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As filed with the Securities and Exchange Commission on July 10, 2003

Registration Statement No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form S-1

**REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933**

Crosstex Energy, L.P.

(Exact name of registrant as specified in its charter)

Delaware	**4923**	**16-1616605**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

**Crosstex Energy GP, L.P.
2501 Cedar Springs
Suite 600
Dallas, Texas 75201
(214) 953-9500**
(Name, address, including zip code, and telephone number,
including area code, of registrant's principal executive offices)

**William W. Davis
Crosstex Energy GP, L.P.
2501 Cedar Springs, Suite 600
Dallas, Texas 75201
(214) 953-9500**
(Name, address, including zip code, and telephone number,
including area code, of agent for service)

Copies to:

Joe Dannenmaier Thompson & Knight L.L.P. 1700 Pacific Avenue, Suite 3300 Dallas, Texas 75201 (214) 969-1700	Joshua Davidson Douglass M. Rayburn Baker Botts L.L.P. One Shell Plaza, 910 Louisiana Houston, Texas 77002 (713) 229-1234

Approximate date of commencement of proposed sale to the public:
As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are being offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ☐

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.☐

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered(1)	Proposed maximum offering price per unit(2)	Proposed maximum aggregate offering price(2)	Amount of registration fee
Common units representing limited partner interests	1,725,000	$33.77	$58,253,250	$4,713

(1) Includes 225,000 common units which may be sold upon exercise of the underwriters' over-allotment option.

(2) Calculated in accordance with Rule 457(c) on the basis of the average of the high and low sales prices of the common units on July 2, 2003.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to such Section 8(a), may determine.

Subject to completion, dated July 10, 2003

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This document is not an offer to sell these securities and we are not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PROSPECTUS

1,500,000 Common Units

Crosstex Energy, L.P.

Representing Limited Partner Interests

We are offering 1,500,000 common units representing limited partner interests. Our common units are traded on the Nasdaq National Market under the symbol "XTEX." On July 9, 2003, the last reported sale price of our common units on the Nasdaq National Market was $36.00 per common unit.

Investing in our common units involves risk.
See "Risk Factors" beginning on page 14.

These risks include the following:

- We may not have sufficient cash to pay the minimum quarterly distribution each quarter.
- We must continually compete for natural gas supplies, and any decrease in our supplies of natural gas could reduce our ability to make distributions to our unitholders.
- Our profitability is dependent upon prices and market demand for natural gas and natural gas liquids, or NGLs, which are beyond our control and have been volatile.
- If we are unable to integrate our recent acquisitions or if we do not continue to make acquisitions on economically acceptable terms, our future financial performance may be limited.
- We may not be able to retain existing customers or acquire new customers, which would reduce our revenues and limit our future profitability.
- Due to our lack of asset diversification, adverse developments in our gathering, transmission, treating, processing and producer services businesses would reduce our ability to make distributions to our unitholders.
- Our general partner has sole responsibility for conducting our business and managing our operations. Our general partner will be entitled to be reimbursed for all direct and indirect expenses it incurs on our behalf, which may be substantial and will reduce our ability to make distributions to unitholders.
- Crosstex Energy Holdings Inc. controls our general partner and will own a 56% limited partner interest in us after the offering. Our general partner has conflicts of interest and limited fiduciary responsibilities, which may permit our general partner to favor its own interests to the detriment of our unitholders.
- Our unitholders will have no right to elect our general partner or the directors of its general partner and will have limited ability to remove our general partner.
- Our common units have a limited trading history and a limited trading volume compared to other units representing limited partner interests.

- You may be required to pay taxes on income from us even if you do not receive any cash distributions from us.

PRICE $ PER COMMON UNIT

	Per Common Unit	Total
Public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to Crosstex Energy, L.P.	$	$

We have granted the underwriters a 30-day option to purchase up to an additional 225,000 common units to cover over-allotments. The underwriters expect to deliver the common units to purchasers on or about , 2003.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

A.G. Edwards & Sons, Inc.

RBC Capital Markets

Raymond James

Prospectus dated , 2003

[Map showing location of gathering and transmission systems and processing and treating facilities]

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PROSPECTUS SUMMARY

The summary highlights selected information contained elsewhere in this prospectus. You should read the entire prospectus carefully, including the historical and pro forma financial statements and notes to those financial statements. The information presented in this prospectus assumes that the underwriters' over-allotment option is not exercised. You should read "Summary of Risk Factors" beginning on page 3 and "Risk Factors" beginning on page 14 for more information about important factors that you should consider before buying common units. We have included a "Glossary of Terms" as Appendix A that defines many of the terms we use in this prospectus.

References in this prospectus to "Crosstex Energy, L.P.," "we," "ours," "us," or like terms when used in the present tense or prospectively or for historical periods since December 2002 refer to Crosstex Energy, L.P. and its operating subsidiaries. Crosstex Energy, L.P. is the issuer of securities in this offering. References to "our predecessor" or to "we," "ours," "us," or like terms for historical periods prior to December 2002 refer to Crosstex Energy Services, Ltd. Substantially all of the assets of Crosstex Energy Services, Ltd. were transferred to us at the closing of our initial public offering in December 2002.

Crosstex Energy, L.P.

Overview

We are a rapidly growing independent midstream energy company engaged in the gathering, transmission, treating, processing and marketing of natural gas. We connect the wells of natural gas producers in our market areas to our gathering systems, treat natural gas to remove impurities to ensure that it meets pipeline quality specifications, process natural gas for the removal of natural gas liquids, or NGLs, transport natural gas and ultimately provide an aggregated supply of natural gas to a variety of markets. We purchase natural gas from natural gas producers and other supply points and sell that natural gas to utilities, industrial consumers, other marketers and pipelines and thereby generate gross margins based on the difference between the purchase and resale prices. In addition, we purchase natural gas from producers not connected to our gathering systems for resale and sell natural gas on behalf of producers for a fee.

We have grown rapidly since the inception of our various predecessors in 1992 through a combination of acquisitions and the construction of new assets. Since January 2000, we have acquired and integrated 13 operations with an aggregate purchase price of approximately $142.3 million, including our recent $67.4 million acquisition of assets from Duke Energy Field Services, LP, which we refer to in this prospectus as DEFS. Our net income increased to $2.0 million for the year ended December 31, 2002, compared to a net loss of $0.5 million for the year ended December 31, 1998. Our net income was $0.8 million for the three months ended March 31, 2003. Our gross margin increased to $32.7 million for the year ended December 31, 2002, compared to $2.2 million for the year ended December 31, 1998. Our gross margin was $10.7 million for the three months ended March 31, 2003.

We have two operating divisions, the Midstream division, which consists of our natural gas gathering, transmission, processing, marketing and producer services operations, and the Treating division, which provides natural gas treating for the removal of carbon dioxide and other contaminants. Our primary Midstream assets include systems located along the Texas Gulf Coast and in south-central Mississippi, and, in the aggregate, consist of approximately 2,500 miles of gathering and transmission pipelines, and three natural gas processing plants. After giving pro forma effect to our recent acquisition of assets from DEFS, for the year ended December 31, 2002 and the three months ended March 31, 2003, we would have gathered and transported approximately 496,536 MMBtu/d and 592,593 MMBtu/d of natural gas, respectively. In our producer services operations, we purchase for resale volumes of natural gas that do not move through our gathering, processing or transmission assets from over 50 independent producers. Our treating plants remove carbon dioxide and hydrogen sulfide from

natural gas before it is delivered into transportation systems to ensure that the natural gas meets pipeline quality specifications.

Recent Developments

Recent Acquisitions

Duke Energy Field Services. In June 2003, we acquired various midstream assets located in Mississippi, Texas, Alabama and Louisiana from DEFS for $67.4 million in cash. The principal assets we acquired were the AIM pipeline system, a 638-mile natural gas gathering and transmission system in Mississippi that serves utility and industrial customers, and a 12.4% non-operating interest in the Seminole gas processing plant, which provides carbon dioxide separation and sulfur removal services for several major oil companies in West Texas. In addition, we acquired the Conroe gas plant and gathering system north of Houston, the Black Warrior gathering pipeline system in Alabama and two small gathering systems in Louisiana. This acquisition has provided us with a new core area for growth in south-central Mississippi, expanded our presence in West Texas, increased the total miles of our pipelines from 1,700 to 2,500 and enabled us to enter the business of carbon dioxide separation. In addition, the acquisition should increase the stability of our cash flow as operating profits from the AIM pipeline system are generated through purchasing, gathering, transporting and reselling natural gas which generates margins not affected by commodity prices, and a majority of the income we receive from the Seminole gas plant is based on fixed fees for carbon dioxide separation and sulfur removal. Average throughput on the AIM pipeline system at the time of acquisition was approximately 81,195 MMBtu/d.

Vanderbilt System. In December 2002, we acquired the Vanderbilt system from a subsidiary of Devon Energy Corporation for $12.0 million. The Vanderbilt system consists of approximately 200 miles of gathering pipeline located near our Gulf Coast system. The system's gathering pipeline ranges in diameter from four to 14 inches and has a capacity of 130,000 Mcf/d. Average throughput on the system was approximately 32,186 Mcf/d for the three months ended March 31, 2003. Gathered natural gas currently flows to the Formosa Hydrocarbons processing plant at Point Comfort, Texas.

Will-O-Mills. In December 2002, we consolidated our ownership of the Will-O-Mills treating plant by purchasing the remaining 50% operating interest we did not own for $2.2 million. The consolidation of the Will-O-Mills interest enabled us to negotiate the closure of another plant in the area and transfer those volumes to Will-O-Mills, resulting in an approximate 30% increase in cash flow from the plant. In addition, we are able to utilize Will-O-Mills direct labor capacity to more efficiently manage other company assets in the area.

Recent Expansion and Construction

Gregory Expansion. We are nearing completion of an expansion of our Gregory processing plant. The expansion will increase the plant capacity from approximately 90,000 Mcf/d to 150,000 Mcf/d and will cost approximately $8.0 million. We expect to complete this expansion in July 2003. In addition, we have significantly reduced our exposure to commodity prices by renegotiating a number of our commodity-based contracts, where revenues were subject to fluctuating commodity prices, to fee-based contracts.

Barnett Shale. In February 2003, we formed a joint venture, in which we own a 50% interest, to construct a gathering system in an area of the Barnett Shale gas formation, near Denton, Texas, at an initial cost of $3.0 million. The system consists of approximately 13 miles of gathering pipelines and the system is expected to have a capacity of approximately 35,000 Mcf/d.

Hallmark Lateral. In June 2002, we acquired from Florida Gas Transmission approximately 70 miles of 20 inch transmission line, which we refer to as the Hallmark Lateral. We constructed an

addition to this transmission line to connect our Gulf Coast and Corpus Christi systems. This connection lets us transport gas between our two systems, which reduces our dependence on third-party suppliers and allows us to move gas supplies to more favorable markets and enhance our margins. In November 2002, we completed construction of the interconnect between the Hallmark Lateral and the Florida Gas Transmission mainline. With this connection, we began selling gas into the Florida markets and we sold approximately 52,400 MMBtu/d into Florida for the three months ended March 31, 2003.

Other Developments

Distribution Increase. On July 10, 2003, we announced that the board of directors of our general partner has authorized for the quarter ended September 30, 2003 an increase in our quarterly distribution to $0.70 per unit, or $2.80 per unit on an annualized basis, from $0.55 per unit. This distribution will be payable on or about November 14, 2003. The board of directors of our general partner has declared a quarterly distribution of $0.55 for the quarter ended June 30, 2003. This distribution will be payable on August 15, 2003 to holders of record on July 31, 2003.

Bank Credit Facility. In June 2003, our operating partnership, Crosstex Energy Services, L.P., entered into a new $100.0 million senior secured credit facility, which matures in June 2006, consisting of a $70.0 million acquisition facility and a $30.0 million working capital and letter of credit facility. After giving effect to this offering, we expect our operating partnership to have substantially all of the acquisition facility available for future borrowings.

Secured Notes Offering. In June 2003, our operating partnership entered into a master shelf agreement with an institutional lender pursuant to which it issued $40.0 million of senior secured notes with a weighted-average interest rate of 6.93% and maturities of seven years. The senior secured notes are guaranteed by our operating partnership's subsidiaries and us. Our operating partnership used the net proceeds from the senior notes offering to repay indebtedness under its bank credit facility.

Summary of Risk Factors

An investment in our common units involves risks associated with our business, our partnership structure and the tax characteristics of common units. Those risks are described under the caption "Risk Factors" and include:

Risks Inherent in Our Business

- We may not have sufficient cash after the establishment of cash reserves and payment of our general partner's fees and expenses to enable us to pay the minimum quarterly distribution each quarter.
- We must continually compete for natural gas supplies, and any decrease in our supplies of natural gas could reduce our ability to make distributions to our unitholders.
- A substantial portion of our assets is connected to natural gas reserves that will decline over time, and the cash flows associated with those assets will accordingly decline.
- Our profitability is dependent upon prices and market demand for natural gas and NGLs, which are beyond our control and have been volatile.
- If we are unable to integrate our recent acquisitions, or if we do not continue to make acquisitions on economically acceptable terms, our future financial performance may be limited.
- We have limited control over the development of certain assets because we are not the operator.
- We expect to encounter significant competition in any new geographic areas into which we seek to expand and our ability to enter such markets may be limited.

- We are exposed to the credit risk of our customers, and a general increase in the nonpayment and nonperformance by our customers could reduce our ability to make distributions to our unitholders.

- We may not be able to retain existing customers or acquire new customers, which would reduce our revenues and limit our future profitability.

- We depend on certain key customers, and the loss of any of our key customers could adversely affect our financial results.

- We have a limited combined operating history.

- Our use of derivative financial instruments has in the past, and could in the future, result in financial losses or reduce our income.

- Due to our lack of asset diversification, adverse developments in our gathering, transmission, treating, processing and producer services businesses would reduce our ability to make distributions to our unitholders.

- Our success depends on key members of our management, the loss of whom could disrupt our business operations.

Risks Inherent in an Investment in Us

- Crosstex Energy Holdings Inc. controls our general partner and will own a 56% limited partner interest in us upon completion of the offering. Our general partner has conflicts of interest and limited fiduciary responsibilities, which may permit our general partner to favor its own interests to the detriment of our unitholders.

- Our unitholders will have no right to elect our general partner or the directors of its general partner and will have limited ability to remove our general partner.

- Cost reimbursements due our general partner may be substantial and will reduce the cash available for distribution to you.

- The control of our general partner may be transferred to a third party, and that third party could replace our current management team, in each case without unitholder consent.

- Our general partner's absolute discretion in determining the level of cash reserves may adversely affect our ability to make cash distributions to our unitholders.

- Our partnership agreement contains provisions which reduce the remedies available to unitholders for actions that might otherwise constitute a breach of fiduciary duty by our general partner.

- Our common units have a limited trading history and a limited trading volume compared to other stocks and units representing limited partner interests.

Tax Risks to Our Unitholders

- The IRS could treat us as a corporation for tax purposes, which would substantially reduce the cash available for distribution to our unitholders.

- A successful IRS contest of the federal income tax positions we take may adversely affect the market for common units, and the costs of any contest will be borne by us and, therefore, indirectly by our unitholders and our general partner.

- You may be required to pay taxes on income from us even if you do not receive any cash distributions from us.

- Tax gain or loss on disposition of our common units could be different than expected.

Competitive Strengths

We believe that we are well positioned to compete in the natural gas gathering, transmission, treating, processing and producer services businesses. Our competitive strengths include:

- *Strategic position in the Texas Gulf Coast and Mississippi*. Our Gregory and Conroe processing plants and approximately 51% of our total gathering and transmission pipeline miles are located in the Texas Gulf Coast. The Texas Gulf Coast is characterized by consistently high levels of drilling activity, which provide us with significant opportunities to access newly developed gas supplies. We believe our significant presence and asset base in the Texas Gulf Coast generally provides us with a competitive advantage in capturing new supplies of natural gas and markets for natural gas because of our resulting lower costs of handling newly connected gas and delivering it to market. The acquisition of the AIM pipeline system, located in south-central Mississippi, allowed us to establish a new core area outside of our strategic position in the Texas Gulf Coast.

- *Asset base with available capacity*. By aggressively marketing directly to producers and end users and adding connections to new customers, we believe we have the opportunity to leverage our existing asset base in order to more fully utilize the capacity of our systems and thereby significantly increase throughput and cash flows. Since our pipeline and gathering systems, including those acquired from DEFS, operated at an overall utilization of approximately 46% of capacity in the first three months of 2003, transporting additional volumes of natural gas through our systems should provide incremental operating income. We believe our inventory of 13 treating plants gives us a competitive advantage for capturing new treating business since we can often have a plant in service faster than our competitors.

- *Range of services*. We offer a full range of midstream services to natural gas producers, including gathering, transmission, treating, processing and marketing. In addition, as a component of our producer services business, we purchase natural gas for sale to others, and, in doing so, provide risk management opportunities to natural gas producers. We believe this full range of services gives us advantages in competing for new business because we can provide substantially all the services a producer requires to get its production of natural gas to market, as compared to our competitors who often do not provide a full range of services. In addition, we provide a full range of services to natural gas buyers, including an aggregated supply of natural gas, load balancing and price risk management, which allows buyers to find a significant volume of natural gas that meets their requirements without having to negotiate with multiple producers.

- *Proven acquisition and development expertise*. Since January 2000, we have acquired and integrated 13 operations with an aggregate purchase price of approximately $142.3 million, including our recent $67.4 million acquisition of assets from DEFS which enabled us to expand our operations into Mississippi and Alabama. Our management team's significant industry contacts have enabled us to become aware of, and gain access to, strategic acquisition opportunities. We intend to use our experience and reputation in strategically acquiring assets to continue to grow through accretive acquisitions, focusing on opportunities in which we see potential to improve throughput volumes and cash flows through marketing and new construction and expansion projects. We have invested in excess of $50.0 million in our construction and expansion projects from January 2000 to June 2003.

- *Flexible financial structure*. Our operating partnership has a $70.0 million acquisition facility, substantially all of which will be available upon the closing of this offering, and a $30.0 million working capital and letter of credit facility. In addition, our operating partnership has a $50.0 million master shelf facility for senior secured notes. Our operating partnership has issued

$40.0 million of senior secured notes under this facility, and any future issuances will be subject to negotiation of certain terms, including pricing. We believe the available capacity under the bank credit facility and the senior secured notes, combined with our ability to access the capital markets, should provide us with a flexible financial structure that will facilitate our expansion and acquisition strategy.

- *Experienced and motivated management.* Our management team's extensive experience and contacts within the midstream industry provides a strong foundation for managing and enhancing our operations, for accessing strategic acquisition opportunities and for constructing new assets. Our senior management team, which indirectly owns approximately 49,000 common units, approximately 686,000 subordinated units and approximately 15% of our general partner, has an average of over 20 years of industry experience primarily with the type of assets and the markets in which we currently operate. Please read "Management—Directors and Executive Officers of Crosstex Energy GP, LLC" for a discussion of the experience of our executive officers.

Business Strategy

Our strategy is to increase distributable cash flow per unit by making accretive acquisitions of assets that are essential to the production, transportation and marketing of natural gas, improving the profitability of our assets by increasing their utilization while controlling costs and pursuing new construction or expansion opportunities in our core operating areas. Key elements of our strategy include the following:

- *Pursuing accretive acquisitions*. We intend to use our substantial acquisition and integration experience to continue to make strategic acquisitions of midstream assets that offer the opportunity for operational efficiencies and the potential for increased utilization and expansion of the acquired assets. We pursue acquisitions that we believe will add to our core areas in order to capitalize on our existing infrastructure, personnel and producer and consumer relationships. We also examine opportunities to establish new core areas in regions with significant natural gas reserves and high levels of drilling activity or with growing demand for natural gas.

- *Improving existing system profitability.* After we acquire or construct a new system, we begin an aggressive effort to market directly to both producers and end users in order to connect new supplies of natural gas, increase volumes and more fully utilize the system's capacity. Many of our recently acquired systems have excess capacity that provides us opportunities to increase throughput with minimal incremental cost.

- *Undertaking construction and expansion opportunities*. We leverage our existing infrastructure and producer and customer relationships by constructing and expanding systems to meet new or increased demand for our gathering, transmission, treating, processing and marketing services. These projects include expansion of existing systems and construction of new facilities.

