Covenant.** The Company hereby covenants and agrees that promptly after the Amendment No. 3 Effective Date it shall execute and deliver to each Holder an amended and restated Note in exchange for the Note currently held by such Holder to reflect the amendments thereto made under Section 1(a) through 1(f) hereof, in form and substance satisfactory to such Holder. Upon receipt of an amended and restated Note each Holder shall promptly surrender its current Note or an affidavit of lost note, as applicable, to the Company.

## 6. Miscellaneous.

(a) **Effect on Agreement.** On and after the Amendment No. 3 Effective Date, each reference in the Agreement to “this Agreement”, “hereunder”, “hereof”, or words of like import referring to the Agreement and each reference in the Notes and all other documents executed in connection with the Agreement to “the Agreement”, “thereunder”, “thereof”, or words of like import referring to the Agreement shall mean the Agreement as amended by this Amendment. The Agreement, as amended by this Amendment, is and shall continue to be in full force and effect and is hereby in all respects ratified and confirmed. Except as set forth in this Amendment, the execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy under the Agreement nor constitute a waiver of any provision of the Agreement. Without limiting the generality of the foregoing, except as set forth in this Amendment nothing in this Amendment shall be deemed to (i) constitute a waiver of compliance or consent to noncompliance by the Company or any other Person with respect to any term, provision, covenant or condition of the Agreement or any other Loan Document or (ii) prejudice any right or remedy that any holder of Notes may now have or may have in the future under or in connection with the Agreement or any other Loan Document.

(b) **Counterparts.** This Amendment may be executed in any number of counterparts (including those transmitted by facsimile) and by any combination of the parties hereto in separate counterparts, each of which counterparts shall be an original and all of which taken together shall constitute one and the same Amendment. Delivery of this Amendment may be made by facsimile transmission of a duly executed counterpart copy hereof.

(c) **Expenses.** The Company confirms its agreement, pursuant to paragraph 11B of the Agreement, to pay promptly all out-of-pocket expenses of the Holders related to the preparation, negotiation, reproduction, execution and delivery of this Amendment and all matters contemplated hereby and thereby, including without limitation all fees and out-of-pocket expenses of the Holders’ special counsel.

(d) **Governing Law.** **THIS AMENDMENT SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, AND THE RIGHTS OF THE PARTIES SHALL BE GOVERNED BY, THE LAW OF THE STATE OF NEW YORK.**

(e) **Affirmation of Obligations.** Notwithstanding that such consent is not required under the Guaranties, each of the Guarantors consents to the execution and delivery of this Amendment by the parties hereto. As a material inducement to the undersigned to amend the Agreement as set forth herein, each of the Guarantors respectively (i) acknowledges and confirms the continuing existence, validity and effectiveness of the Guaranty to which it is a party, and (ii) agrees that the execution, delivery and performance of this Amendment shall not in any way release, diminish, impair, reduce or otherwise affect its obligations thereunder.

(f) **FINAL AGREEMENT.** **THIS AMENDMENT, TOGETHER WITH THE AGREEMENT AND THE OTHER LOAN DOCUMENTS, REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL**

**AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.**

(g) **Consent to Amendment to Bank Agreement.** Each Holder hereby consents to the terms of the Amendment to Bank Agreement.

*{Remainder of this page blank; signature page follows.}*



If you agree to the terms and provisions hereof, please evidence your agreement by executing and returning at least one counterpart to the Company at 2501 Cedar Springs, Suite 600, Dallas, Texas 85201.

Very truly yours,

CROSSTEX ENERGY, L.P.

By: Crosstex Energy GP, L.P.,  
its general partner

By: Crosstex Energy GP, LLC,  
its general partner

By: /s/ Michael Garberding

Name: Michael Garberding

Title: Vice President — Finance

**Agreed to as of the Amendment No. 3 Effective Date:**

PRUDENTIAL INVESTMENT MANAGEMENT, INC.

By: /s/ Brian Thomas  
Vice President

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

By: /s/ Brian Thomas  
Vice President

PRUCO LIFE INSURANCE COMPANY

By: /s/ Brian Thomas  
Vice President

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PRUCO LIFE INSURANCE COMPANY OF  
NEW JERSEY

By: /s/ Brian Thomas  
Vice President

GIBRALTAR LIFE INSURANCE CO., LTD.