Partnership Structure And Management

Our operations are conducted through, and our operating assets are owned by, our operating partnership, Crosstex Energy Services, L.P., and its subsidiaries. Upon completion of this offering:

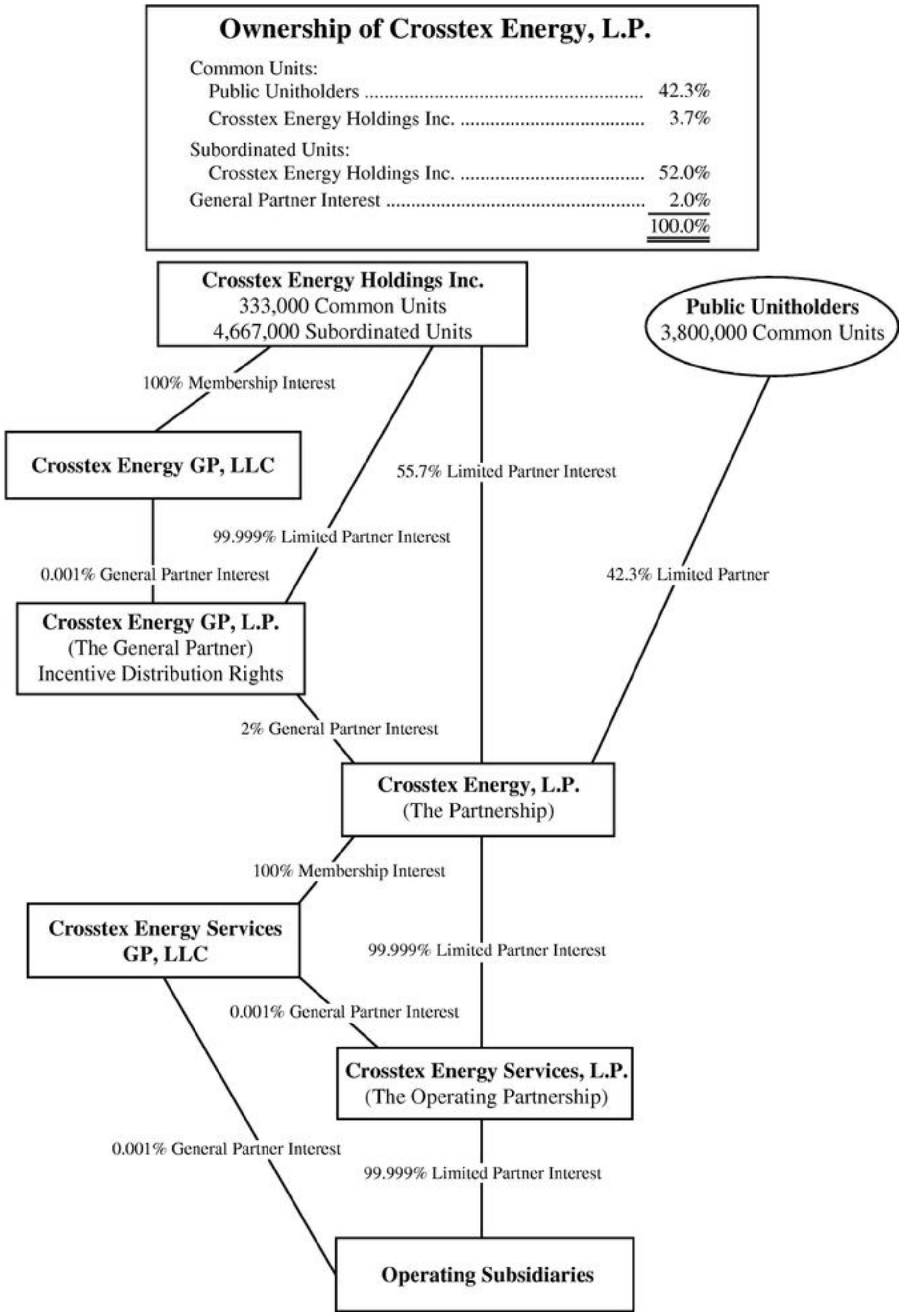
- the public unitholders will own a 42.3% limited partner interest in us, represented by 3,800,000 common units;

- Crosstex Energy Holdings Inc. will own a 55.7% limited partner interest in us, represented by 333,000 common units and 4,667,000 subordinated units; and

- our general partner will continue to own a 2% general partner interest in us and all of our incentive distribution rights.

Our principal executive offices are located at 2501 Cedar Springs, Suite 600, Dallas, Texas 75201, and our phone number is (214) 953-9500.

The chart on the following page depicts the organization and ownership of us and our operating partnership after giving effect to the offering.



THE OFFERING

Common units offered by Crosstex Energy, L.P.	1,500,000 common units.
	1,725,000 common units if the underwriters exercise their over-allotment option in full.
Units outstanding after this offering	4,133,000 common units, representing a 46.0% limited partner interest in Crosstex Energy, L.P., and 4,667,000 subordinated units, representing a 52.0% limited partner interest in Crosstex Energy, L.P. Approximately 8.1% of the common units and all of the subordinated units will be owned by affiliates of our general partner.
Cash distributions	Common units are entitled to receive distributions of available cash of $0.50 per quarter, or $2.00 on an annualized basis, before any distributions are paid on our subordinated units.
	In general, we will pay any cash distributions we make each quarter in the following manner:
	• first, 98% to the common units and 2% to the general partner, until each common unit has received a minimum quarterly distribution of $0.50 plus any arrearages from prior quarters; and
	• second, 98% to the subordinated units and 2% to the general partner, until each subordinated unit has received a minimum quarterly distribution of $0.50.

	If cash distributions exceed $0.50 per unit in a quarter, our general partner will receive increasing percentages, up to 50%, of the cash we distribute in excess of that amount. We refer to these distributions as "incentive distributions." Please read "Cash Distribution Policy—Incentive Distribution Rights."
	We must distribute all of our cash on hand at the end of each quarter, less reserves established by our general partner in its sole discretion. These reserve funds are meant to provide for the proper conduct of our business including funds needed to provide for our operations as well as to comply with applicable debt instruments. As we cannot estimate the size of these reserves for any given quarter at this time, we cannot assure you that, after the establishment of reserves, we will have cash on hand for distribution to our unitholders. We refer to this cash available for distribution as "available cash," and we define its meaning in our partnership agreement. Please read "Cash Distribution Policy—Distributions of Available Cash" for a description of available cash. The amount of available cash may be greater than or less than the minimum quarterly distribution.
Timing of distributions	We pay distributions approximately 45 days after March 31, June 30, September 30 and December 31 to the unitholders of record on the applicable record date.

Subordination period	The subordination period will end once we meet the financial tests in the partnership agreement, but it generally cannot end before December 31, 2007.
	When the subordination period ends, each remaining subordinated unit will convert into one common unit and the common units will no longer be entitled to arrearages. Please read "Cash Distribution Policy—Subordination Period."
Early conversion of subordinated units	If we meet the applicable financial tests in the partnership agreement for any three consecutive four-quarter periods ending on or after December 31, 2005, 25% of the subordinated units will convert into common units. If we meet these tests for any three consecutive four-quarter periods ending on or after December 31, 2006, an additional 25% of the subordinated units will convert into common units. The early conversion of the second 25% of the subordinated units may not occur until at least one year after the early conversion of the first 25% of the subordinated units.
Issuance of additional units	In general, while any subordinated units remain outstanding, we may not issue more than 1,316,500 additional common units without obtaining unitholder approval. We may, however, issue an unlimited number of common units for acquisitions, capital improvements or debt repayments that increase cash flow from operations per unit on a pro forma basis.
Voting rights	Our general partner manages and operates us. Unlike the holders of common stock in a corporation, you will have only limited voting rights on matters affecting our business. You will have no right to elect our general partner or the directors of its general partner on an annual or other continuing basis. Our general partner may not be removed except by a vote of the holders of at least $66^2/3$% of the outstanding units, including any units owned by our general partner and its affiliates, voting together as a single class. Because affiliates of our general partner will own 56.8% of the outstanding units upon completion of the offering, you will not be able to remove the general partner without its consent.
Limited call right	If at any time more than 80% of the outstanding common units are owned by our general partner and its affiliates, our general partner has the right, but not the obligation, to purchase all of the remaining common units at a price not less than the then-current market price of the common units.
Estimated ratio of taxable income to distributions	We estimate that if you own the common units you purchase in this offering through December 31, 2006, you will be allocated, on a cumulative basis, an amount of federal taxable income for that period that will be 20% or less of the cash distributed to you with respect to that period. Please read "Material Tax Consequences—Tax Consequences of Unit Ownership—Ratio of taxable income to distributions" for the basis of this estimate.
Exchange listing	Our common units are traded on the Nasdaq National Market under the symbol "XTEX."

SUMMARY HISTORICAL AND PRO FORMA FINANCIAL AND OPERATING DATA

The following table sets forth summary historical financial and operating data for Crosstex Energy, L.P. and our predecessor, Crosstex Energy Services, Ltd., as of and for the dates and periods indicated and summary pro forma financial and operating data for us as of and for the year ended December 31, 2002 and the three months ended March 31, 2003. The summary historical financial data for the four months ended April 30, 2000, the eight months ended December 31, 2000, and the years ended December 31, 2001 and 2002, are derived from the audited financial statements of Crosstex Energy, L.P. and its predecessor. The summary historical financial data for the three months ended March 31, 2002 and 2003 are derived from our unaudited financial statements and, in our opinion, have been prepared on the same basis as the audited financial statements and include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of this information. As described in our historical financial statements, the investment in our predecessor by Yorktown Energy Partners IV, L.P. in May 2000 resulted in the dissolution of the predecessor partnership and the creation of a new partnership with the same organization, purpose, assets and liabilities. Accordingly, the audited financial statements for 2000 are divided into the four months ended April 30, 2000 and the eight months ended December 31, 2000 because a new basis of accounting was established effective May 1, 2000 to give effect to the Yorktown transaction. In addition, the summary historical financial and operating data include the results of operations of the Arkoma system beginning in September 2000, the Gulf Coast system beginning in September 2000 and the CCNG system, which includes the Corpus Christi system, the Gregory gathering system and the Gregory processing plant, beginning in May 2001.

The summary pro forma financial and operating data reflect our consolidated historical operating results as adjusted for the DEFS acquisition, the senior secured notes offering, this offering and, in the case of the pro forma statement of operations for the year ended December 31, 2002, our initial public offering. The summary pro forma financial data is derived from the unaudited pro forma financial statements. The pro forma balance sheet assumes that the DEFS acquisition, the senior secured notes offering and this offering occurred on March 31, 2003. The pro forma statements of operations assume that the DEFS acquisition, the senior secured notes offering, this offering and our initial public offering occurred on January 1, 2002. For a description of all of the assumptions used in preparing the summary pro forma financial data, you should read the notes to the pro forma financial statements. The pro forma financial and operating data should not be considered as indicative of the historical results we would have had or the future results that we will have after the offering.

We derived the information in the following table from, and that information should be read together with, and is qualified in its entirety by reference to, the historical and pro forma financial statements and the accompanying notes included in this prospectus. The table should be read together with "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Crosstex Energy, L.P.(1)							
	Predecessor	Historical					Pro Forma	
					Unaudited		Unaudited	
	Four Months Ended April 30,	Eight Months Ended December 31,	Year Ended December 31,		Three Months Ended March 31,		Year Ended December 31,	Three Months Ended March 31,
	2000	2000	2001	2002	2002	2003	2002	2003
	(in thousands, except per unit amounts)							
Statement of Operations Data:								
Revenues:								
Midstream	$ 3,591	$ 88,008	$ 362,673	$ 437,676	$ 77,808	$ 245,315	$ 574,757	$ 302,764
Treating	5,947	17,392	24,353	14,817	3,185	5,255	14,817	5,255
Total revenues	9,538	105,400	387,026	452,493	80,993	250,570	589,574	308,019
Operating costs and expenses:								
Midstream purchased gas	2,746	83,672	344,755	413,982	72,759	237,408	534,839	291,351
Treating purchased gas	4,731	14,876	18,078	5,767	1,113	2,416	5,767	2,416
Operating expenses	544	1,796	7,430	10,468	2,440	3,210	15,661	4,556
General and administrative	810	2,010	5,914	8,454	1,934	1,500	6,000	1,500
Stock based compensation	8,802	—	—	41	—	2,504	41	2,504
Impairments	—	—	2,873	4,175	3,150	—	4,175	—
(Profit) loss on energy trading contracts	(638)	(1,253)	3,714	(2,703)	(2,775)	(107)	(2,703)	(107)
Depreciation and amortization	522	2,261	6,101	7,745	1,909	2,435	12,122	3,567
Total operating costs and expenses	17,517	103,362	388,865	447,929	80,530	249,366	575,902	305,787
Operating income (loss)	(7,979)	2,038	(1,839)	4,564	463	1,204	13,672	2,232
Other income (expense):								
Interest expense, net	(79)	(530)	(2,253)	(2,717)	(680)	(410)	(3,434)	(983)
Other income (expense)	381	115	174	155	(35)	38	155	38
Total other income (expense)	302	(415)	(2,079)	(2,562)	(715)	(372)	(3,279)	(945)
Net income (loss)	$ (7,677)	$ 1,623	$ (3,918)	$ 2,002	$ (252)	$ 832	$ 10,393	$ 1,287
Net income per limited partner unit(2)	N/A	N/A	N/A	$ 0.04	N/A	$ 0.11	$ 1.16	$ 0.14
Balance Sheet Data (at period end):								
Working capital surplus (deficit)	$ (4,005)	$ 5,861	$ (2,254)	$ (8,672)	$ (7,470)	$ (11,321)		$ (8,966)
Property and equipment, net	10,540	37,242	84,951	109,948	86,813	112,335		180,235
Total assets	45,051	201,268	168,376	232,438	162,426	322,555		393,822
Total debt	7,000	22,000	60,000	22,550	54,500	20,800		40,800
Partners' equity	3,608	40,354	41,155	89,816	40,505	91,131		142,398
Cash Flow Data:								
Net cash flow provided by (used in):								
Operating activities	$ 7,380	$ 7,741	$ (8,326)	$ 19,956	$ 9,993	$ 5,790		
Investing activities	(2,849)	(25,643)	(52,535)	(33,240)	(3,537)	(4,714)		
Financing activities	198	36,557	42,558	14,240	(5,500)	(2,220)		
Other Financial Data:								
Midstream gross margin	$ 845	$ 4,336	$ 17,918	$ 23,694	$ 5,049	$ 7,907	$ 39,918	$ 11,413
Treating gross margin	1,216	2,516	6,275	9,050	2,072	2,839	9,050	2,839

Total gross margin(3)	2,061	6,852	24,193	32,744	7,121	10,746	48,968	14,252
EBITDA(4)	(7,076)	4,414	4,436	12,464	2,337	3,677	25,949	5,837
Maintenance capital expenditures		57	1,922	2,350	323	344		
Expansion capital expenditures		25,743	50,766	30,980	3,247	4,270		
Total capital expenditures(5)		$ 25,800	$ 52,688	$ 33,330	$ 3,570	$ 4,614		
Operating Data (MMBtu/d):								
Pipeline throughput	23,098	104,185	313,103	392,608	369,260	498,643	496,536	592,593
Natural gas processed	30,699	15,661	60,629	85,581	85,593	93,855	118,239	123,824
Treating volumes(6)	26,872	35,910	62,782	97,033	91,581	87,561	97,033	87,561

(1) Crosstex Energy, L.P. is the successor to Crosstex Energy Services, Ltd. Results of operations and balance sheet data prior to May 1, 2000 represent historical results of the predecessor to Crosstex Energy Services, Ltd. These results are not necessarily comparable to the results subsequent to May 2000 due to the new basis of accounting.

(2) Net income (loss) per limited partner unit is not applicable for periods prior to our initial public offering. Net income per unit of $0.04 for the year ended December 31, 2002 represents allocation of our 2002 net income for the period from December 17, 2002 to December 31, 2002.

(3) Gross margin is defined as revenue less related cost of purchased gas.

(4) We define EBITDA as net income (loss) plus interest expense, provision for income taxes and depreciation and amortization expense. EBITDA is used as a supplemental financial measure by management and by external users of our financial statements, such as investors, commercial banks, research analysts and rating agencies, to assess: (a) the financial performance of our assets without regard to financing methods, capital structures or historical cost basis; (b) our operating performance and return on capital as compared to those of other companies in the midstream energy sector, without regard

to financing and capital structure; and (c) the viability of projects and the overall rates of return on alternative investment opportunities. EBITDA should not be considered an alternative to net income, operating income, cash flow from operating activities or any other measure of financial performance presented in accordance with generally accepted accounting principles. EBITDA is not intended to represent cash flow. Because EBITDA excludes some, but not all, items that affect net income and these measures may vary among other companies, the EBITDA data presented may not be comparable to similarly titled measures of other companies.

The following table reconciles EBITDA to net income (loss):

	Crosstex Energy, L.P.							
	Predecessor	Historical					Pro Forma	
					Unaudited		Unaudited	
	Four Months Ended April 30,	Eight Months Ended December 31,	Year Ended December 31,		Three Months Ended March 31,		Year Ended December 31,	Three Months Ended March 31,
	2000	2000	2001	2002	2002	2003	2002	2003
				(in thousands)				
EBITDA Reconciliation:								
Net income (loss)	$ (7,677)	$ 1,623	$ (3,918)	$ 2,002	$ (252)	$ 832	$ 10,393	$ 1,287
Plus (minus):								
Depreciation and amortization	522	2,261	6,101	7,745	1,909	2,435	12,122	3,567
Interest expense, net	79	530	2,253	2,717	680	410	3,434	983
EBITDA	$ (7,076)	$ 4,414	$ 4,436	$ 12,464	$ 2,337	$ 3,677	$ 25,949	$ 5,837

Our predecessors were partnerships and had no income tax expense. EBITDA for the years ended December 31, 2001 and 2002 and three months ended March 31, 2002 has been reduced by non-cash impairment charges of $2.9 million, $4.2 million and $3.2 million, respectively, and the three months ended March 31, 2003 has been reduced by non-cash stock-based compensation charges of $2.5 million.

(5) Maintenance capital expenditures are capital expenditures made to replace partially or fully depreciated assets in order to maintain the existing operating capacity of our assets and to extend their useful lives. Expansion capital expenditures are capital expenditures made to expand the existing operating capacity of our assets, whether through construction or acquisition. We treat repair and maintenance expenditures that do not extend the useful life of existing assets as operating expenses as we incur them.

(6) Represents volumes for treating plants operated by us whereby we receive a fee based on the volumes treated.

SUMMARY OF CONFLICTS OF INTEREST AND FIDUCIARY RESPONSIBILITIES

Crosstex Energy GP, L.P., our general partner, has a legal duty to manage us in a manner beneficial to our unitholders. This legal duty originates in statutes and judicial decisions and is commonly referred to as a "fiduciary" duty. However, because Crosstex Energy GP, L.P. is indirectly owned by Crosstex Energy Holdings Inc., the officers and directors of Crosstex Energy GP, LLC, who manage and operate our general partner, have fiduciary duties to manage the business of our general partner in a manner beneficial to Crosstex Energy Holdings Inc. The officers and directors of Crosstex Energy GP, LLC have significant relationships with, and responsibilities to, Crosstex Energy Holdings Inc. As a result of this relationship, conflicts of interest may arise in the future between us and our unitholders, on the one hand, and our general partner and its affiliates, on the other hand. For a more detailed description of the conflicts of interest and fiduciary responsibilities of our general partner, please read "Conflicts of Interest and Fiduciary Responsibilities."

Our general partner is permitted to resolve conflicts of interest by considering the interests of all the parties involved. Therefore, our general partner can consider the interests of its affiliates if a conflict of interest arises between the common unitholders and our general partner and its affiliates. Crosstex Energy GP, LLC has a conflicts committee, consisting of three independent members of its board of directors, that is available to review matters involving conflicts of interest. C. Roland Haden, Stephen A. Wells and Robert F. Murchison, all of whom are directors of Crosstex Energy GP, LLC, are members of the conflicts committee. Please read "Management—Directors and Executive Officers of Crosstex Energy GP, LLC" for a discussion of the directors of Crosstex Energy GP, LLC.

Our partnership agreement limits the liability and reduces the fiduciary duties owed by our general partner to the unitholders. Our partnership agreement also restricts the remedies available to unitholders for actions that might otherwise constitute breaches of our general partner's fiduciary duty. By purchasing a common unit, you are treated as having consented to various actions contemplated in the partnership agreement and conflicts of interest that might otherwise be considered a breach of fiduciary or other duties under applicable state law.

We have entered into an agreement with Crosstex Energy Holdings Inc. whereby it has agreed not to engage in the business of gathering, transmitting, treating, processing and marketing of natural gas. In addition, our general partner does not receive any management fee or other compensation for its management of us, but our general partner and its affiliates are reimbursed for general and administrative expenses incurred on our behalf. For the twelve month period ending in December 2003, the amount which we will reimburse the general partner and its affiliates for costs incurred with respect to the general and administrative services performed on our behalf will not exceed $6.0 million. For a more detailed discussion of these agreements, please read "Certain Relationships and Related Transactions."

RISK FACTORS

Limited partner interests are inherently different from the capital stock of a corporation, although many of the business risks to which we are subject are similar to those that would be faced by a corporation engaged in a similar business. You should carefully consider the following risk factors, which we believe include the risks material to our business, together with all of the other information included in this prospectus in evaluating an investment in the common units.

If any of the following risks were actually to occur, our business, financial condition, or results of operations could be materially adversely affected. In that case, we might not be able to pay distributions on our common units, the trading price of our common units could decline and you could lose all or part of your investment.

Risks Inherent in Our Business

We may not have sufficient cash after the establishment of cash reserves and payment of our general partner's fees and expenses to enable us to pay the minimum quarterly distribution each quarter.

We may not have sufficient available cash each quarter to pay the minimum quarterly distribution. Under the terms of our partnership agreement, we must pay our general partner's fees and expenses and set aside any cash reserve amounts before making a distribution to our unitholders. The amount of cash we can distribute on our common units principally depends upon the amount of cash we generate from our operations, which will fluctuate from quarter to quarter based on, among other things;

- the amount of natural gas transported in our gathering and transmission pipelines;
- the level of our processing and treating operations;
- the fees we charge and the margins we realize for our services;
- the price of natural gas;
- the relationship between natural gas and NGL prices; and
- our level of operating costs.

In addition, the actual amount of cash we will have available for distribution will depend on other factors, some of which are beyond our control, including:

- the level of capital expenditures we make;
- the cost of acquisitions, if any;
- our debt service requirements;
- fluctuations in our working capital needs;
- restrictions on distributions contained in our bank credit facility;
- our ability to make working capital borrowings under our bank credit facility to pay distributions;
- prevailing economic conditions; and
- the amount of cash reserves established by our general partner in its sole discretion for the proper conduct of our business.

Because of these factors, we may not have sufficient available cash each quarter to pay the minimum quarterly distribution. Furthermore, you should also be aware that the amount of cash we have available for distribution depends primarily upon our cash flow, including cash flow from financial reserves and working capital borrowings, and is not solely a function of profitability, which will be

affected by non-cash items. As a result, we may make cash distributions during periods when we record losses and may not make cash distributions during periods when we record net income.

We must continually compete for natural gas supplies, and any decrease in our supplies of natural gas could reduce our ability to make distributions to our unitholders.

Competition is intense in many of our markets. The principal areas of competition include obtaining gas supplies and the marketing and transportation of natural gas and NGLs. Our competitors include major integrated oil companies, interstate and intrastate pipelines and natural gas gatherers and processors. Our competitors in the Texas Gulf Coast area include El Paso Field Services, Kinder Morgan Inc., Houston Pipeline Company and Duke Energy Field Services. Our competitors in Mississippi include Southern Natural Gas and Gulf South Pipeline Company. Some of our competitors offer more services or have greater financial resources and access to larger natural gas supplies than we do.

If we are unable to maintain or increase the throughput on our systems by accessing new natural gas supplies to offset the natural decline in reserves, our business and financial results could be materially adversely affected. In addition, our future growth will depend, in part, upon whether we can contract for additional supplies at a greater rate than the rate of natural decline in our currently connected supplies.

In order to maintain or increase throughput levels in our natural gas gathering systems and asset utilization rates at our treating and processing plants, we must continually contract for new natural gas supplies. We may not be able to obtain additional contracts for natural gas supplies. The primary factors affecting our ability to connect new wells to our gathering facilities include our success in contracting for existing natural gas supplies that are not committed to other systems and the level of drilling activity near our gathering systems. Fluctuations in energy prices can greatly affect production rates and investments by third parties in the development of new oil and natural gas reserves. Drilling activity generally decreases as oil and natural gas prices decrease. We have no control over producers and depend on them to maintain sufficient levels of drilling activity. A material decrease in natural gas production or in the level of drilling activity in our principal geographic areas for a prolonged period, as a result of depressed commodity prices or otherwise, likely would have a material adverse effect on our results of operations and financial position. See "Business—Natural Gas Supply" for more information on our supplies of natural gas.

A substantial portion of our assets is connected to natural gas reserves that will decline over time, and the cash flows associated with those assets will accordingly decline.

A substantial portion of our assets, including our gathering systems and our treating plants, is dedicated to certain natural gas reserves and wells for which the production will naturally decline over time. Accordingly, our cash flows associated with these assets will also decline. If we are unable to access new supplies of natural gas either by connecting additional reserves to our existing assets or by constructing or acquiring new assets that have access to additional natural gas reserves, our ability to make distributions to our unitholders could decrease.

Our profitability is dependent upon prices and market demand for natural gas and NGLs, which are beyond our control and have been volatile.

We are subject to significant risks due to fluctuations in commodity prices. These risks are based upon three components of our business: (1) the purchase of certain volumes of natural gas at a price that is a percentage of a relevant index; (2) certain processing contracts for our Gregory system whereby we are exposed to natural gas and NGL commodity price risks; and (3) part of our fee from

the Seminole gas plant is based on a portion of the NGLs produced, and, therefore, is subject to commodity price risks.

The margins we realize from purchasing and selling a portion of the natural gas that we transport through our pipeline systems decrease in periods of low natural gas prices because our gross margins are based on a percentage of the index price. For the year ended December 31, 2002 and the three months ended March 31, 2003, we purchased approximately 6.2% and 8.2%, respectively, of our gas at a percentage of relevant index. Accordingly, a decline in the price of natural gas could have an adverse impact on our results of operations.

A portion of our profitability is affected by the relationship between natural gas and NGL prices. For a component of our Gregory system volumes, we purchase natural gas, process natural gas and extract NGLs, and then sell the processed natural gas and NGLs. Since we extract Btus from the gas stream in the form of the liquids or consume it as fuel during processing, we reduce the Btu content of the natural gas. Accordingly, our margins under these arrangements can be negatively affected in periods in which the value of natural gas is high relative to the value of NGLs. For example, a decrease of $0.01 per gallon in the price of NGLs and an increase of $0.10 per MMBtu in the average price of natural gas for the three months ended March 31, 2003 would have resulted in a decrease in processing margins of approximately $67,678. For the three months ended March 31, 2003, we purchased approximately 29% of the natural gas volumes on our Gregory system under such contracts.

In the past, the prices of natural gas and NGLs have been extremely volatile and we expect this volatility to continue. For example, in 2001, the NYMEX settlement price for natural gas for the prompt month contract ranged from a high of $9.98 per MMBtu to a low of $1.83 per MMBtu. In 2002, the same index ranged from $3.47 per MMBtu to $2.01 per MMBtu. For the three months ended March 31, 2003, the same index ranged from $9.13 per MMBtu to $4.99 per MMBtu. A composite of the OPIS Mt. Belvieu monthly average liquids price based upon our average liquids composition in 2001 ranged from a high of approximately $0.71 per gallon to a low of approximately $0.27 per gallon. In 2002, the same composite ranged from approximately $0.48 per gallon to approximately $0.27 per gallon. For the three months ended March 31, 2003, the same composite ranged from approximately $0.65 per gallon to approximately $0.56 per gallon.

We may not be successful in balancing our purchases and sales. In addition, a producer could fail to deliver contracted volumes or deliver in excess of contracted volumes, or a consumer could purchase less than contracted volumes. Any of these actions could cause our purchases and sales not to be balanced. If our purchases and sales are not balanced, we will face increased exposure to commodity price risks and could have increased volatility in our operating income.

The markets and prices for residue gas and NGLs depend upon factors beyond our control. These factors include demand for oil, natural gas and NGLs, which fluctuate with changes in market and economic conditions and other factors, including:

- the impact of weather on the demand for oil and natural gas;
- the level of domestic oil and natural gas production;
- the availability of imported oil and natural gas;
- actions taken by foreign oil and gas producing nations;
- the availability of local, intrastate and interstate transportation systems;
- the availability and marketing of competitive fuels;
- the impact of energy conservation efforts; and

- the extent of governmental regulation and taxation.

If we are unable to integrate our recent acquisitions, or if we do not continue to make acquisitions on economically acceptable terms, our future financial performance may be limited.

We recently completed the DEFS acquisition, which geographically expanded our operations into Alabama and Mississippi. For the year ended December 31, 2002, the DEFS assets would have constituted 33.3% of our pro forma gross margin and 15.8% of our pro forma EBITDA. We cannot assure you that we will successfully integrate this or any other acquisition into our operations, or that we will achieve the desired profitability from such acquisitions. Failure to successfully integrate these substantial acquisitions could adversely affect our operations and cash flows available for distribution to our unitholders.

Our future financial performance will depend, in part, on our ability to make acquisitions of assets and businesses at attractive prices. From time to time, we will evaluate and seek to acquire assets or businesses that we believe complement our existing business and related assets. Any acquisition involves potential risks, including:

- the inability to integrate the operations of recently acquired businesses or assets;
- the diversion of management's attention from other business concerns;
- the loss of customers or key employees from the acquired businesses;
- a significant increase in our indebtedness; and
- potential environmental liabilities and title problems.

Management's assessment of these risks is necessarily inexact and may not reveal or resolve all existing or potential problems with an acquisition.

If we consummate any future acquisition, our capitalization and results of operation may change significantly, and you will not have the opportunity to evaluate the economic, financial and other relevant information that we will consider in determining the application of these funds and other resources.

Our acquisition strategy is based, in part, on our expectation of ongoing divestitures of gas processing and transportation assets by large industry participants. A material decrease in such divestitures will limit our opportunities for future acquisitions and could adversely affect our operations and cash flows available for distribution to our unitholders.

We have limited control over the development of certain assets because we are not the operator.

As the owner of a non-operating interest in the Seminole gas processing plant, we do not have the right to direct or control the operation of the plant. As a result, the success of the activities conducted at the plant, which is operated by a third party, may be affected by factors outside of our control. The failure of the third-party operator to make decisions, perform its services, discharge its obligations, deal with regulatory agencies or comply with laws, rules and regulations affecting the plant, including environmental laws and regulations, in a proper manner could result in material adverse consequences to our interest and adversely affect our results of operations.

We expect to encounter significant competition in any new geographic areas into which we seek to expand and our ability to enter such markets may be limited.

With our acquisition of assets from DEFS, we have expanded our operations into new geographic areas. As we expand our operations into new geographic areas, we expect to encounter significant competition for natural gas supplies and markets. Competitors in these new markets include companies larger than us, which have both lower capital costs and greater geographic coverage, as well as smaller companies, which have lower total cost structures. As a result, we may not be able to successfully

develop acquired assets and markets located in new geographic areas and our results of operations could be adversely affected.

We are exposed to the credit risk of our customers, and a general increase in the nonpayment and nonperformance by our customers could reduce our ability to make distributions to our unitholders.

Risks of nonpayment and nonperformance by our customers are a major concern in our business. Several participants in the energy industry have been receiving heightened scrutiny from the financial markets in light of the collapse of Enron Corp. We are subject to risks of loss resulting from nonpayment or nonperformance by our customers. We recognized a charge of $5.7 million in 2001 for sales contracts with Enron. These contracts related to our producer services operations in which we purchased and sold natural gas that did not move on our gathering and transmission systems. Any increase in the nonpayment and nonperformance by our customers could reduce our ability to make distributions to our unitholders.

We may not be able to retain existing customers or acquire new customers, which would reduce our revenues and limit our future profitability.

The renewal or replacement of existing contracts with our customers at rates sufficient to maintain current revenues and cash flows depends on a number of factors beyond our control, including competition from other pipelines, and the price of, and demand for, natural gas in the markets we serve.

For the three months ended March 31, 2003, approximately 53% of our sales of gas which were transported using our physical facilities were to industrial end-users and utilities. As a consequence of the increase in competition in the industry and volatility of natural gas prices, end-users and utilities are reluctant to enter into long-term purchase contracts. Many end-users purchase natural gas from more than one natural gas company and have the ability to change providers at any time. Some of these end-users also have the ability to switch between gas and alternate fuels in response to relative price fluctuations in the market. Because there are numerous companies of greatly varying size and financial capacity that compete with us in the marketing of natural gas, we often compete in the end-user and utilities markets primarily on the basis of price. The inability of our management to renew or replace our current contracts as they expire and to respond appropriately to changing market conditions could have a negative effect on our profitability.

We depend on certain key customers, and the loss of any of our key customers could adversely affect our financial results.

We currently derive a significant portion of our revenues from contracts with a subsidiary of Kinder Morgan Inc. To the extent that Kinder Morgan Inc. and other customers may reduce volumes of natural gas purchased under existing contracts, we would be adversely affected unless we were able to make comparably profitable arrangements with other customers. Sales to the subsidiary of Kinder Morgan Inc. accounted for 23.1% of our revenues during the first three months of 2003, 27.5% of our revenues during 2002 and 23.9% of our revenues during 2001. Our agreements with our key customers provide for minimum volumes of natural gas that each customer must purchase until the expiration of the term of the applicable agreement, subject to certain force majeure provisions. Our customers may default on their obligations to purchase the minimum volumes required under the applicable agreements. Our primary contract with Kinder Morgan Inc. expires in March 2006.

We have a limited combined operating history.

Because we have grown rapidly, we have a limited operating history for most of our operations to which you may look to evaluate our performance. As a result, the historical and pro forma information

may not give you an accurate indication of what our actual results would have been if the acquisitions had been completed at the beginning of the periods presented or of what our future results of operations are likely to be.

Growing our business by constructing new pipelines and processing and treating facilities subjects us to construction risks and risks that natural gas supplies will not be available upon completion of the facilities.

One of the ways we intend to grow our business is through the construction of additions to our existing gathering systems and construction of new gathering, processing and treating facilities. We are nearing completion of construction activities to expand our Gregory processing plant at an estimated cost of $8.0 million. The construction of gathering, processing and treating facilities requires the expenditure of significant amounts of capital, which may exceed our expectations. Generally, we may have only limited natural gas supplies committed to these facilities prior to their construction. Moreover, we may construct facilities to capture anticipated future growth in production in a region in which anticipated production growth does not materialize. We may also rely on estimates of proved reserves in our decision to construct new pipelines and facilities, which may prove to be inaccurate because there are numerous uncertainties inherent in estimating quantities of proved reserves. As a result, new facilities may not be able to attract enough natural gas to achieve our expected investment return, which could adversely affect our results of operations and financial condition.

Our business involves many hazards and operational risks, some of which may not be fully covered by insurance.

Our operations are subject to the many hazards inherent in the gathering, compressing, treating and processing of natural gas and storage of residue gas, including:

- damage to pipelines, related equipment and surrounding properties caused by hurricanes, floods, fires and other natural disasters and acts of terrorism;
- inadvertent damage from construction and farm equipment;
- leaks of natural gas, NGLs and other hydrocarbons; and
- fires and explosions.

These risks could result in substantial losses due to personal injury and/or loss of life, severe damage to and destruction of property and equipment and pollution or other environmental damage and may result in curtailment or suspension of our related operations. Our operations are concentrated in the Texas Gulf Coast, and a natural disaster or other hazard affecting this region could have a material adverse effect on our operations. We are not fully insured against all risks incident to our business. In accordance with typical industry practice, we do not have any property insurance on any of our underground pipeline systems which would cover damage to the pipelines. We are not insured against all environmental accidents which might occur, other than those considered to be sudden and accidental. Our business interruption insurance covers only our Gregory processing plant. If a significant accident or event occurs that is not fully insured, it could adversely affect our operations and financial condition.

Terrorist attacks, such as the attacks that occurred on September 11, 2001, have resulted in increased costs, and future war or risk of war may adversely impact our results of operations and our ability to raise capital.

On September 11, 2001, the United States was the target of terrorist attacks of unprecedented scope. These attacks caused instability in the global financial markets and other industries, including the energy industry. Uncertainty surrounding retaliatory military strikes or a sustained military campaign may affect our operations in unpredictable ways, including disruptions of fuel supplies and

markets, and the possibility that infrastructure facilities, including pipelines, production facilities, and transmission and distribution facilities, could be direct targets, or indirect casualties, of an act of terror. Instability in the financial markets as a result of terrorism, the war in Iraq or future developments could also affect our ability to raise capital.

The terrorist attacks on September 11, 2001 and the changes in the insurance markets attributable to the September 11 attacks have made certain types of insurance more difficult for us to obtain. Our insurance policies now generally exclude acts of terrorism as compared to our policies prior to September 11, 2001. Such insurance is not available at what we believe to be acceptable pricing levels. A lower level of economic activity could also result in a decline in energy consumption, which could adversely affect our revenues or restrict our future growth. Instability in the financial markets as a result of terrorism or war could also affect our ability to raise capital.

Our indebtedness may limit our ability to borrow additional funds, make distributions to you or capitalize on acquisitions or other business opportunities.

Upon completion of this offering, we expect our total outstanding long-term indebtedness to be approximately $40.8 million, including $40.0 million of senior secured notes and approximately $0.8 million of other indebtedness. Payments of principal and interest on the indebtedness will reduce the cash available for distribution on the units. The bank credit facility and senior secured notes contain various covenants limiting our ability to incur indebtedness, grant liens, engage in transactions with affiliates, make distributions to our unitholders and capitalize on acquisition or other business opportunities. The bank credit facility and our senior secured notes also contain covenants requiring us to maintain certain financial ratios, such as debt to EBITDA, EBITDA to interest, current assets to current liabilities and minimum tangible net worth. We are prohibited from making any distribution to unitholders if such distribution would cause a default or an event of default under the bank credit facility or the senior secured notes. Each of the bank credit facility and the senior secured notes limits the use of borrowings under the bank credit facility to pay distributions to unitholders to $5.0 million over the term of the bank credit facility. Any subsequent refinancing of our current indebtedness or any new indebtedness could have similar or greater restrictions. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Description of Indebtedness" for a discussion of the bank credit facility and senior secured notes.

Federal, state or local regulatory measures could adversely affect our business.

While the Federal Energy Regulatory Commission, or FERC, generally does not regulate any of our operations, directly or indirectly, it influences certain aspects of our business and the market for our products. As a raw natural gas gatherer, we generally are exempt from FERC regulation under the Natural Gas Act of 1938, or NGA, but FERC regulation still significantly affects our business. In recent years, FERC has pursued pro-competitive policies in its regulation of interstate natural gas pipelines. However, we cannot assure you that FERC will continue this approach as it considers matters such as pipeline rates and rules and policies that may affect rights of access to natural gas transportation capacity.

Some of our intrastate natural gas transmission pipelines are subject to regulation as a common carrier and as a gas utility by the Texas Railroad Commission, or TRRC. The TRRC's jurisdiction extends to both rates and pipeline safety. The rates we charge for transportation services are deemed just and reasonable under Texas law unless challenged in a complaint. Should a complaint be filed or should regulation become more active, our business may be adversely affected.

Other state and local regulations also affect our business. We are subject to ratable take and common purchaser statutes in the states where we operate. Ratable take statues generally require gatherers to take, without undue discrimination, natural gas production that may be tendered to the

gatherer for handling. Similarly, common purchaser statutes generally require gatherers to purchase without undue discrimination as to source of supply or producer. These statutes have the effect of restricting our right as an owner of gathering facilities to decide with whom we contract to purchase or transport natural gas. Federal law leaves any economic regulation of natural gas gathering to the states, and some of the states in which we operate have adopted complaint-based or other limited economic regulation of natural gas gathering activities. States in which we operate that have adopted some form of complaint-based regulation, like Oklahoma and Texas, generally allow natural gas producers and shippers to file complaints with state regulators in an effort to resolve grievances relating to natural gas gathering access and rate discrimination.