By: Prudential Investment Management (Japan), Inc.,  
as Investment Manager

By: Prudential Investment Management, Inc.,  
as Sub-Adviser

By: /s/ Brian Thomas  
Vice President

RGA REINSURANCE COMPANY

By: Prudential Private Placement Investors,  
L.P. (as Investment Advisor)

By: Prudential Private Placement Investors, Inc.  
(as its General Partner)

By: /s/ Brian Thomas  
Vice President

CONNECTICUT GENERAL LIFE INSURANCE  
COMPANY

By: Prudential Investment Management, Inc.,  
as Investment Manager

By: /s/ Brian Thomas  
Vice President

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ZURICH AMERICAN INSURANCE COMPANY

By: Prudential Private Placement Investors,  
L.P. (as Investment Advisor)

By: Prudential Private Placement Investors,  
Inc.  
(as its General Partner)

By: /s/ Brian Thomas  
Vice President

THE PRUDENTIAL LIFE INSURANCE  
COMPANY, LTD.

By: Prudential Investment Management  
(Japan), Inc., as Investment Manager

By: Prudential Investment Management,  
Inc., as Sub-Adviser

By: /s/ Brian Thomas  
Vice President

PRUDENTIAL RETIREMENT INSURANCE  
AND ANNUITY COMPANY

By: Prudential Investment Management,  
Inc.,  
as investment manager

By: /s/ Brian Thomas  
Vice President

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MTL INSURANCE COMPANY

By: Prudential Private Placement Investors,  
L.P.  
(as Investment Advisor)

By: Prudential Private Placement Investors,  
Inc.  
(as its General Partner)

By: /s/ Brian Thomas  
Vice President

ING USA ANNUITY AND LIFE INSURANCE COMPANY  
ING LIFE INSURANCE AND ANNUITY COMPANY  
RELIASTAR LIFE INSURANCE COMPANY  
SECURITY LIFE OF DENVER INSURANCE COMPANY

By: ING Investment Management LLC, as  
Agent

By: /s/ Paul Aronson  
Name: Paul Aronson  
Title: Vice President

JOHN HANCOCK LIFE INSURANCE COMPANY

By: /s/ Eugene X. Hodge, Jr.  
Name: Eugene X. Hodge, Jr.  
Title: Managing Director

JOHN HANCOCK VARIABLE LIFE INSURANCE COMPANY

By: /s/ Eugene X. Hodge, Jr.  
Name: Eugene X. Hodge, Jr.  
Title: Authorized Signatory

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JOHN HANCOCK LIFE INSURANCE COMPANY (U.S.A.)

By: /s/ Eugene X. Hodge, Jr.  
Name: Eugene X. Hodge, Jr.  
Title: Authorized Signatory

SIGNATURE 7 L.P.

By: John Hancock Life Insurance  
Company,  
as Portfolio Advisor

By: /s/ Eugene X. Hodge, Jr.  
Name: Eugene X. Hodge, Jr.  
Title: Authorized Signatory

GENWORTH LIFE AND ANNUITY INSURANCE COMPANY (AS SUCCESSOR BY  
MERGER TO FIRST COLONY LIFE INSURANCE COMPANY)

By: /s/ John R. Endres  
Name: John R. Endres  
Title: Investment Officer

TEACHERS INSURANCE AND ANNUITY ASSOCIATION OF AMERICA

By: /s/ Lisa M. Ferraro  
Name: Lisa M. Ferraro  
Title: Director

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METROPOLITAN LIFE INSURANCE COMPANY

METLIFE INVESTORS USA INSURANCE COMPANY

by Metropolitan Life Insurance Company, its investment manager

METLIFE INSURANCE COMPANY OF CONNECTICUT

by Metropolitan Life Insurance Company, its investment manager

METLIFE LIFE AND ANNUITY COMPANY OF CONNECTICUT

by Metropolitan Life Insurance Company, its investment manager

By: /s/ Judith A. Gulotta

Name: Judith A. Gulotta

Title: Managing Director

(executed by Metropolitan Life Insurance Company (i) as to itself  
as a Purchaser and (ii) as investment manager to MetLife Investors  
USA Insurance Company as a Purchaser, MetLife Insurance Company  
of Connecticut as a Purchaser and MetLife Life and Annuity Company  
of Connecticut as a Purchaser)

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Agreed to and acknowledged by each of the undersigned for the purposes set forth in paragraph 6(e) hereof:

GUARANTORS:  
CROSSTEX ACQUISITION MANAGEMENT, L.P.  
CROSSTEX MISSISSIPPI PIPELINE, L.P.  
CROSSTEX SEMINOLE GAS, L.P.  
CROSSTEX ALABAMA GATHERING SYSTEM, L.P.  
CROSSTEX MISSISSIPPI INDUSTRIAL GAS SALES, L.P.  
CROSSTEX GULF COAST TRANSMISSION LTD.  
CROSSTEX GULF COAST MARKETING LTD.  
CROSSTEX CCNG GATHERING LTD.  
CROSSTEX CCNG PROCESSING LTD.  
CROSSTEX CCNG TRANSMISSION LTD.  
CROSSTEX TREATING SERVICES, L.P.  
CROSSTEX NORTH TEXAS PIPELINE, L.P.  
CROSSTEX NORTH TEXAS GATHERING, L.P.  
CROSSTEX NGL MARKETING, L.P.  
CROSSTEX NGL PIPELINE, L.P.