The states in which we conduct operations administer federal pipeline safety standards under the Pipeline Safety Act of 1968. The "rural gathering exemption" under the Natural Gas Pipeline Safety Act of 1968 presently exempts substantial portions of our gathering facilities from jurisdiction under that statute, including those portions located outside of cities, towns, or any area designated as residential or commercial, such as a subdivision or shopping center. The "rural gathering exemption," however, may be restricted in the future, and it does not apply to our natural gas transmission pipelines. In response to recent pipeline accidents in other parts of the country, Congress and the Department of Transportation have passed or are considering heightened pipeline safety requirements. See "Business—Regulation."

Our business involves hazardous substances and may be adversely affected by environmental regulation.

Many of the operations and activities of our gathering systems, plants and other facilities are subject to significant federal, state and local environmental laws and regulations. These include, for example, laws and regulations that impose obligations related to air emissions and discharge of wastes from our facilities and the cleanup of hazardous substances that may have been released at properties currently or previously owned or operated by us or locations to which we have sent wastes for disposal. Various governmental authorities have the power to enforce compliance with these regulations and the permits issued under them, and violators are subject to administrative, civil and criminal penalties, including civil fines, injunctions or both. Liability may be incurred without regard to fault for the remediation of contaminated areas. Private parties, including the owners of properties through which our gathering systems pass, may also have the right to pursue legal actions to enforce compliance as well as to seek damages for non-compliance with environmental laws and regulations or for personal injury or property damage.

There is inherent risk of the incurrence of environmental costs and liabilities in our business due to our handling of natural gas and other petroleum products, air emissions related to our operations, historical industry operations, waste disposal practices and the prior use of natural gas flow meters containing mercury. In addition, the possibility exists that stricter laws, regulations or enforcement policies could significantly increase our compliance costs and the cost of any remediation that may become necessary. We may incur material environmental costs and liabilities. Furthermore, our insurance may not provide sufficient coverage in the event an environmental claim is made against us.

Our business may be adversely affected by increased costs due to stricter pollution control requirements or liabilities resulting from non-compliance with required operating or other regulatory permits. New environmental regulations might adversely affect our products and activities, including processing, storage and transportation, as well as waste management and air emissions. Federal and state agencies could also impose additional safety requirements, any of which could affect our profitability. See "Business—Environmental Matters."

Our use of derivative financial instruments has in the past and could in the future result in financial losses or reduce our income.

We use over-the-counter price and basis swaps with other natural gas merchants and financial institutions, and we use futures and option contracts traded on the New York Mercantile Exchange. Use of these instruments is intended to reduce our exposure to short-term volatility in commodity prices. We currently have hedges in place on 130,000 MMBtu of gas per month at prices ranging from $3.45 per MMBtu to $5.56 per MMBtu for the period from April 1, 2003 to September 30, 2003, 100,000 MMBtu of gas per month at prices ranging from $4.51 per MMBtu to $6.13 per MMBtu for the period from October 1, 2003 to December 31, 2003, 90,000 MMBtu of gas per month at prices ranging from $4.51 per MMBtu to $5.59 per MMBtu for the period from January 1, 2004 to March 31, 2004, 70,000 MMBtu of gas per month at prices ranging from $4.67 per MMBtu to $5.09 per MMBtu for the period from April 1, 2004 to June 30, 2004, and 30,000 MMBtu of gas per month at a price of $4.85 per MMBtu for the period from July 1, 2004 to December 31, 2004. We estimate that these quantities represent approximately 100%, 80%, 75%, 60% and 28% of the margin on natural gas that we will buy at a percentage of index and upon which we will be exposed to the risk of fluctuations in natural gas prices. We could incur financial losses or fail to recognize the full value of a market opportunity as a result of volatility in the market values of the underlying commodities or if one of our counterparties fails to perform under a contract. For additional information about our risk management activities, including our use of derivative financial instruments, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures About Market Risk."

Due to our lack of asset diversification, adverse developments in our gathering, transmission, treating, processing and producer services businesses would reduce our ability to make distributions to our unitholders.

We rely exclusively on the revenues generated from our gathering, transmission, treating, processing and producer services businesses, and as a result our financial condition depends upon prices of, and continued demand for, natural gas and NGLs. Due to our lack of asset diversification, an adverse development in one of these businesses would have a significantly greater impact on our financial condition and results of operations than if we maintained more diverse assets.

Our success depends on key members of our management, the loss of whom could disrupt our business operations.

We depend on the continued employment and performance of the officers of the general partner of our general partner and key operational personnel. The general partner of our general partner has entered into employment agreements with each of its executive officers. If any of these officers or other key personnel resign or become unable to continue in their present roles and are not adequately replaced, our business operations could be materially adversely affected. We do not maintain any "key man" life insurance for any officers. See "Management."

Risks Inherent in an Investment in Us

Crosstex Energy Holdings Inc. controls our general partner and will own a 56% limited partner interest in us upon completion of this offering. Our general partner has conflicts of interest and limited fiduciary responsibilities, which may permit our general partner to favor its own interests to the detriment of our unitholders.

Following this offering, Crosstex Energy Holdings Inc. will indirectly own an aggregate limited partner interest of approximately 56% in us. In addition, Crosstex Energy Holdings Inc. owns and controls our general partner. Due to its control of our general partner and the size of its limited partner interest in us, Crosstex Energy Holdings Inc. effectively controls all limited partnership

decisions, including any decisions related to the removal of our general partner. Conflicts of interest may arise in the future between Crosstex Energy Holdings Inc. and its affiliates, including our general partner, on the one hand, and our partnership or any of the unitholders, on the other hand. As a result of these conflicts our general partner may favor its own interests and those of its affiliates over the interests of the unitholders. These conflicts include, among others, the following situations:

Conflicts Relating to Control:

- our partnership agreement limits our general partner's liability and reduces its fiduciary duties, while also restricting the remedies available to unitholders for actions that might, without these limitations, constitute breaches of fiduciary duty by our general partner. As a result of purchasing units, our unitholders are deemed to have consented to some actions and conflicts of interest that might otherwise be deemed a breach of fiduciary or other duties under applicable state law;
- in resolving conflicts of interest, our general partner is allowed to take into account the interests of parties in addition to our unitholders, which has the effect of limiting its fiduciary duties to the unitholders;
- our general partner's affiliates may engage in limited competition with us;
- our general partner controls the enforcement of obligations owed to us by our general partner and its affiliates;
- our general partner decides whether to retain separate counsel, accountants or others to perform services for us;
- in some instances our general partner may cause us to borrow funds from affiliates of the general partner or from third parties in order to permit the payment of cash distributions, even if the purpose or effect of the borrowing is to make a distribution on the subordinated units or to make incentive distributions or hasten the expiration of the subordination period; and
- our partnership agreement gives our general partner broad discretion in establishing financial reserves for the proper conduct of our business. These reserves also will affect the amount of cash available for distribution. Our general partner may establish reserves for distribution on the subordinated units, but only if those reserves will not prevent us from distributing the full minimum quarterly distribution, plus any arrearages, on the common units for the following four quarters.

Conflicts Relating to Costs:

- our general partner determines the amount and timing of asset purchases and sales, capital expenditures, borrowings, issuance of additional limited partner interests and reserves, each of which can affect the amount of cash that is distributed to our unitholders;
- our general partner determines which costs incurred by it and its affiliates are reimbursable by us; and
- our general partner is not restricted from causing us to pay it or its affiliates for any services rendered on terms that are fair and reasonable to us or entering into additional contractual arrangements with any of these entities on our behalf.

Please read "Conflicts of Interest and Fiduciary Responsibilities" and "Certain Relationships and Related Transactions—Omnibus Agreement."

Our unitholders have no right to elect our general partner or the directors of its general partner and have limited ability to remove our general partner.

Unlike the holders of common stock in a corporation, unitholders have only limited voting rights on matters affecting our business, and therefore limited ability to influence management's decisions regarding our business. Unitholders did not elect our general partner or the board of directors of its general partner and have no right to elect our general partner or the board of directors of its general partner on an annual or other continuing basis.

Furthermore, if unitholders are dissatisfied with the performance of our general partner, they will have little ability to remove our general partner. The general partner generally may not be removed except upon the vote of the holders of $66^{2}/_{3}$% of the outstanding units voting together as a single class. Because affiliates of the general partner will control approximately 56.8% of all the units upon completion of this offering, the general partner currently cannot be removed without the consent of the general partner and its affiliates. Also, if the general partner is removed without cause during the subordination period and units held by the general partner and its affiliates are not voted in favor of that removal, all remaining subordinated units will automatically be converted into common units and any existing arrearages on the common units will be extinguished. A removal without cause would adversely affect the common units by prematurely eliminating their distribution and liquidation preference over the subordinated units which would otherwise have continued until we had met certain distribution and performance tests.

Cause is narrowly defined to mean that a court of competent jurisdiction has entered a final, non-appealable judgment finding the general partner liable for actual fraud, gross negligence, or willful or wanton misconduct in its capacity as our general partner. Cause does not include, in most cases, charges of poor management of the business, so the removal of the general partner because of the unitholders' dissatisfaction with the general partner's performance in managing our partnership will most likely result in the termination of the subordination period.

In addition, unitholders' voting rights are further restricted by the partnership agreement provision providing that any units held by a person that owns 20% or more of any class of units then outstanding, other than our general partner, its affiliates, their transferees and persons who acquired such units with the prior approval of the board of directors of the general partner's general partner, cannot be voted on any matter. In addition, the partnership agreement contains provisions limiting the ability of unitholders to call meetings or to acquire information about our operations, as well as other provisions limiting the unitholders' ability to influence the manner or direction of management.

As a result of these provisions, it will be more difficult for a third party to acquire our partnership without first negotiating such a purchase with our general partner and, as a result, you are less likely to receive a takeover premium.

Cost reimbursements due our general partner may be substantial and will reduce the cash available for distribution to you.

Prior to making any distributions on the units, we reimburse our general partner and its affiliates, including officers and directors of our general partner, for all expenses they incur on our behalf. The reimbursement of expenses could adversely affect our ability to make distributions to you. Our general partner has sole discretion to determine the amount of these expenses. In addition, our general partner and its affiliates provide us with services for which we are charged reasonable fees as determined by our general partner in its sole discretion. In December 2003, the $6.0 million limit on such reimbursements will expire and expenses will most likely be higher and reduce the amount of cash available for distribution on the units. See "Management—Reimbursement of Expenses of the General Partner."

The control of our general partner may be transferred to a third party, and that third party could replace our current management team, in each case without unitholder consent.

The general partner may transfer its general partner interest to a third party in a merger or in a sale of all or substantially all of its assets without the consent of the unitholders. Furthermore, there is no restriction in the partnership agreement on the ability of the owner of the general partner from transferring its ownership interest in the general partner to a third party. The new owner of the general partner would then be in a position to replace the board of directors and officers of the general partner with its own choices and to control the decisions taken by the board of directors and officers.

Our general partner's absolute discretion in determining the level of cash reserves may adversely affect our ability to make cash distributions to our unitholders.

Our partnership agreement requires our general partner to deduct from operating surplus cash reserves that in its reasonable discretion are necessary to fund our future operating expenditures. In addition, the partnership agreement permits our general partner to reduce available cash by establishing cash reserves for the proper conduct of our business, to comply with applicable law or agreements to which we are a party or to provide funds for future distributions to partners. These cash reserves will affect the amount of cash available for distribution to our unitholders.

Our partnership agreement contains provisions which reduce the remedies available to unitholders for actions that might otherwise constitute a breach of fiduciary duty by our general partner.

Our partnership agreement limits the liability and reduces the fiduciary duties of our general partner to the unitholders. The partnership agreement also restricts the remedies available to unitholders for actions that would otherwise constitute breaches of our general partner's fiduciary duties. If you choose to purchase a common unit, you will be treated as having consented to the various actions contemplated in the partnership agreement and conflicts of interest that might otherwise be considered a breach of fiduciary duties under applicable state law. See "Conflicts of Interest and Fiduciary Responsibilities."

We may issue additional common units without your approval, which would dilute your ownership interests.

During the subordination period, our general partner, without the approval of our unitholders, may cause us to issue up to 1,316,000 additional common units. Our general partner may also cause us to issue an unlimited number of additional common units or other equity securities of equal rank with the common units, without unitholder approval, in a number of circumstances such as:

- the issuance of common units in connection with acquisitions that increase cash flow from operations per unit on a pro forma basis;
- the conversion of subordinated units into common units;
- the conversion of units of equal rank with the common units into common units under some circumstances;
- the conversion of the general partner interest and the incentive distribution rights into common units as a result of the withdrawal of our general partner;
- issuances of common units under our long-term incentive plan; or
- issuances of common units to repay indebtedness, the cost of which to service is greater than the distribution obligations associated with the units issued in connection with the debt's retirement.

The issuance of additional common units or other equity securities of equal or senior rank will have the following effects:

- our unitholders' proportionate ownership interest in us will decrease;
- the amount of cash available for distribution on each unit may decrease;
- because a lower percentage of total outstanding units will be subordinated units, the risk that a shortfall in the payment of the minimum quarterly distribution will be borne by our common unitholders will increase;
- the relative voting strength of each previously outstanding unit may be diminished; and
- the market price of the common units may decline.

After the end of the subordination period, we may issue an unlimited number of limited partner interests of any type without the approval of our unitholders. Our partnership agreement does not give our unitholders the right to approve our issuance of equity securities ranking junior to the common units at any time.

Our general partner has a limited call right that may require you to sell your common units at an undesirable time or price.

If at any time our general partner and its affiliates own more than 80% of the common units, our general partner will have the right, but not the obligation, which it may assign to any of its affiliates or to us, to acquire all, but not less than all, of the common units held by unaffiliated persons at a price not less than their then-current market price. As a result, you may be required to sell your common units at an undesirable time or price and may therefore not receive any return on your investment. You may also incur a tax liability upon a sale of your units. For additional information about the call right, please read "The Partnership Agreement—Limited Call Right."

You may not have limited liability if a court finds that unitholder action constitutes control of our business.

You could be held liable for our obligations to the same extent as a general partner if a court determined that the right or the exercise of the right by our unitholders to remove or replace our general partner, to approve amendments to our partnership agreement, or to take other action under our partnership agreement constituted participation in the "control" of our business, to the extent that a person who has transacted business with the partnership reasonably believes, based on your conduct, that you are a general partner. Our general partner generally has unlimited liability for the obligations of the partnership, such as its debts and environmental liabilities, except for those contractual obligations of the partnership that are expressly made without recourse to our general partner. In addition, Section 17-607 of the Delaware Revised Uniform Limited Partnership Act provides that a limited partner who receives a distribution and knew at the time of the distribution that the distribution was in violation of that section may be liable to the limited partnership for the amount of the distribution for a period of three years from the date of the distribution. The limitations on the liability of holders of limited partner interests for the obligations of a limited partnership have not been clearly established in some of the other states in which we do business. Please read "The Partnership Agreement—Limited Liability" for a discussion of the implications of the limitations on liability to a unitholder.

Our common units have a limited trading history and a limited trading volume compared to other units representing limited partner interests.

Our common units are traded publicly on the Nasdaq National Market under the symbol "XTEX." However, our common units have a limited trading history and daily trading volumes for our common

units are, and may continue to be, relatively small compared to many other units representing limited partner interests quoted on the Nasdaq National Market. Although we have several market makers in our common units, this alone does not assure significant trading volume or liquidity. We cannot assure you that this offering will increase the trading volume for our common units, and the price of our common units may, therefore, be volatile.

Tax Risks to Our Unitholders.

You are urged to read "Material Tax Consequences" for a more complete discussion of the expected material federal income tax consequences of owning and disposing of common units.

The IRS could treat us as a corporation for tax purposes, which would substantially reduce the cash available for distribution to our unitholders.

The anticipated after-tax economic benefit of an investment in us depends largely on our being treated as a partnership for federal income tax purposes.

If we were treated as a corporation for federal income tax purposes, we would pay tax on our income at corporate rates of up to 35% (under current law) and we would probably pay state income taxes as well. In addition, distributions to you would generally be taxed again to you as corporate distributions and no income, gains, losses, or deductions would flow through to you. Because a tax would be imposed upon us as a corporation, the cash available for distribution to you would be substantially reduced. Therefore, treatment of us as a corporation would result in a material reduction in the anticipated cash flow and after-tax return to you and thus would likely result in a material reduction in the value of the common units.

A change in current law or a change in our business could cause us to be treated as a corporation for federal income tax purposes or otherwise subject us to entity-level taxation. Our partnership agreement provides that, if a law is enacted or existing law is modified or interpreted in a manner that subjects us to taxation as a corporation or otherwise subjects us to entity-level taxation for federal, state, or local income tax purposes, the minimum quarterly distribution amount and the target distribution amounts will be decreased to reflect the impact of that law on us.

A successful IRS contest of the federal income tax positions we take may adversely impact the market for our common units and the costs of any contest will be borne by us and, therefore, indirectly by our unitholders and our general partner.

We have not requested any ruling from the IRS with respect to our treatment as a partnership for federal income tax purposes or any other matter affecting us. The IRS may adopt positions that differ from our counsel's conclusions expressed in this prospectus or from the positions we take. It may be necessary to resort to administrative or court proceedings to sustain some or all of our counsel's conclusions or the positions we take. A court may not agree with all of our counsel's conclusions or the positions we take.

Any contest with the IRS may materially and adversely impact the market for our common units and the prices at which common units trade. In addition, our costs of any contest with the IRS will be borne by us and therefore indirectly by our unitholders and our general partner.

You may be required to pay taxes on income from us even if you do not receive any cash distributions from us.

You will be required to pay federal income taxes and, in some cases, state, local, and foreign income taxes on your share of our taxable income even if you do not receive cash distributions from us. You may not receive cash distributions equal to your share of our taxable income or even the tax liability that results from that income.

Tax gain or loss on the disposition of our common units could be different than expected.

If you sell your common units, you will recognize gain or loss equal to the difference between the amount realized and your tax basis in those common units. Prior distributions in excess of the total net taxable income you were allocated for a common unit, which decreased your tax basis in that common unit, will, in effect, become taxable income to you if the common unit is sold at a price greater than your tax basis in that common unit, even if the price you receive is less than your original cost. A substantial portion of the amount realized, whether or not representing gain, will likely be ordinary income to you. Should the IRS successfully contest some positions we take, you could recognize more gain on the sale of units than would be the case under those positions, without the benefit of decreased income in prior years. In addition, if you sell your units, you may incur a tax liability in excess of the amount of cash you receive from the sale.

Recent changes in federal income tax law could affect the value of our common units.

On May 28, 2003, the Jobs and Growth Tax Relief Reconciliation Act of 2003 was signed into law, which generally reduces the maximum tax rate applicable to corporate dividends to 15%. This reduction could materially affect the value of our common units in relation to alternative investments in corporate stock, as investments in corporate stock may be more attractive to individual investors thereby exerting downward pressure on the market price of our common units.

Tax-exempt entities, regulated investment companies, and foreign persons face unique tax issues from owning common units that may result in adverse tax consequences to them.

Investment in common units by tax-exempt entities, such as individual retirement accounts (known as IRAs), regulated investment companies (known as mutual funds) and non-U.S. persons, raises issues unique to them. For example, virtually all of our income allocated to organizations exempt from federal income tax, including individual retirement accounts and other retirement plans, will be unrelated business income and will be taxable to them. Very little of our income will be qualifying income to a regulated investment company or mutual fund. Distributions to non-U.S. persons will be reduced by withholding taxes, at the highest effective tax rate applicable to individuals, and non-U.S. persons will be required to file federal income tax returns and generally pay tax on their share of our taxable income.

We are registered as a tax shelter. This may increase the risk of an IRS audit of us or a unitholder.

We are registered with the IRS as a "tax shelter." We will advise you of our tax shelter registration number once one has been assigned. The tax laws require that some types of entities, including some partnerships, register as "tax shelters" in response to the perception that they claim tax benefits that may be unwarranted. As a result, we may be audited by the IRS and tax adjustments could be made. Any unitholder owning less than a 1% profits interest in us has very limited rights to participate in the income tax audit process. Further, any adjustments in our tax returns will lead to adjustments in our unitholders' tax returns and may lead to audits of unitholders' tax returns and adjustments of items unrelated to us. You will bear the cost of any expense incurred in connection with an examination of your personal tax return.

We will determine the tax benefits that are available to an owner of units without regard to the units purchased. The IRS may challenge this treatment, which could adversely affect the value of the common units.

Because we cannot match transferors and transferees of common units and because of other reasons, we will take depreciation and amortization positions that may not conform to all aspects of the Treasury regulations. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to you. It also could affect the timing of these tax benefits or the amount of gain

from the sale of common units and could have a negative impact on the value of our common units or result in audit adjustments to your tax returns.

As a result of investing in our common units, you will likely be subject to state and local taxes and return filing requirements in jurisdictions where you do not live.

In addition to federal income taxes, unitholders will likely be subject to other taxes such as state and local income taxes, unincorporated business taxes and estate, inheritance or intangible taxes that are imposed by the various jurisdictions in which we do business or own property. You will likely be required to file state, local and foreign income tax returns and pay state, local and foreign income taxes in some or all of the various jurisdictions in which we do business or own property and may be subject to penalties for failure to comply with those requirements. We own property or conduct business in Texas, Oklahoma, Louisiana, New Mexico, Arkansas, Mississippi and Alabama. Oklahoma, Louisiana, New Mexico, Arkansas, Mississippi and Alabama impose an income tax, generally. Texas does not impose a state income tax on individuals, but does impose a franchise tax on limited liability companies and corporations in certain circumstances. Texas does not impose a franchise tax on partnerships at this time. We may do business or own property in other states or foreign countries in the future. It is your responsibility to file all federal, state, local, and foreign tax returns. Our counsel has not rendered an opinion on the state, local, or foreign tax consequences of owning our common units.

USE OF PROCEEDS

We expect to receive net proceeds of approximately $50.2 million from the sale of the 1,500,000 common units offered by this prospectus, together with a capital contribution from our general partner of approximately $1.1 million to maintain its 2% general partner interest in our partnership, assuming an offering price of $36.00 per unit and after deducting underwriting discounts and estimated offering expenses. We intend to use all of the net proceeds of this offering to repay a portion of our borrowings under the bank credit facility incurred in connection with recent acquisitions and capital projects, including the DEFS acquisition. We will use any net proceeds from the exercise of the over-allotment option to further repay borrowings under the bank credit facility.

As of March 31, 2003, total borrowings under the bank credit facility were approximately $20.0 million and had a weighted-average interest rate of 3.57%. The bank credit facility was amended in June 2003, and has a maturity date of June 1, 2006. Borrowings have increased under the bank credit facility since March 31, 2003 as a result of the DEFS acquisition and other capital projects.

CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2003 on:

- a historical basis;
- a pro forma basis to give effect to adjustments related to the DEFS acquisition and the issuance of $40.0 million of senior secured notes; and
- a pro forma as adjusted basis to give effect to the common units offered by this prospectus, our general partner's proportionate capital contribution and the application of the net proceeds from this offering as described in "Use of Proceeds."

You should read our financial statements and notes that are included elsewhere in this prospectus for additional information about our capital structure.

	As of March 31, 2003		
	Historical	Pro Forma	Pro Forma As Adjusted
	(in thousands)		
Cash and cash equivalents	$ 164	$ 164	$ 2,519
Debt:			
Bank debt & other	$ 20,800	$ 49,712	$ 800
Senior secured notes	—	40,000	40,000
Total debt	20,800	89,712	40,800
Partners' equity:			
Common unitholders	58,854	58,854	109,019
Subordinated unitholders	33,919	33,919	33,919
General partner interest	1,083	1,083	2,185
Other comprehensive income (loss)	(2,725)	(2,725)	(2,725)
Total partners' equity	91,131	91,131	142,398
Total capitalization	$ 111,931	$ 180,843	$ 183,198

PRICE RANGE OF COMMON UNITS AND DISTRIBUTIONS

Our common units are listed and traded on the Nasdaq National Market under the symbol "XTEX." Our common units began trading on December 12, 2002 at an initial public offering price of $20.00 per common unit. The following table shows the low and high closing sale prices per common unit, as reported by the Nasdaq National Market, for the periods indicated.

	Common Unit Price Range		Cash Distributions Per Unit
	Low	High	
2003:			
Quarter Ended September 30(a)	$ 33.25	$ 36.58	$ —(b)
Quarter Ended June 30	$ 24.36	$ 34.40	$ —(c)
Quarter Ended March 31	$ 21.48	$ 24.50	$ 0.576(d)
2002:			

Quarter Ended December 31	$ 20.10	$ 21.45	$ —

(a) Through July 9, 2003.

(b) For the quarter ended September 30, 2003, the board of directors of our general partner has authorized a distribution of $0.70 per unit, representing $0.20 in excess of the minimum quarterly distribution on all of our outstanding units.

(c) For the quarter ended June 30, 2003, we have declared a distribution of $0.550 per unit, representing $0.05 in excess of the minimum quarterly distribution on all of our outstanding units.

(d) Reflects minimum quarterly distribution of $0.50 for the quarter ended March 31, 2003 and the pro rata portion of the $0.50 minimum quarterly distribution, covering the period from the December 17, 2002 closing of the initial public offering through December 31, 2002.

The last reported sale price of our common units on the Nasdaq National Market on July 9, 2003 was $36.00. As of July 3, 2003, there were approximately 2,600 holders of record of our common units.

CASH DISTRIBUTION POLICY

Distributions of Available Cash

General. Within approximately 45 days after the end of each quarter, we will distribute all of our available cash to unitholders of record on the applicable record date.

Definition of Available Cash. Available Cash means, for any quarter ending prior to liquidation:

- the sum of
  - all cash and cash equivalents of Crosstex Energy, L.P. and its subsidiaries on hand at the end of that quarter; and
  - all additional cash and cash equivalents of Crosstex Energy, L.P. and its subsidiaries on hand on the date of determination of available cash for that quarter resulting from working capital borrowings made after the end of that quarter;
- less the amount of cash reserves that is necessary or appropriate in the reasonable discretion of the general partner to
  - provide for the proper conduct of the business of Crosstex Energy, L.P. and its subsidiaries (including reserves for future capital expenditures and for future credit needs of Crosstex Energy, L.P. and its subsidiaries) after that quarter;
  - comply with applicable law or any debt instrument or other agreement or obligation to which Crosstex Energy, L.P. or any of its subsidiaries is a party or its assets are subject; and
  - provide funds for minimum quarterly distributions and cumulative common unit arrearages for any one or more of the next four quarters;

provided, however, that the general partner may not establish cash reserves for distributions to the subordinated units unless the general partner has determined that, in its judgment, the establishment of reserves will not prevent Crosstex Energy, L.P. from distributing the minimum quarterly distribution on all common units and any cumulative common unit arrearages thereon for the next four quarters; and

provided, further, that disbursements made by Crosstex Energy, L.P. or any of its subsidiaries or cash reserves established, increased or reduced after the end of that quarter but on or before the date of determination of available cash for that quarter shall be deemed to have been made, established, increased or reduced, for purposes of determining available cash, within that quarter if the general partner so determines.

Minimum Quarterly Distribution. Common units are entitled to receive distributions from operating surplus of $0.50 per quarter, or $2.00 on an annualized basis, before any distributions are paid on our subordinated units. There is no guarantee that we will pay the minimum quarterly distribution on the common units in any quarter, and we will be prohibited from making any distributions to unitholders if it would cause a default or an event of default under our bank credit facility or the senior secured notes.

Contractual Restrictions on our Ability to Distribute Available Cash. Our ability to distribute available cash is contractually restricted by the terms of our bank credit facility and our senior secured notes. The bank credit facility and the our senior secured notes contain covenants requiring us to maintain certain financial ratios, such as debt to EBITDA, EBITDA to interest expense and current assets to current liabilities. We are prohibited from making any distribution to unitholders if such distribution would cause a default or an event of default under the bank credit facility or the senior secured notes. The bank credit facility and the master shelf agreement governing the senior secured

notes limit the use of borrowings under the bank credit facility to make distributions to unitholders to $5.0 million over the term of the bank credit facility.

Operating Surplus and Capital Surplus

General. All cash distributed to unitholders will be characterized either as "operating surplus" or "capital surplus." We distribute available cash from operating surplus differently than available cash from capital surplus.

Definition of Operating Surplus. We define operating surplus in the glossary, and for any period it generally means:

- our cash balance of $7.2 million at the closing of our initial public offering; plus
- $8.9 million (as described below); plus
- all of our cash receipts since the initial public offering, excluding cash from borrowings that are not working capital borrowings, sales of equity and debt securities and sales or other dispositions of assets outside the ordinary course of business; plus
- working capital borrowings made after the end of a quarter but before the date of determination of operating surplus for the quarter; less
- all of our operating expenditures since the initial public offering, including the repayment of working capital borrowings, but not the repayment of other borrowings, and including maintenance capital expenditures, and less
- the amount of cash reserves that the general partner deems necessary or advisable to provide funds for future operating expenditures.

As reflected above, our definition of operating surplus includes $8.9 million in addition to our cash balance of $7.2 million at the closing of our initial public offering, cash receipts from our operations and cash from working capital borrowings. This amount does not reflect actual cash on hand at closing that is available for distribution to our unitholders. Rather, it is a provision that will enable us, if we choose, to distribute as operating surplus up to $8.9 million of cash we receive in the future from non-operating sources, such as asset sales, issuances of securities and long-term borrowings, that would otherwise be distributed as capital surplus.

Definition of Capital Surplus. We also define capital surplus in the glossary, and it will generally be generated only by:

- borrowings other than working capital borrowings;
- sales of debt and equity securities; and
- sales or other disposition of assets for cash, other than inventory, accounts receivable and other current assets sold in the ordinary course of business or as part of normal retirements or replacements of assets.

Characterization of Cash Distributions. We will treat all available cash distributed as coming from operating surplus until the sum of all available cash distributed since we began operations equals the operating surplus as of the most recent date of determination of available cash. We will treat any amount distributed in excess of operating surplus, regardless of its source, as capital surplus. While we do not currently anticipate that we will make any distributions from capital surplus in the near term, we may determine that the sale or disposition of an asset or business owned or acquired by us may be beneficial to our unitholders. If we distribute to you the equity we own in a subsidiary or the proceeds

from the sale of one of our businesses, such a distribution would be characterized as a distribution from capital surplus.

Subordination Period

General. During the subordination period, which we define below and in the glossary, the common units will have the right to receive distributions of available cash from operating surplus in an amount equal to the minimum quarterly distribution of $0.50 per quarter, plus any arrearages in the payment of the minimum quarterly distribution on the common units from prior quarters, before any distributions of available cash from operating surplus may be made on the subordinated units. The purpose of the subordinated units is to increase the likelihood that during the subordination period there will be available cash to be distributed on the common units.

Definition of Subordination Period. We define the subordination period in the glossary. The subordination period will extend until the first day of any quarter beginning after December 31, 2007 that each of the following tests are met:

- distributions of available cash from operating surplus on each of the outstanding common units and subordinated units equaled or exceeded the minimum quarterly distribution for each of the three consecutive, non-overlapping four-quarter periods immediately preceding that date;
- the "adjusted operating surplus" (as described below) generated during each of the three consecutive, non-overlapping four quarter periods immediately preceding that date equaled or exceeded the sum of the minimum quarterly distributions on all of the outstanding common units and subordinated units during those periods on a fully diluted basis and the related distribution on the 2% general partner interest during those periods; and
- there are no arrearages in payment of the minimum quarterly distribution on the common units.

Early Conversion of Subordinated Units. Before the end of the subordination period, a portion of the subordinated units may convert into common units on a one-for-one basis immediately after the distribution of available cash to partners in respect of any quarter ending on or after:

- December 31, 2005 with respect to 25% of the subordinated units; and
- December 31, 2006 with respect to 25% of the subordinated units.

The early conversions will occur if at the end of the applicable quarter each of the following three tests are met:

- distributions of available cash from operating surplus on each of the outstanding common units and the subordinated units equaled or exceeded the minimum quarterly distribution for each of the three consecutive, non-overlapping four-quarter periods immediately preceding that date;
- the adjusted operating surplus generated during each of the three consecutive non-overlapping four-quarter periods immediately preceding that date equaled or exceeded the sum of the minimum quarterly distributions on all of the outstanding common units and subordinated units during those periods on a fully diluted basis and the related distribution on the 2% general partner interest during those periods; and
- there are no arrearages in payment of the minimum quarterly distribution on the common units.

However, the early conversion of the second 25% of the subordinated units may not occur until at least one year following the early conversion of the first 25% of the subordinated units.

Definition of Adjusted Operating Surplus. We define "adjusted operating surplus" in the glossary, and for any period it generally means:

- operating surplus generated with respect to that period; less
- any net increase in working capital borrowings with respect to that period; less
- any net reduction in cash reserves for operating expenditures with respect to that period not relating to an operating expenditure made with respect to that period; plus
- any net decrease in working capital borrowings with respect to that period; and plus
- any net increase in cash reserves for operating expenditures with respect to that period required by any debt instrument for the repayment of principal, interest or premium.

Adjusted Operating Surplus is intended to reflect the cash generated from operations during a particular period and therefore excludes net increases in working capital borrowings and net drawdowns of reserves of cash generated in prior periods.

Effect of Expiration of the Subordination Period. Upon expiration of the subordination period, each outstanding subordinated unit will convert into one common unit and will then participate, pro rata, with the other common units in distributions of available cash. In addition, if the unitholders remove our general partner other than for cause and units held by our general partner and its affiliates are not voted in favor of such removal:

- the subordination period will end and each subordinated unit will immediately convert into one common unit on a one-for-one basis;
- any existing arrearages in payment of the minimum quarterly distribution on the common units will be extinguished; and
- our general partner will have the right to convert its general partner interest and its incentive distribution rights into common units or to receive cash in exchange for those interests.

Distributions of Available Cash from Operating Surplus During the Subordination Period

We will make distributions of available cash from operating surplus for any quarter during the subordination period in the following manner:

- *First,* 98% to the common unitholders, pro rata, and 2% to our general partner, until we distribute for each outstanding common unit an amount equal to the minimum quarterly distribution for that quarter;
- *Second,* 98% to the common unitholders, pro rata, and 2% to our general partner, until we distribute for each outstanding common unit an amount equal to any arrearages in payment of the minimum quarterly distribution on the common units for any prior quarters during the subordination period;
- *Third,* 98% to the subordinated unitholders, pro rata, and 2% to our general partner, until we distribute for each subordinated unit an amount equal to the minimum quarterly distribution for that quarter; and
- *Thereafter,* in the manner described in "—Incentive Distribution Rights" below.

Distributions of Available Cash from Operating Surplus After the Subordination Period

We will make distributions of available cash from operating surplus for any quarter after the subordination period in the following manner:

- *First,* 98% to all unitholders, pro rata, and 2% to our general partner until we distribute for each outstanding unit an amount equal to the minimum quarterly distribution for that quarter; and
- *Thereafter,* in the manner described in "—Incentive Distribution Rights" below.

Incentive Distribution Rights

Incentive distribution rights represent the right to receive an increasing percentage of quarterly distributions of available cash from operating surplus after the minimum quarterly distribution and the target distribution levels have been achieved. Our general partner currently holds the incentive distribution rights, but may transfer these rights separately from its general partner interest, subject to restrictions in the partnership agreement.

If for any quarter:

- we have distributed available cash from operating surplus to the common and subordinated unitholders in an amount equal to the minimum quarterly distribution; and
- we have distributed available cash from operating surplus on outstanding common units in an amount necessary to eliminate any cumulative arrearages in payment of the minimum quarterly distribution;

then, we will distribute any additional available cash from operating surplus for that quarter among the unitholders and our general partner in the following manner:

- *First,* 85% to all unitholders, pro rata, 13% to the holders of the incentive distribution rights, pro rata, and 2% to our general partner until each unitholder receives a total of $0.625 per unit for that quarter (the "first target distribution");

- *Second,* 75% to all unitholders, pro rata, 23% to the holders of the incentive distribution rights, pro rata, and 2% to our general partner, until each unitholder receives a total of $0.75 per unit for that quarter (the "second target distribution"); and

- *Thereafter,* 50% to all unitholders, pro rata, 48% to the holders of the incentive distribution rights, pro rata, and 2% to our general partner.

In each case, the amount of the target distribution set forth above is exclusive of any distributions to common unitholders to eliminate any cumulative arrearages in payment of the minimum quarterly distribution.

Target Amount of Quarterly Distribution

The following table illustrates the percentage allocations of the additional available cash from operating surplus among the unitholders, our general partner and the holders of the incentive distribution rights up to the various target distribution levels. The amounts set forth under "Marginal Percentage Interest in Distributions" are the percentage interests of our unitholders, our general partner and the holders of the incentive distribution rights in any available cash from operating surplus we distribute up to and including the corresponding amount in the column "Total Quarterly Distribution Target Amount," until available cash from operating surplus we distribute reaches the next target distribution level, if any. The percentage interests shown for the unitholders and our general

partner for the minimum quarterly distribution are also applicable to quarterly distribution amounts that are less than the minimum quarterly distribution.

		Marginal Percentage Interest in Distributions		
	Total Quarterly Distribution Target Amount	Unitholders	General Partner	Holders of Incentive Distribution Rights
Minimum Quarterly Distribution	$0.50	98%	2%	—
First Target Distribution	above $0.50 up to $0.625	85%	2%	13%
Second Target Distribution	above $0.625 up to $0.75	75%	2%	23%
Thereafter	above $0.75	50%	2%	48%

Distributions from Capital Surplus

How Distributions from Capital Surplus will be Made. We will make distributions of available cash from capital surplus in the following manner:

- *First,* 98% to all unitholders, pro rata, and 2% to our general partner, until we distribute for each common unit that was issued in the initial public offering, an amount of available cash from capital surplus equal to the initial public offering price;

- *Second,* 98% to the common unitholders, pro rata, and 2% to our general partner, until we distribute for each common unit, an amount of available cash from capital surplus equal to any unpaid arrearages in payment of the minimum quarterly distribution on the common units; and

- *Thereafter,* we will make all distributions of available cash from capital surplus as if they were from operating surplus.

Effect of a Distribution from Capital Surplus. The partnership agreement treats a distribution of capital surplus as the repayment of the initial unit price from the initial public offering, which is a return of capital. The initial public offering price less any distributions of capital surplus per unit is referred to as the "unrecovered initial unit price." Each time a distribution of capital surplus is made, the minimum quarterly distribution and the target distribution levels will be reduced in the same proportion as the corresponding reduction in the unrecovered initial unit price. Because distributions of capital surplus will reduce the minimum quarterly distribution, after any of these distributions are made, it may be easier for our general partner to receive incentive distributions and for the subordinated units to convert into common units. However, any distribution of capital surplus before the unrecovered initial unit price is reduced to zero cannot be applied to the payment of the minimum quarterly distribution or any arrearages.

Once we distribute capital surplus on a unit issued in this offering in an amount equal to the initial unit price, we will reduce the minimum quarterly distribution and the target distribution levels to zero. We will then make all future distributions from operating surplus, with 50% being paid to the holders of units, 48% to the holders of incentive distribution rights and 2% to our general partner.

Adjustment to the Minimum Quarterly Distribution and Target Distribution Levels

In addition to adjusting the minimum quarterly distribution and target distribution levels to reflect a distribution of capital surplus, if we combine our units into fewer units or subdivide our units into a greater number of units we will proportionately adjust:

- the minimum quarterly distribution;

- target distribution levels;

- unrecovered initial unit price;

- the number of common units issuable during the subordination period without a unitholder vote; and
- the number of common units into which a subordinated unit is convertible.

For example, if a two-for-one split of the common units should occur, the minimum quarterly distribution, the target distribution levels and the unrecovered initial unit price would each be reduced to 50% of its initial level. We will not make any adjustment by reason of the issuance of additional units for cash or property.

In addition, if legislation is enacted or if existing law is modified or interpreted in a manner that causes us to become taxable as a corporation or otherwise subject to taxation as an entity for federal, state or local income tax purposes, we will reduce the minimum quarterly distribution and the target distribution levels by multiplying the same by one minus the sum of the highest marginal federal corporate income tax rate that could apply and any increase in the effective overall state and local income tax rates. For example, if we became subject to a maximum marginal federal, and effective state and local income tax rate of 38%, then the minimum quarterly distribution and the target distributions levels would each be reduced to 62% of their previous levels.

Distributions of Cash upon Liquidation

General. If we dissolve in accordance with the partnership agreement, we will sell or otherwise dispose of our assets in a process called a liquidation. We will first apply the proceeds of liquidation to the payment of our creditors. We will distribute any remaining proceeds to the unitholders and our general partner, in accordance with their capital account balances, as adjusted to reflect any gain or loss upon the sale or other disposition of our assets in liquidation.