By: Crosstex Energy Services GP, LLC  
Sole General Partner of each above limited  
partnership

By: /s/ Michael Garberding

Name: Michael Garberding  
Title: Vice President — Finance

CROSSTEX ENERGY SERVICES, L.P.

By: Crosstex Operating GP, LLC,  
its general partner

By: /s/ Michael Garberding

Name: Michael Garberding  
Title: Vice President — Finance

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CROSSTEX OPERATING GP, LLC  
CROSSTEX ENERGY SERVICES GP, LLC  
CROSSTEX LIG, LLC  
CROSSTEX TUSCALOOSA, LLC  
CROSSTEX LIG LIQUIDS, LLC  
CROSSTEX PROCESSING SERVICES, LLC  
CROSSTEX PELICAN, LLC

By: /s/ Michael Garberding

Name: Michael Garberding

Title: Vice President — Finance

SABINE PASS PLANT FACILITY JOINT VENTURE

By: Crosstex Processing Services, LLC,  
as general partner  
and

By: Crosstex Pelican, LLC, as general partner

By: /s/ Michael Garberding

Name: Michael Garberding

Title: Vice President — Finance

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Exhibit A

Holders

PRUDENTIAL INVESTMENT MANAGEMENT, INC.  
THE PRUDENTIAL INSURANCE COMPANY OF AMERICA  
PRUCO LIFE INSURANCE COMPANY  
PRUCO LIFE INSURANCE COMPANY OF NEW JERSEY  
GIBRALTAR LIFE INSURANCE CO., LTD.  
RGA REINSURANCE COMPANY  
CONNECTICUT GENERAL LIFE INSURANCE COMPANY  
ZURICH AMERICAN INSURANCE COMPANY  
THE PRUDENTIAL LIFE INSURANCE COMPANY, LTD.  
PRUDENTIAL RETIREMENT INSURANCE AND ANNUITY COMPANY  
MTL INSURANCE COMPANY  
ING USA ANNUITY AND LIFE INSURANCE COMPANY  
ING LIFE INSURANCE AND ANNUITY COMPANY  
RELIASTAR LIFE INSURANCE COMPANY  
SECURITY LIFE OF DENVER INSURANCE COMPANY  
JOHN HANCOCK LIFE INSURANCE COMPANY  
JOHN HANCOCK VARIABLE LIFE INSURANCE COMPANY  
JOHN HANCOCK LIFE INSURANCE COMPANY (U.S.A.)  
SIGNATURE 7 L.P.  
FIRST COLONY LIFE INSURANCE COMPANY  
TEACHERS INSURANCE AND ANNUITY ASSOCIATION OF AMERICA  
METROPOLITAN LIFE INSURANCE COMPANY  
METLIFE INVESTORS USA INSURANCE COMPANY  
METLIFE INSURANCE COMPANY OF CONNECTICUT  
METLIFE LIFE AND ANNUITY COMPANY OF CONNECTICUT

## CERTIFICATIONS

I, Barry E. Davis, President and Chief Executive Officer of Crosstex Energy GP, LLC, the general partner of Crosstex Energy GP, L.P., the general partner of the registrant, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Crosstex Energy, L.P.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Barry E. Davis

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Barry E. Davis,  
President and Chief Executive Officer  
(principal executive officer)

Date: November 10, 2008

## CERTIFICATIONS

I, William W. Davis, Executive Vice President and Chief Financial Officer of Crosstex Energy GP, LLC, the general partner of Crosstex Energy GP, L.P., the general partner of the registrant, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Crosstex Energy, L.P.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ William W. Davis

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William W. Davis,  
Executive Vice President and Chief Financial Officer  
(principal financial and accounting officer)

Date: November 10, 2008

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Crosstex Energy, L.P. (the "Registrant") on Form 10-Q for the quarter ended September 30, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned, Barry E. Davis, Chief Executive Officer of Crosstex Energy GP, LLC, and William W. Davis, Chief Financial Officer of Crosstex Energy GP, LLC, certifies, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

/s/ Barry E. Davis

\_\_\_\_\_  
Barry E. Davis  
*Chief Executive Officer*

November 10, 2008

/s/ William W. Davis

\_\_\_\_\_  
William W. Davis  
*Chief Financial Officer*

November 10, 2008

A signed original of this written statement required by Section 906 has been provided to the Registrant and will be retained by the Registrant and furnished to the Securities and Exchange Commission or its staff upon request. The foregoing certification is being furnished to the Securities and Exchange Commission as an exhibit to the Report.