The allocations of gain and loss upon liquidation are intended, to the extent possible, to entitle the holders of outstanding common units to a preference over the holders of outstanding subordinated units upon our liquidation, to the extent required to permit common unitholders to receive their unrecovered initial unit price plus the minimum quarterly distribution for the quarter during which liquidation occurs plus any unpaid arrearages in payment of the minimum quarterly distribution on the common units. However, there may not be sufficient gain upon our liquidation to enable the holders of common units to fully recover all of these amounts, even though there may be cash available for distribution to the holders of subordinated units. Any further net gain recognized upon liquidation will be allocated in a manner that takes into account the incentive distribution rights of our general partner.

Manner of Adjustments for Gain. The manner of the adjustment for gain is set forth in the partnership agreement. If our liquidation occurs before the end of the subordination period, we will allocate any gain to the partners in the following manner:

- *First,* to our general partner and the holders of units who have negative balances in their capital accounts to the extent of and in proportion to those negative balances;
- *Second,* 98% to the common unitholders, pro rata, and 2% to our general partner, until the capital account for each common unit is equal to the sum of:

    (1) the unrecovered initial unit price;

    (2) the amount of the minimum quarterly distribution for the quarter during which our liquidation occurs; and

    (3) any unpaid arrearages in payment of the minimum quarterly distribution on that common unit;

- *Third,* 98% to the subordinated unitholders, pro rata, and 2% to our general partner, until the capital account for each subordinated unit is equal to the sum of:

    (1) the unrecovered initial unit price; and

    (2) the amount of the minimum quarterly distribution for the quarter during which our liquidation occurs;

- *Fourth,* 85% to all unitholders, pro rata, 13% to the holders of incentive distribution rights, pro rata, and 2% to our general partner until we allocate under this paragraph an amount per unit equal to:

    (1) the sum of the excess of the first target distribution per unit over the minimum quarterly distribution per unit for each quarter of our existence; less

    (2) the cumulative amount per unit of any distributions of available cash from operating surplus in excess of the minimum quarterly distribution per unit that we distributed 85% to the unitholders, pro rata, and 15% to our general partner for each quarter of our existence;

- *Fifth,* 75% to all unitholders, pro rata, 23% to the holders of incentive distribution rights, pro rata, and 2% to our general partner, until we allocate under this paragraph an amount per unit equal to:

    (1) the sum of the excess of the second target distribution per unit over the first target distribution per unit for each quarter of our existence; less

    (2) the cumulative amount per unit of any distributions of available cash from operating surplus in excess of the first target distribution per unit that we distributed 75% to the unitholders, pro rata, and 25% to our general partner for each quarter of our existence;

- *Thereafter,* 50% to all unitholders, pro rata, 48% to the holders of the incentive distribution rights, pro rata, and 2% to our the general partner.

If the liquidation occurs after the end of the subordination period, the distinction between common units and subordinated units will disappear, so that clause (3) of the second bullet point above and all of the third bullet point above will no longer be applicable.

Manner of Adjustments for Losses. Upon our liquidation, we will generally allocate any loss to our general partner and the unitholders in the following manner:

- *First,* 98% to holders of subordinated units in proportion to the positive balances in their capital accounts and 2% to our general partner until the capital accounts of the subordinated unitholders have been reduced to zero;

- *Second,* 98% to the holders of common units in proportion to the positive balances in their capital accounts and 2% to our general partner until the capital accounts of the common unitholders have been reduced to zero; and

- *Thereafter,* 100% to our general partner.

If the liquidation occurs after the end of the subordination period, the distinction between common units and subordinated units will disappear, so that all of the first bullet point above will no longer be applicable.

Adjustments to Capital Accounts. We will make adjustments to capital accounts upon the issuance of additional units. In doing so, we will allocate any unrealized and, for tax purposes, unrecognized gain or loss resulting from the adjustments to the unitholders and our general partner in the same manner as we allocate gain or loss upon liquidation. In the event that we make positive adjustments to the capital accounts upon the issuance of additional units, we will allocate any later negative adjustments to the capital accounts resulting from the issuance of additional units or upon our liquidation in a manner which results, to the extent possible, in our general partner's capital account balances equaling the amount which they would have been if no earlier positive adjustments to the capital accounts had been made.

SELECTED HISTORICAL AND PRO FORMA FINANCIAL AND OPERATING DATA

The following table sets forth selected historical financial and operating data for Crosstex Energy, L.P. and our predecessor, Crosstex Energy Services, Ltd., as of and for the dates and periods indicated and selected pro forma financial and operating data for Crosstex Energy, L.P. as of and for the year ended December 31, 2002 and the three months ended March 31, 2003. The summary historical financial data for the year ended December 31, 1998 and 1999, the four months ended April 30, 2000, the eight months ended December 31, 2000, and the years ended December 31, 2001 and 2002 are derived from our audited financial statements of Crosstex Energy, L.P. and its predecessor. The summary historical financial data for the three months ended March 31, 2002 and 2003 are derived from our unaudited financial statements and, in our opinion, have been prepared on the same basis as the audited financial statements and include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of this information. As described in our historical financial statements, the investment in our predecessor by Yorktown Energy Partners IV, L.P. in May 2000 resulted in the dissolution of the predecessor partnership and the creation of a new partnership with the same organization, purpose, assets and liabilities. Accordingly, the audited financial statements for 2000 are divided into the four months ended April 30, 2000 and the eight months ended December 31, 2000 because a new basis of accounting was established effective May 1, 2000 to give effect to the Yorktown transaction. In addition, the summary historical financial and operating data include the results of operations of the Arkoma system beginning in September 2000, the Gulf Coast system beginning in September 2000 and the CCNG system, which includes the Corpus Christi system, the Gregory gathering system and the Gregory processing plant, beginning in May 2001.

The selected pro forma financial and operating data reflect our consolidated historical operating results as adjusted for the DEFS acquisition, the senior secured notes offering, this offering and, in the case of the pro forma statement of operations for the year ended December 31, 2002, our initial public offering. The selected pro forma financial data is derived from the unaudited pro forma financial statements. The pro forma balance sheet assumes that the DEFS acquisition, the senior secured notes offering and this offering occurred on March 31, 2003. The pro forma statements of operations assume that the DEFS acquisition, the senior secured note offering, this offering and our initial public offering occurred on January 1, 2002. For a description of all of the assumptions used in preparing the summary pro forma financial data, you should read the notes to the pro forma financial statements. The pro forma financial and operating data should not be considered as indicative of the historical results we would have had or the future results that we will have after the offering.

We derived the information in the following table from, and that information should be read together with, and is qualified in its entirety by reference to, the historical and pro forma financial statements and the accompanying notes included in this prospectus. The table should be read together with "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Crosstex Energy, L.P.(1)

	Predecessor			Historical					Pro Forma	
							Unaudited		Unaudited	
	Years Ended December 31,		Four Months Ended April 30,	Eight Months Ended December 31,	Year Ended December 31,	Year Ended December 31,	Three Months Ended March 31,		Year Ended December 31,	Three Months Ended March 31,
	1998	1999	2000	2000	2001	2002	2002	2003	2002	2003
	(in thousands, except per unit amounts and operating data)									
Statement of Operations Data:										
Revenues:										
Midstream	$ 7,181	$ 7,896	$ 3,591	$ 88,008	$ 362,673	$ 437,676	$ 77,808	$ 245,315	$ 574,757	$302,764
Treating	1,647	9,770	5,947	17,392	24,353	14,817	3,185	5,255	14,817	5,255
Total revenues	8,828	17,666	9,538	105,400	387,026	452,493	80,993	250,570	589,574	308,019

Operating costs and expenses:										
Midstream purchased gas	5,561	5,154	2,746	83,672	344,755	413,982	72,759	237,408	534,839	291,351
Treating purchased gas	1,025	8,110	4,731	14,876	18,078	5,767	1,113	2,416	5,767	2,416
Operating expenses	871	986	544	1,796	7,430	10,468	2,440	3,210	15,661	4,556
General and administrative	2,006	2,078	810	2,010	5,914	8,454	1,934	1,500	6,000	1,500
Stock based compensation	—	—	8,802	—	—	41	—	2,504	41	2,504
Impairments	—	538	—	—	2,873	4,175	3,150	—	4,175	—
(Profit) loss on energy trading contracts	(1,402)	(1,764)	(638)	(1,253)	3,714	(2,703)	(2,775)	(107)	(2,703)	(107)
Depreciation and amortization	843	1,286	522	2,261	6,101	7,745	1,909	2,435	12,122	3,567
Total operating costs and expenses	8,904	16,388	17,517	103,362	388,865	447,929	80,530	249,366	575,902	305,787
Operating income (loss)	(76)	1,278	(7,979)	2,038	(1,839)	4,564	463	1,204	13,672	2,232
Other income (expense):										
Interest expense, net	(502)	(638)	(79)	(530)	(2,253)	(2,717)	(680)	(410)	(3,434)	(983)
Other income (expense)	88	(138)	381	115	174	155	(35)	38	155	38
Total other income (expense)	(414)	(776)	302	(415)	(2,079)	(2,562)	(715)	(372)	(3,279)	(945)
Net income (loss)	$ (490)	$ 502	$ (7,677)	$ 1,623	$ (3,918)	$ 2,002	$ (252)	$ 832	$ 10,393	$ 1,287
Net income per limited partner unit(2)	N/A	N/A	N/A	N/A	N/A	$ 0.04	N/A	$ 0.11	$ 1.16	$ 0.14
Balance Sheet Data (at period end):										
Working capital surplus (deficit)	$ (3,394)	$ (3,483)	$ (4,005)	$ 5,861	$ (2,254)	$ (8,672)	$ (7,470)	$ (11,321)		$ (8,966)
Property and equipment, net	10,103	8,072	10,540	37,242	84,951	109,948	86,813	112,335		180,235
Total assets	37,223	36,497	45,051	201,268	168,376	232,438	162,426	322,555		393,822
Total debt	6,589	5,389	7,000	22,000	60,000	22,550	54,500	20,800		40,800
Partners' equity	2,655	3,242	3,608	40,354	41,155	89,816	40,505	91,131		142,398
Cash Flow Data:										
Net cash flow provided by (used in):										
Operating activities	$ 3,963	$ 1,404	$ 7,380	$ 7,741	$ (8,326)	$ 19,956	$ 9,993	$ 5,790		
Investing activities	(4,821)	(1,342)	(2,849)	(25,643)	(52,535)	(33,240)	(3,537)	(4,714)		
Financing activities	1,437	(857)	198	36,557	42,558	14,240	(5,500)	(2,220)		
Other Financial Data:										
Midstream gross margin	$ 1,620	$ 2,742	$ 845	$ 4,336	$ 17,918	$ 23,694	$ 5,049	$ 7,907	$ 39,918	$ 11,413
Treating gross margin	622	1,660	1,216	2,516	6,275	9,050	2,072	2,839	9,050	2,839
Total gross margin(3)	2,242	4,402	2,061	6,852	24,193	32,744	7,121	10,746	48,968	14,252
EBITDA(4)	855	2,426	(7,076)	4,414	4,436	12,464	2,337	3,677	25,949	5,837
Maintenance capital expenditures				57	1,922	2,350	323	344		
Expansion capital expenditures				25,743	50,766	30,980	3,247	4,270		
Total capital expenditures(5)				$ 25,800	$ 52,688	$ 33,330	$ 3,570	$ 4,614		
Operating Data (MMBtu/d):										
Pipeline throughput	16,435	19,712	23,098	104,185	313,103	392,608	369,260	498,643	496,536	592,593
Natural gas processed	13,394	23,112	30,699	15,661	60,629	85,581	85,593	93,855	118,239	123,824
Treating volumes(6)	3,982	12,896	26,872	35,910	62,782	97,033	91,581	87,561	97,033	87,561

(1) Crosstex Energy Services, Ltd. is the predecessor to Crosstex Energy, L.P. Results of operations and balance sheet data prior to May 1, 2000 represent historical results of the predecessor to Crosstex Energy Services, Ltd. These results are not necessarily comparable to the results of Crosstex Energy Services, Ltd. subsequent to May 2000 due to the new basis of accounting.

(2) Net income (loss) per limited partner unit is not applicable for periods prior to our initial public offering. Net income per unit of $0.04 for the year ended December 31, 2002 represents allocation of our 2002 net income for the period from December 17, 2002 to December 31, 2002.

(3) Gross margin is defined as revenue less related cost of purchased gas.

(4) We define EBITDA as net income (loss) plus interest expense, provision for income taxes and depreciation and amortization expense. EBITDA is used as a supplemental financial measure by management and by external users of our financial statements, such as investors, commercial banks, research analysts and rating agencies, to assess: (a) the financial performance of our assets without regard to financing methods, capital structures or historical cost basis; (b) our operating performance and return on capital as compared to those of other companies in the midstream energy sector, without regard to financing and capital structure; and (c) the viability of projects and the overall rates of return on alternative investment opportunities. EBITDA should not be considered an alternative to net income; operating income, cash flow from operating activities or any other measure of financial performance presented in accordance with generally accepted accounting principles. EBITDA is not intended to represent cash flow. Because EBITDA excludes some, but not all, items that affect net income and these measures may vary among other companies, the EBITDA data presented may not be comparable to similarly titled measures of other companies.

The following table reconciles EBITDA to net income (loss):

	Crosstex Energy, L.P.									
	Predecessor			Historical					Pro Forma	
							Unaudited		Unaudited	
	Years Ended December 31,		Four Months Ended April 30,	Eight Months Ended December 31,	Year Ended December 31,	Year Ended December 31,	Three Months Ended March 31,		Year Ended December 31,	Three Months Ended March 31,
	1998	1999	2000	2000	2001	2002	2002	2003	2002	2003
	(in thousands, except per unit amounts and operating data)									
EBITDA Reconciliation:										
Net income (loss)	$ (490)	$ 502	$ (7,677)	$ 1,623	$ (3,918)	$ 2,002	$ (252)	$ 832	$ 10,393	$ 1,287
Depreciation and amortization	843	1,286	522	2,261	6,101	7,745	1,909	2,435	12,122	3,567
Interest expense, net	502	638	79	530	2,253	2,717	680	410	3,434	983
EBITDA	$ 855	$ 2,426	$ (7,076)	$ 4,414	$ 4,436	$ 12,464	$ 2,337	$ 3,677	$ 25,949	$ 5,837

Our predecessors were partnerships and had no income tax expense. EBITDA for the years ended December 31, 1999, 2001 and 2002 and three months ended March 31, 2002 has been reduced by non-cash impairment charges of $0.5 million, $2.9 million, $4.2 million and $3.2 million, respectively, and the three months ended March 31, 2003 has been reduced by non-cash stock-based compensation charges of $2.5 million.

(5) Maintenance capital expenditures are capital expenditures made to replace partially or fully depreciated assets in order to maintain the existing operating capacity of our assets and to extend their useful lives. Expansion capital expenditures are capital expenditures made to expand the existing operating capacity of our assets, whether through construction or acquisition. We treat repair and maintenance expenditures that do not extend the useful life of existing assets as operating expenses as we incur them.

(6) Represents volumes for treating plants operated by us whereby we receive a fee based on the volumes treated.

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 historical and pro forma combined financial statements and notes thereto included elsewhere in this prospectus. For more detailed information regarding the basis of presentation for the following information, you should read the notes to the historical and pro forma financial statements included in this prospectus.

Overview

We are a Delaware limited partnership formed by Crosstex Energy Holdings Inc. on July 12, 2002 to acquire indirectly 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. Our Midstream division focuses on the gathering, processing, transmission and marketing of natural gas, as well as providing certain producer services, while our Treating division focuses on the removal of carbon dioxide and hydrogen sulfide from natural gas to meet pipeline quality specifications. For the three months ended March 31, 2003, 73.6% of our gross margin was generated in the Midstream division, with the balance in the Treating division, and approximately 77.8% of our gross margin was generated in the Texas Gulf Coast region.

Since our formation, we have grown significantly as a result of our construction and acquisition of gathering and transmission pipelines, treating plants and processing plants. From January 1, 2000 through March 31, 2003, we have invested approximately $116.4 million to develop or acquire new assets. The purchased assets were acquired from numerous sellers at different periods throughout the year and were accounted for under the purchase method of accounting for business combinations. Accordingly, the results of operations for such acquisitions are included in our financial statements only from the applicable date of the acquisition. As a consequence, the historical results of operations for the periods presented may not be comparable.

Our results of operations are determined primarily by the volumes of natural gas gathered, transported, purchased and sold through our pipeline systems, processed at our processing facilities or treated at our treating plants. We generate revenues from four primary sources:

- gathering and transporting natural gas on the pipeline systems we own;
- processing natural gas at our processing plants;
- providing producer services; and
- treating natural gas at our treating plants.

The bulk of our operating profits are derived from the margins we realize for gathering and transporting natural gas through our pipeline systems. Generally, we buy gas from a producer, plant tailgate, 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 based on the same index price at which the gas was purchased, and, if we are to be profitable, at a smaller discount 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. Set forth in the table below is the volume of the natural gas purchased and sold at a fixed discount or premium to the index price and at a percentage discount or premium to the index price for our principal gathering and transmission

systems and for our producer services business for the year ended December 31, 2002 and the three months ended March 31, 2003.

Asset or Business	Year Ended December 31, 2002				Three Months Ended March 31, 2003			
	Gas Purchased		Gas Sold		Gas Purchased		Gas Sold	
	Fixed Amount to Index	Percentage of Index	Fixed Amount to Index	Percentage of Index	Fixed Amount to Index	Percentage of Index	Fixed Amount to Index	Percentage of Index
	(in billions of MMBtus)				(in billions of MMBtus)			
Gulf Coast system	34.7	3.0	37.7	—	8.0	0.5	8.5	—
Vanderbilt system(1)	—	—	—	—	0.7	2.3	2.5	—
CCNG transmission system	54.6	0.3	54.9	—	13.5	0.1	13.6	—
Gregory gathering system(1)	35.8	3.2	31.9	—	11.5	0.5	10.2	—
Arkoma gathering system	—	3.9	3.9	—	—	0.9	0.9	—
Producer services(2)	81.2	2.9	84.1	—	22.1	0.7	22.8	—
	206.3	13.3	212.5	—	55.8	5.0	58.5	—

(1) Gas sold is less than gas purchased due to production of natural gas liquids.

(2) These volumes are not reflected in revenues or purchased gas cost, but are presented net as a component of profit (loss) on energy trading contracts in accordance with EITF 02-03.

We estimate that, due to the gas that we purchase at a percentage of index price, for each $0.50 per MMBtu increase or decrease in the price of natural gas, our gross margins increase or decrease by approximately $1.4 million on an annual basis (before consideration of the hedges discussed below). We have hedged a portion of our exposure to such fluctuations in natural gas prices as follows for future periods:

Period	Volume Hedged (MMBtu per month)	Weighted-Average Price per MMBtu
3^{rd} quarter of 2003	130,000	$ 3.97
4^{th} quarter of 2003	100,000	5.31
1^{st} quarter of 2004	90,000	5.11
2^{nd} quarter of 2004	70,000	4.97
3^{rd} quarter of 2004	30,000	4.85
4^{th} quarter of 2004	30,000	4.85

We expect to continue to hedge our exposure to gas production which we purchase at a percentage of index when market opportunities appear attractive.

In addition to the margins generated by the Gregory gathering system, we generate revenues at our Gregory processing plant under two types of arrangements:

- For the year ended December 31, 2002 and the three months ended March 31, 2003, we purchased approximately 44% and 29%, respectively, of the natural gas volumes on our Gregory system under contracts in which we were exposed to the risk of loss or gain in processing the natural gas. Under these contracts, we fractionate the NGLs into separate NGL products, which we then sell at prices based upon the market price for NGL products. The processed natural gas is sold at a price based on a fixed price relative to a monthly index, with the first 100,000 MMBtu of processed natural gas being sold to a subsidiary of Kinder Morgan. Since we extract Btus from the gas stream in the form of the liquids or consume it as fuel during processing, we reduce the Btu content of the natural gas but seek to more than offset this by creating value from the separated NGL products. Accordingly, our margins under these arrangements can be negatively affected in periods where the value of natural gas is high relative to the value of NGLs.

- For the year ended December 31, 2002 and the three months ended March 31, 2003, we purchased approximately 56% and 71%, respectively, of the natural gas volumes on our Gregory system at a spot or market price less a discount that includes a fixed margin for gathering, processing and marketing the natural gas and NGLs at our Gregory processing plant with no risk of loss or gain in processing the natural gas. Under these contracts, the producer retains ownership of the fractionated NGLs, and accordingly bears the risk and retains the benefits associated with processing the natural gas.

Our Conroe gas plant and gathering system generates revenues based on fees it charges to producers for gathering and compression services, and we retain 40% of the NGLs produced from a portion of the gas processed at the facility.

Seminole Gas Processing Plant. We own an undivided 12.4% interest in the Seminole gas processing plant, which is located in Gaines County, Texas. The Seminole plant has dedicated long-term reserves from the Seminole San Andres unit, to which it also supplies carbon dioxide under a long-term arrangement. Revenues at the plant are derived from a fee it charges producers, including those at the Seminole San Andres unit, for each Mcf of carbon dioxide returned to the producer for reinjection. The fees currently average $0.5815 for each Mcf of carbon dioxide returned. Reinjected carbon dioxide is used in a tertiary oil recovery process in the field. The plant also receives 50% of the NGLs produced by the plant. We have entered into a one-year contract with Duke Energy NGL Services, L.P. to market our NGLs on our behalf, and receive our share of proceeds from the sale of carbon dioxide from the plant operator. We are separately billed by the plant operator for our share of expenses.

We generate producer services revenues through the purchase and resale of natural gas. We currently purchase for resale volumes of natural gas that do not move through our gathering, processing or transmission assets from over 50 independent producers. We engage in such activities on more than 30 interstate and intrastate pipelines with a major emphasis on Gulf Coast pipelines. We focus on supply aggregation transactions in which we either purchase and resell gas and thereby eliminate the need of the producer to engage in the marketing activities typically handled by in-house marketing or supply departments of larger companies, or act as agent for the producer.

We generate treating revenues under three arrangements:

- a volumetric fee based on the amount of gas treated, which accounted for approximately 66% and 67% of the operating income in our Treating division for the year ended December 31, 2002 and the three months ended March 31, 2003, respectively;

- a fixed fee for operating the plant for a certain period, which accounted for approximately 22% and 26% of the operating income in our Treating division for the year ended December 31, 2002 and the three months ended March 31, 2003, respectively; or

- a fee arrangement in which the producer operates the plant, which accounted for approximately 12% and 7% of the operating income in our Treating division for the year ended December 31, 2002 and the three months ended March 31, 2003, respectively.

Typically, we incur minimal incremental operating or administrative overhead costs when gathering and transporting additional natural gas through our pipeline assets. Therefore, we recognize a substantial portion of incremental gathering and transportation revenues as operating income.

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.

Our general and administrative expenses are dictated by the terms of our partnership agreement and our omnibus agreement with Crosstex Energy Holdings Inc. Our general partner and its affiliates are reimbursed for expenses incurred on our behalf. These expenses include the costs of employee, officer and director compensation and benefits properly allocable to Crosstex Energy, L.P., and all other expenses necessary or appropriate to the conduct of the business of, and allocable to, Crosstex Energy, L.P. Our partnership agreement provides that our general partner determines the expenses that are allocable to Crosstex Energy, L.P. in any reasonable manner determined by our general partner in its sole discretion. For the twelve month period ending in December 2003, the amount which we will reimburse our general partner and its affiliates for costs incurred with respect to the general and administrative services performed on our behalf will not exceed $6.0 million. This reimbursement cap does not apply to the cost of any third-party legal, accounting or advisory services received, or the direct expenses of management incurred, in connection with acquisition or business development opportunities evaluated on our behalf. On December 31, 2003, the $6.0 million limit on such reimbursements will expire and expenses will most likely be higher.

Crosstex Energy Holdings Inc modified certain terms of certain outstanding options in the first quarter of 2003. These modifications will result in variable award accounting for the modified options. Based on the March 31, 2003 unit value of $24.25 per unit, total compensation expense was approximately $2.5 million, which has been recorded by Crosstex Energy, L.P. as non-cash stock based compensation expense in the first quarter of 2003. Compensation expense in future periods will be adjusted for changes in the unit market price.

As described in the historical financial statements, the investment in our predecessor by Yorktown Energy Partners IV, L.P. in May 2000 resulted in the dissolution of the predecessor partnership, and the creation of a new partnership with the same organization, purpose, assets, and liabilities. The transaction value of $21.9 million from the Yorktown investment was allocated to the assets and liabilities of our predecessor, which created increases in depreciation and amortization charges in periods subsequent to the Yorktown investment. The historical financial statements present separate reports for the entities before and after the transaction. For purposes of the analysis below, the year 2000 is considered one period, and the distinction in legal entities created by the transaction with Yorktown is ignored.

We have grown significantly through asset purchases in recent years, which creates many of the major differences when comparing operating results from one period to another. The most significant asset purchases are the acquisitions of the Arkoma gathering system, the Gulf Coast system, the CCNG system the Vanderbilt system and the DEFS acquisition (which will not be reflected in our historical financial statements until after June 30, 2003).

We acquired the Arkoma gathering system in September 2000 for a purchase price of approximately $10.5 million. The Arkoma system consisted of approximately 84 miles of gathering lines located in eastern Oklahoma. When acquired, the system was connected to approximately 115 wells, and purchased and resold approximately 12,000 MMBtu of gas per day.

We acquired the Gulf Coast system in September 2000 for a purchase price of approximately $10.6 million. The Gulf Coast system consisted of approximately 484 miles of gathering and transmission lines extending from south Texas to markets near the Houston area. At the time of the acquisition, it was transporting approximately 117,000 MMBtu of gas per day.

We acquired the CCNG system in May 2001 for a purchase price of approximately $30 million. The CCNG system included four principal assets: the Corpus Christi system, the Gregory gathering system, the Gregory processing plant and the Rosita treating plant.

- The Corpus Christi system consists of approximately 295 miles of gathering and transmission lines extending from supply points in south Texas to markets in Corpus Christi Texas, with

average throughput of approximately 152,000 MMBtu of gas per day at the time of the acquisition.

- The Gregory gathering system consists of approximately 297 miles of gathering lines located primarily in the Corpus Christi Bay area, with average throughput of approximately 76,500 MMBtu of gas per day at the time of the acquisition.
- The Gregory processing plant processes most of the gas gathered by the Gregory gathering system, extracting the liquids, fractionating them into NGLs, and selling the remaining residue gas. At the time of the acquisition, the plant was processing approximately 43,400 MMBtu of gas per day.
- The Rosita treating plant was treating approximately 25,000 MMBtu of gas per day at the time of its acquisition. The Rosita treating plant is operated in the Treating Division, whereas all of the other assets in the CCNG acquisition are included in the Midstream Division.

We acquired the Vanderbilt system in December 2002 for a purchase price of $12.0 million. The Vanderbilt system consists of approximately 200 miles of gathering lines in the same approximate geographic area as the Gulf Coast System. At the time of its acquisition, it was transporting approximately 32,000 MMBtu of gas per day.

Certain assets and liabilities of our predecessor were not contributed to us. These include receivables associated with the Enron Corp. bankruptcy discussed below under "—Results of Operations—Year Ended December 31, 2001 Compared to Year Ended December 31, 2000—Profit (Loss) on Energy Trading Contracts." In addition, the Jonesville processing plant, which had been largely inactive since the beginning of 2001, and the Clarkson plant, acquired shortly before our initial public offering, were not contributed to us.

Commodity Price Risks

Our profitability has been and will continue to be affected by volatility in prevailing NGL product and natural gas prices. Changes in the prices of NGL products correlate closely with changes in the price of crude oil. NGL product and natural gas prices have been subject to significant volatility in recent years in response to changes in the supply and demand for NGL products and natural gas market uncertainty.

Profitability under our gas processing contracts is impacted by the margin between NGL sales prices and the cost of natural gas and may be negatively affected by decreases in NGL prices or increases in natural gas prices.

Changes in natural gas prices impact our profitability since the purchase price of a portion of the gas we buy (approximately 8.2% in the first three months of 2003) is based on a percentage of a particular natural gas price index for a period, while the gas is resold at a fixed dollar relationship to the same index. Therefore, during periods of low gas prices, these contracts can be less profitable than during periods of higher gas prices. However, on most of the gas we buy and sell, margins are not affected by such changes because the gas is bought and sold at a fixed relationship to the relevant index. Therefore, while changes in the price of gas can have very large impacts on revenues and cost of revenues, on this portion of the gas, the changes are equal and offsetting.

Part of our fee from the Seminole gas plant is based on a portion of the NGLs produced, and, therefore, is subject to commodity price risks.

Gas prices can also affect our profitability indirectly by influencing drilling activity and related opportunities for gas gathering, treating, and processing.

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.

	Year Ended December 31,			Three Months Ended March 31,	
	2000	2001	2002	2002	2003
			(in millions)		
Midstream revenues	$ 91.6	$ 362.7	$ 437.7	$ 77.8	$ 245.3
Midstream purchased gas	86.4	344.8	414.0	72.8	237.4
Midstream gross margin	5.2	17.9	23.7	5.0	7.9
Treating revenues	23.3	24.4	14.8	3.2	5.3
Treating purchased gas	19.6	18.1	5.8	1.1	2.4
Treating gross margin	3.7	6.3	9.0	2.1	2.9
Total gross margin	$ 8.9	$ 24.2	$ 32.7	$ 7.1	$ 10.8
Midstream Volumes (MMBtu/d):					
Gathering and transportation	77,527	313,103	392,608	369,260	498,643
Processing	20,605	60,629	85,581	85,593	93,855
Producer services	215,121	283,098	230,327	214,432	253,985
Treating Volumes (MMBtu/d)	32,938	62,782	97,033	91,581	87,561

Three Months Ended March 31, 2003 Compared to Three Months Ended March 31, 2002

Revenues. Midstream revenues were $245.3 million for the three months ended March 31, 2003 compared to $77.8 million for the three months ended March 31, 2002, an increase of $167.5 million, or 215%. This increase is primarily due to an increase in natural gas prices from an average NYMEX settlement price of $2.34 per MMBtu in the first three months of 2002 to $6.33 per MMBtu in the first three months of 2003, which caused a $65.0 million increase in revenues. An additional $49.9 million of revenue was generated in the first three months of 2003 by the Vanderbilt and Hallmark systems that were not in operation in the first three months of 2002. Additional increases in revenue of $21.6 million and $28.0 million were generated at Gregory Gathering and Gregory Processing, respectively, due to new volumes into the systems from producer drilling. In addition, revenue of $9.0 million was generated at CCNG Transmission due to new markets adding volume to the system. These increases were partially offset by a decrease in revenue of $6.1 million at Gulf Coast and Arkoma due to a decrease in volume at these two systems.

Treating revenues were $5.3 million in the first three months of 2003 compared to $3.2 million in the same period in 2002, an increase of $2.1 million, or 65%. Increases in the price of natural gas contributed $4.9 million of the increase, and $1.1 million of the increase was due to 17 new plants placed in service. These increases were partially offset by volume decreases at three plants, which reduced revenue by $3.6 million, and the removal of seven plants from service that reduced revenue by $0.4 million.

Purchased Gas Costs. Midstream purchased gas costs were $237.4 million for the three months ended March 31, 2003 compared to $72.8 million for the three months ended March 31, 2002, an increase of $164.6 million, or 226%. Costs increased by $64.7 million due to the increase in natural gas prices. In addition, costs of $47.9 million were generated by the Vanderbilt and Hallmark systems that were not in operation in the first three months of 2002. Additional costs at Gregory Gathering of $21.2 million and Gregory Processing of $27.5 million were generated due to new volumes into the systems from producer drilling. Additional costs of $8.9 million were incurred at CCNG Transmission

due to volume added to fulfill new market demand. These increases in costs were partially offset by a decrease in purchased gas costs of $5.6 million at the Gulf Coast and Arkoma systems due to a decrease in volume at these two systems.

Treating purchased gas costs were $2.4 million for the three months ended March 31, 2003 compared to $1.1 million in the comparable period in 2002, an increase of $1.3 million or 117%. The increase in natural gas prices resulted in a $4.9 million increase in purchased gas costs that was partially offset by a $3.6 million decline in treating volumes at three volume sensitive plants.

Operating Expenses. Operating expenses were $3.2 million for the three months ended March 31, 2003, compared to $2.4 million for the three months ended March 31, 2002, an increase of $0.8 million, or 32%. The increase was primarily due to the Vanderbilt system, Hallmark lateral, and new treating plants in service.

General and Administrative Expenses. General and administrative expenses were $1.5 million for the three months ended March 31, 2003 compared to $1.9 million for the three months ended March 31, 2002, a decrease of $0.4 million, or 22%. The decrease was due to the $6.0 million annual general and administrative cap in place for the twelve months following our initial public offering, per the partnership agreement. Had the cap not been in place, general and administrative expenses would have been $2.0 million for the three months ended March 31, 2003.

Stock-based Compensation. Stock-based compensation was $2.5 million for the three months ended March 31, 2003, compared to none in the first three months of 2002. This stock-based compensation related to a modification in employee option agreements, which allowed the option holders to elect to be paid in cash for the modified options based on the fair value of those options.

Impairments. There was no impairment expense in the first three months of 2003 compared to $3.2 million in the first three months of 2002. Impairment charges in the first three months of 2002 were associated with the write off of intangible assets associated with contract values at two specific treating plants that experienced declines in cash flow. The operator of the wells behind these plants told the company that it was canceling its drilling plans in the area. Therefore, as there was no apparent offset to the continued declines in the cash flows, we determined that the intangible assets had been impaired.

(Profit) Loss on Energy Trading Contracts. The profit on energy trading contracts was $0.1 million for the three months ended March 31, 2003 compared to $2.8 million for the three months ended March 31, 2002, a decrease of $2.7 million. Included in these amounts were realized margins on delivered volumes in the producer services "off-system" gas marketing operations of $0.5 million in the first three months of 2003 and $0.3 million in the first three months of 2002. In addition, gains of $2.5 million relating primarily to options bought and/or sold in the management of our Enron position and mark-to-market changes in the offsetting purchased volumes were booked in 2002.

Depreciation and Amortization. Depreciation and amortization expense was $2.4 million for the three months ended March 31, 2003 compared to $1.9 million for the three months ended March 31, 2002, an increase of $0.5 million, or 28%. This increase is primarily due to an increase in fixed assets of $32 million from March 31, 2002 to March 31, 2003.

Interest Expense. Interest expense was $0.4 million for the three months ended March 31, 2003 compared to $0.7 million for the three months ended March 31, 2002, a decrease of $0.3 million, or 40%. The decrease is primarily due to a reduction in bank debt from the proceeds of the initial public offering.

Net Income (Loss). Net income (loss) for the three months ended March 31, 2003 was $0.8 million compared to ($0.3) million for the three months ended March 31, 2002, an increase of

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$1.1 million. The key driver of this increase was an increase in gross margin of $3.6 million, offset principally by a significant increase in stock based compensation of $2.5 million.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Revenues. Midstream revenues were $437.7 million for the year ended December 31, 2002 compared to $362.7 million for the year ended December 31, 2001, an increase of $75.0 million, or 21%. Revenues were higher in 2002 than in 2001 due to the contribution of the Corpus Christi system, the Gregory gathering system and the Gregory processing plant, which generated $120.5 million in additional revenues in 2002, as these assets were not acquired until May 2001. This increase was partially offset by a decline in natural gas prices from an average NYMEX settlement price of $4.273 per MMBtu in 2001 to $3.221 per MMBtu in 2002, which reduced revenues by $44.0 million.

Treating revenues were $14.8 million for the year ended December 31, 2002 compared to $24.4 million in the same period in 2001, a decrease of $9.5 million, or 39%. The decline was due to the decrease in the price of natural gas, which accounted for $11.8 million of the decrease in treating revenues, a change in the contracts at certain plants to discontinue purchasing and reselling the treated gas and instead to receive only a treatment fee, which accounted for $4.8 million of the decrease, and a decrease in volume at one plant which accounted for $0.7 million of the decrease. This decline was partially offset by volume increases at two plants which generated an additional $5.6 million of revenue, 14 new plants placed in service in 2002 which collectively added $1.9 million, and the acquisition of the Rosita plant in May 2001, which generated an additional $0.3 million.

Purchased Gas Costs. Midstream purchased gas costs were $414.0 million for the year ended December 31, 2002 compared to $344.8 million for the year ended December 31, 2001, an increase of $69.2 million, or 20%. Costs increased by $113.7 million as the Corpus Christi system, the Gregory gathering system and the Gregory processing plant were purchased in May 2001 and only five months of their operating results were included in the 2001 period. This increase was partially offset by the decline in natural gas prices discussed above, which reduced costs by $44.0 million.

Treating purchased gas costs were $5.8 million in 2002 compared to $18.1 million in 2001, a decrease of $12.3 million or 68%. The decrease in natural gas prices caused $7.2 million of the decline, certain contracts were restructured from a purchase and resale of the associated gas to a pure treatment fee, causing a decline of $4.8 million, and a decrease in treating volumes at one plant caused $0.7 million of the decline. This decrease was partially offset by costs at a new facility which created additional purchased gas costs of $0.3 million.

Operating Expenses. Operating expenses were $10.5 million for the year ended December 31, 2002, compared to $7.4 million for the year ended December 31, 2001, an increase of $3.0 million, or 41%. The increase was primarily associated with the CCNG assets purchased in May 2001.

General and Administrative Expenses. General and administrative expenses were $8.5 million for the year ended December 31, 2002 compared to $5.9 million for the year ended December 31, 2001, an increase of $2.5 million, or 43%. The increases were associated with increases in staffing associated with the requirements of the CCNG assets and in preparation for our initial public offering.

Impairments. Impairment expense was $4.2 million in 2002 compared to $2.9 million in 2001. Intangible assets were booked associated with the contract values of certain treating plants and other assets in conjunction with the Yorktown investment in May 2000. Impairment charges in 2002 and 2001 are associated with writing off certain of these intangible contract values. The charges in 2001 relate to intangible contract values associated with the Jonesville processing plant, which was transferred out of the partnership in conjunction with the initial public offering. Impairment charges in 2002 are primarily associated with intangible contract values at four specific treating plants.

(Profit) Loss on Energy Trading Contracts. The profit on energy trading contracts was $2.7 million for the year ended December 31, 2002 compared to a loss of $3.7 million for the year ended December 31, 2001, an increase of $6.4 million. Included in these amounts are realized margins on delivered volumes in the producer services "off-system" gas marketing operations of $1.8 million in 2002 and $1.9 million in 2001. In addition, gains of $0.9 million relating primarily to options bought and/or sold in the management of our Enron position and the offsetting mark-to-market purchased volumes were booked in 2002. Offsetting the gains from the producer services off-system gas

marketing operations in 2001 was the $5.7 million reserve booked against our Enron receivable. See "Year Ended December 31, 2001 Compared to Year Ended December 31, 2000—(Profit) Loss on Energy Trading Contracts."

Depreciation and Amortization. Depreciation and amortization expense was $7.7 million for the year ended December 31, 2002 compared to $6.1 million for the year ended December 31, 2001, an increase of $1.6 million, or 27%. The increase is primarily related to additional depreciation expense associated with the CCNG assets purchased in May 2001, partially offset by a decrease in amortization expense due to goodwill no longer being amortized in 2002 in accordance with SFAS 142.

Interest Expense. Interest expense was $2.7 million for the year ended December 31, 2002 compared to $2.3 million for the year ended December 31, 2001, an increase of $0.5 million, or 21%. The increase relates primarily to bank debt incurred in the acquisitions of the CCNG assets in May, 2001, offset by lower interest rates.

Net Income (Loss). Net income (loss) for the year ended December 31, 2002 was $2.0 million compared to ($3.9) million for the year ended December 31, 2001, an increase of $5.9 million. Gross margin increased by $8.6 million from 2001 to 2002, offset by increases in ongoing cash costs for operating expenses, general and administrative expenses, and interest expense as discussed above. Non-cash charges for depreciation and amortization expense and impairment expense also increased, offset by the profit on energy trading contracts.

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

Revenues. Midstream revenues were $362.7 million for the year ended December 31, 2001 compared to $91.6 million for the year ended December 31, 2000, an increase of $271.1 million, or 296%. Revenues were higher in 2001 primarily due to:

- ownership of the Arkoma system for the full year in 2001 as compared to only five months in 2000 contributed to an increase in revenues by $10.3 million;
- ownership of the Gulf Coast system for the full year in 2001 as compared to only four months in 2000 contributed to an increase in revenues by $68.4 million;
- the acquisition of the Corpus Christi system in May 2001 increased revenues by $117.0 million;
- the acquisition of the Gregory gathering system in May 2001 increased revenues by $52.5 million; and
- the acquisition of the Gregory processing plant in May 2001 increased revenues by $13.1 million. This was partially offset by the closure of the Jonesville plant, which contributed $4.0 million of revenues in 2000.

The remaining increase in Midstream revenue is primarily attributable to the average price of natural gas in 2001 being approximately $0.39 per MMBtu higher than the average price in 2000.

Revenues for natural gas treating were $24.4 million in 2001 compared to $23.3 million in 2000, an increase of $1.0 million, or 4%, due to new plants placed in service.

Purchased Gas Costs. Midstream division purchased gas costs for the year ended December 31, 2001 were $344.8 million compared to $86.4 million for the prior year, an increase of $258.3 million, or 299%. Costs were higher in 2001 primarily due to:

- ownership of the Arkoma system for the full year in 2001 as compared to only five months in 2000 contributed to an increase in costs by $9.0 million;
- ownership of the Gulf Coast system for the full year in 2001 as compared to only four months in 2000 increased costs by $65.3 million;
- the acquisition of the Corpus Christi system in May 2001 increased costs by $114.0 million;
- the acquisition of the Gregory gathering system in May 2001 increased costs by $49.9 million; and
- the acquisition of the Gregory processing plant in May 2001 increased costs by $9.9 million. This was partially offset by the shutdown of the Jonesville processing plant, which had $3.1 million of costs during 2000.

Treating division purchased gas costs were $18.1 million in 2001 compared to $19.6 million in 2000, a decrease of $1.5 million, or 8%. In combination with the improvement in revenues in natural gas treating, the decrease in costs resulted in an improvement in gross margin of $2.5 million, or 68%. This improvement was primarily attributable to new plants placed in service for a fee, as opposed to purchase and resale of the gas.

Operating Expenses. Operating expenses were $7.4 million for the year ended December 31, 2001, compared to $2.3 million for the year ended December 31, 2000, an increase of $5.1 million, or 218%. Expenses were higher in 2001 than in 2000 primarily due to:

- ownership of the Arkoma system for the full year in 2001 as compared to only five months in 2000 increased expenses by $0.6 million;
- ownership of the Gulf Coast system for the full year in 2001 as compared to four months in 2000 increased expenses by $1.0 million;
- the acquisition of the Corpus Christi system in May 2001 increased expenses by $0.9 million;
- the acquisition of the Gregory gathering system increased expenses by $0.5 million;
- the acquisition of the Gregory processing plant increased expenses by $1.3 million, and the shut down of the Jonesville plant in 2001 resulted in a decrease of $0.3 million; and
- operating expenses for the Treating division increased by $0.8 million due to 10 new operated plants being placed in service.

General and Administrative Expenses. General and administrative expenses were $5.9 million for the year ended December 31, 2001 compared to $2.8 million for the year ended December 31, 2000, an increase of $3.1 million, or 110%. The increase in general and administrative expenses were associated with the increase in employees caused by our rapid growth and preparation for our initial public offering. Total personnel employed increased from 44 to 107 between the end of 2000 and the end of 2001.

Stock-based Compensation. Stock-based compensation expense was zero in 2001 compared to $8.8 million for the year ended December 31, 2000. Stock based compensation in 2000 was associated with the valuation of management's interest in our predecessor as a result of the Yorktown investment in May 2000.

Impairments. Impairment expense was $2.9 million for the year ended December 31, 2001 compared to zero for the prior year. The impairment charge was recorded to reduce the carrying value of the Jonesville plant and related intangible assets to fair value in accordance with SFAS 121. See "—Critical Accounting Policies—Impairment of Long-Lived Assets" below.

(Profit) Loss on Energy Trading Contracts. The loss on energy trading contracts for the year ended December 31, 2001 was $3.7 million compared to a profit of $1.9 million for the prior year. The loss on energy trading contracts in 2001 included $5.7 million associated with the write-down of the estimated realizable value of our receivable from Enron North America Corp., a subsidiary of Enron Corp., at December 31, 2001. On December 2, 2001, Enron Corp. and certain subsidiaries, including Enron North America Corp., each filed voluntary petitions for relief under Chapter 11 of Title 11 of the United States Bankruptcy Code. Enron North America failed to make timely payment of approximately $3.9 million for physical delivery of gas in 2001. This amount remained outstanding as of December 31, 2001. Additionally, we had entered into natural gas hedging and physical delivery contracts with Enron North America. According to the terms of the contracts, Enron North America is liable to us for the mark-to-market value of all contracts outstanding on the date we exercised our termination right under the contracts, which totaled approximately $4.6 million and which has been recorded as a receivable from Enron North America. We have accounted for these contracts as energy trading contracts whereby changes in fair value of the fixed price purchase commitments are recognized in earnings.

We had offsets to the above amounts totaling approximately $0.3 million, resulting in a net $8.2 million receivable from Enron North America at December 31, 2001. Due to the uncertainty of future collections, a charge and related allowance for 70% of the net receivable, or $5.7 million, was recorded at December 31, 2001. Further adjustments to the Enron receivable will be recognized in earnings when management believes recovery of the asset is assured or additional reserves are warranted.

The receivable from Enron was not contributed to us.

Partially offsetting the Enron-related loss in the 2001 period were the realized margins on delivered volumes in the producer services "off-system" gas marketing operations. In 2001, the realized margins from the producer services operations were approximately $1.9 million, compared to approximately $1.8 million in 2000.

Depreciation and Amortization. Depreciation and amortization expense was $6.1 million for the year ended December 31, 2001 compared to $2.8 million for the year ended December 31, 2000, an increase of $3.3 million, or 119%. The increase in depreciation and amortization is primarily related to acquisitions of new assets, which resulted in additional depreciation and amortization expense as follows:

- ownership of the Arkoma system for the full year in 2001 as compared to only five months in 2000 increased depreciation and amortization expense by $0.5 million;
- ownership of the Gulf Coast system for the full year in 2001 as compared to four months in 2000 increased depreciation and amortization expense by $0.6 million; and
- the acquisition of the CCNG assets in May 2001 increased depreciation and amortization expense by $1.3 million.

In addition, the accounting associated with the Yorktown investment in May 2000 resulted in an increase in depreciation and amortization for subsequent periods. Therefore, depreciation and amortization expense for the first four months of 2000 is approximately $0.4 million lower than if the investment had occurred at the beginning of 2000.

Interest Expense. Interest expense was $2.3 million for the year ended December 31, 2001 compared to $0.6 million for the year ended December 31, 2000, an increase of $1.6 million, or 270%. The increase was principally caused by increases in average outstanding borrowings as a result of the CCNG acquisition and the acquisition and refurbishment of treating plants. In addition, borrowings relative to the Arkoma and Gulf Coast assets were outstanding for the full year in 2001 as compared to only a part of 2000.

Net Income (Loss). Net loss for the year ended December 31, 2001 was ($3.9) million compared to ($6.1) million for the year ended December 31, 2000. Gross margin improved from $8.9 million in 2000 to $24.2 million in 2001, an improvement of $15.3 million, or 171%, largely as a result of acquisition-related growth as discussed above. This improvement was partially offset by increases in recurring cash charges for operating expenses, general and administrative expenses, and interest expense totaling $9.8 million, non-cash charges for depreciation and amortization of $3.3 million, and the loss on energy trading contracts and impairments totaling $8.5 million.

Critical Accounting Policies

The selection and application of accounting policies is an important process that has developed as our business activities have evolved and as the accounting rules have developed. Accounting rules generally do not involve a selection among alternatives, but involve an implementation and interpretation of existing rules, and the use of judgment to the specific set of circumstances existing in our business. Compliance with the rules necessarily involves reducing a number of very subjective judgments to a quantifiable accounting entry or valuation. We make every effort to properly comply with all applicable rules on or before their adoption, and we believe the proper implementation and consistent application of the accounting rules is critical. Our critical accounting policies are discussed below. For further details on our accounting policies and a discussion of new accounting pronouncements, see Note 2 of the Notes to Combined Financial Statements.

Revenue Recognition and Commodity Risk Management. We recognize revenue for sales or services at the time the natural gas or natural gas liquids are delivered or at the time the service is performed.

We engage in price risk management activities in order to minimize the risk from market fluctuations in the price of natural gas, oil and natural gas liquids. We also manage our price risk related to future physical purchase or sale commitments by entering into either corresponding physical delivery contracts or financial instruments with an objective to balance our future commitments and significantly reduce our risk to the movement in natural gas prices.

Prior to January 1, 2001, financial instruments which qualified for hedge accounting were accounted for using the deferral method of accounting, whereby unrealized gains and losses were generally not recognized until the physical delivery required by the contracts was made.

Effective January 1, 2001, we adopted Statement of Financial Accounting Standards No. 133 ("SFAS No. 133"),*Accounting for Derivative Instruments and Hedging Activities*. In accordance with SFAS No. 133, all derivatives and hedging instruments are recognized as assets or liabilities at fair value. If a derivative qualifies for hedge accounting, changes in the fair value can be offset against the change in the fair value of the hedged item through earnings or recognized in other comprehensive income until such time as the hedged item is recognized in earnings.

We conduct "off-system" gas marketing operations as a service to producers on systems that we do not own. We refer to these activities as part of producer services. In some cases, we earn an agency fee from the producer for arranging the marketing of the producer's natural gas. In other cases, we purchase the natural gas from the producer and enter into a sales contract with another party to sell the natural gas. These are reflected at net amounts in the profit (loss) on energy trading contracts line

on the statement of operations. Where we take title to the natural gas, the purchase contract is recorded as cost of gas purchased and the sales contract is recorded as revenue upon delivery.

We manage our price risk related to future physical purchase or sale commitments for producer services activities by entering into either corresponding physical delivery contracts or financial instruments with an objective to balance our future commitments and significantly reduce our risk to the movement in natural gas prices. However, we are subject to counterparty risk for both the physical and financial contracts. Prior to October 26, 2002, we accounted for our producer services natural gas marketing activities as energy trading contracts in accordance with EITF 98-10, *Accounting for Contracts Involved in Energy Trading and Risk Management Activities*. EITF 98-10 required energy-trading contracts to be recorded at fair value with changes in fair value reported in earnings. In October 2002, the EITF reached a consensus to rescind EITF No. 98-10. Accordingly, energy trading contracts entered into subsequent to October 25, 2002, should be accounted for under accrual-basis accounting rather than mark-to-market accounting unless the contracts meet the requirements of a derivative under SFAS No. 133. Our energy trading contracts qualify as derivatives, and accordingly, we continue to use mark-to-market accounting for both physical and financial contracts of our producer services business. Accordingly, any gain or loss associated with changes in the fair value of derivatives and physical delivery contracts relating to our producer services natural gas marketing activities are recognized in earnings as profit or loss on energy trading contracts immediately.

For each reporting period, we record the fair value of open energy trading contracts based on the difference between the quoted market price and the contract price. Accordingly, the change in fair value from the previous period is reported as profit or loss on energy trading contracts in the statement of operations.

Impairment of Long-Lived Assets. In accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*, we evaluate the long-lived assets, including related intangibles, of identifiable business activities for impairment when events or changes in circumstances indicate, in management's judgment, that the carrying value of such assets may not be recoverable. The determination of whether impairment has occurred is based on management's estimate of undiscounted future cash flows attributable to the assets as compared to the carrying value of the assets. If impairment has occurred, the amount of the impairment recognized is determined by estimating the fair value for the assets and recording a provision for loss if the carrying value is greater than fair value.

When determining whether impairment of one of our long-lived assets has occurred, we must estimate the undiscounted cash flows attributable to the asset. Our estimate of cash flows is based on assumptions regarding the purchase and resale margins on natural gas, volume of gas available to the asset, markets available to the asset, operating expenses, and future natural gas prices and NGL product prices. The amount of availability of gas to an asset is sometimes based on assumptions regarding future drilling activity, which may be dependent in part on natural gas prices. Projections of gas volumes and future commodity prices are inherently subjective and contingent upon a number of variable factors, including but not limited to:

- changes in general economic conditions in regions in which our markets are located;
- the availability and prices of natural gas supply;
- our ability to negotiate favorable sales agreements;
- the risks that natural gas exploration and production activities will not occur or be successful;
- our dependence on certain significant customers, producers, and transporters of natural gas; and
- competition from other midstream companies, including major energy producers.

Any significant variance in any of the above assumptions or factors could materially affect our cash flows, which could require us to record an impairment of an asset.

Liquidity and Capital Resources

Cash Flows. Net cash provided by operating activities was $5.8 million and $10.0 million for the three months ended March 31, 2003 and 2002, respectively. Net cash provided by operating activities in 2003 declined principally due to fund flows for working capital accounts ($6.0 million) and a decrease in profit on energy trading contracts ($2.3 million) due to the Enron-related positions that were outstanding in 2002. These decreases were offset by higher margins ($3.6 million).

Net cash provided by (used in) operating activities was $20.0 million, ($8.3) million and $15.1 million for the years ended December 31, 2002, 2001 and 2000, respectively. Net cash provided by operating activities in 2002 improved principally due to higher margins ($8.6 million) offset by higher cash expenses ($5.6 million), the loss of energy contracts related to Enron in 2001 ($5.7 million) and fund flows for working capital accounts. Net cash used in operating activities during the year ended December 31, 2001 was $23.4 million lower than the prior year principally attributable to higher margins ($15.3 million), offset by higher cash expenses ($9.8 million), the loss on energy trading contracts related to Enron ($5.7 million), and fund flows for working capital accounts.

Net cash used in investing activities was $4.7 million and $3.5 million for the three months ended March 31, 2003 and 2002, respectively. Net cash used in investing activities during both periods were primarily related to internal growth projects. Net cash used in investing activities during each of the three months ended March 31, 2003 and 2002 were primarily to fund the Gregory plant expansion, buying and refurbishing and installing treating plants, and other internal growth capital projects.

Net cash used in investing activities was $33.2 million, $52.5 million and $28.5 million for the years ended December 31, 2002, 2001 and 2000, respectively. Net cash used in investing activities during all periods was primarily related to acquisition and internal growth projects. Net cash used in investing activities during each of the years ended December 31, 2002 and 2001 was primarily to fund acquisitions of the Vanderbilt system, the CCNG assets, buying and refurbishing and installing treating plants, the Arkoma and Gulf Coast systems, our acquisition of Millennium Gas Services, Inc., and internal growth capital projects.

Net cash used in financing activities was $2.2 million and $5.5 million for the three months ended March 31, 2003 and 2002, respectively.

Net cash provided by financing activities was $14.2 million, $42.6 million and $36.8 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Financing activities primarily represent net borrowings from banks to fund our acquisitions, other investments discussed above, and working capital needs, proceeds from our initial public offering in 2002 and capital contributions to our predecessor.

Capital Requirements. The natural gas gathering, transmission, treating and processing businesses are capital-intensive, requiring significant investment to maintain and upgrade existing operations. Our capital requirements have consisted primarily of, and we anticipate will continue to be:

- maintenance capital expenditures, which are capital expenditures made to replace partially or fully depreciated assets in order to maintain existing operating capacity of our assets and to extend their useful lives, or other capital expenditures which do not increase the partnership's cash flows; and

- growth capital expenditures such as those to acquire additional assets to grow our business, to expand and upgrade gathering systems, transmission capacity, processing plants or treating plants, and to construct or acquire new pipelines, processing plants or treating plants.

Given our objective of growth through acquisitions, we anticipate that we will continue to invest significant amounts of capital to grow and acquire assets. We are nearing completion of an expansion of our Gregory processing plant. The expansion will increase the capacity of the plant from approximately 90,000 Mcf/d to 150,000 Mcf/d and will cost approximately $8.0 million. For fiscal 2003, maintenance capital expenditures are expected to be between $4.0 to $5.0 million.

We believe that cash generated from operations will be sufficient to meet our minimum quarterly distributions and anticipated maintenance capital expenditures through December 31, 2003. We expect to fund our growth capital expenditures from cash provided by operations and, to the extent necessary, from the proceeds of borrowings under the bank credit facility and senior secured notes discussed below and the issuance of additional common units. We may not be able to issue additional units or may not be able to issue such units on favorable terms primarily as a result of market conditions for our securities. Our ability to pay distributions to our unitholders and to fund planned capital expenditures and to make acquisitions 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 December 31, 2002, is as follows:

	Payments due by period				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
	(in millions)				
Long-Term Debt	$ 22.5	$ —	$ 11.0	$ 11.5	—
Capital Lease Obligations	—	—	—	—	—
Operating Leases	2.2	0.8	1.4	—	—
Unconditional Purchase Obligations	—	—	—	—	—
Other Long-Term Obligations	—	—	—	—	—
Total Contractual Obligations	$ 24.7	$ 0.8	$ 12.4	$ 11.5	—

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

Thereafter upon the closing of the offering, the proceeds of the offering will be used to retire a portion of the bank debt scheduled above.

Description of Indebtedness

Upon completion of this offering, we expect our total outstanding long-term indebtedness to be approximately $40.8 million, including approximately $40.0 million of senior secured notes and approximately $0.8 million of other indebtedness.

Bank Credit Facility. In June 2003, our operating partnership, Crosstex Energy Services, L.P., entered into a $100 million senior secured credit facility with Union Bank of California, N.A. (as a lender and as administrative agent) and other lenders, consisting of the following two facilities:

- a $70.0 million senior secured revolving acquisition facility; and

- a $30.0 million senior secured revolving working capital and letter of credit facility.

The acquisition facility was used for the DEFS acquisition and will be used to finance the acquisition and development of gas gathering, treating and processing facilities, as well as general partnership purposes. After giving effect to this offering, we expect our operating partnership to have

substantially all of the acquisition facility available for future borrowings. The acquisition facility will mature in June 2006, at which time it will terminate and all outstanding amounts shall be due and payable. Amounts borrowed and repaid under the acquisition credit facility may be reborrowed.

The working capital and letter of credit facility will be used for ongoing working capital needs, letters of credit, distributions to partners and general partnership purposes, including future acquisitions and expansions. We currently have $24.0 million of letters of credit issued under the working capital and letter of credit facility at the closing of the offering, leaving approximately $6.0 million available for future issuances of letters of credit and/or cash borrowings. The aggregate amount of borrowings under the working capital and letter of credit facility is subject to a borrowing base requirement relating to the amount of our cash and eligible receivables (as defined in the credit agreement), and there is a $10.0 million sublimit for cash borrowings. This facility will mature in June 2006, at which time it will terminate and all outstanding amounts shall be due and payable. Amounts borrowed and repaid under the working capital and letter of credit facility may be reborrowed. We will be required to reduce all working capital borrowings to zero for a period of at least 15 consecutive days once each year.

The obligations under the bank credit facility are secured by first priority liens on all of our material pipeline, gas gathering and processing assets, all material working capital assets and a pledge of all of our equity interests in certain of our subsidiaries, and ranks *pari passu* in right of payment with the senior secured notes. The bank credit facility is guaranteed by certain of our subsidiaries and by us. We may prepay all loans under the bank credit facility at any time without premium or penalty (other than customary LIBOR breakage costs), subject to certain notice requirements.

Indebtedness under the acquisition facility and the working capital and letter of credit facility bear interest at our operating partnership's option at the administrative agent's reference rate plus 0.25% to 1.50% or LIBOR plus 1.75% to 3.00%. The applicable margin varies quarterly based on our leverage ratio. The fees charged for letters of credit range from 1.50% to 2.00% per annum, plus a fronting fee of 0.125% per annum. If the bank credit facility had been in place at March 31, 2003, our operating partnership's weighted average interest rate would have been 3.57%. Our operating partnership will incur quarterly commitment fees based on the unused amount of the credit facilities.

The credit agreement prohibits us from declaring distributions to unitholders if any event of default, as defined in the credit agreement, exists or would result from the declaration of distributions. In addition, the bank credit facility contains various covenants that, among other restrictions, limit our operating partnership's ability to:

- incur indebtedness;
- grant or assume liens;
- make certain investments;
- sell, transfer, assign or convey assets, or engage in certain mergers or acquisitions;
- make distributions;
- change the nature of its business;
- enter into certain commodity contracts;
- make certain amendments to our operating partnership's partnership agreement; and
- engage in transactions with affiliates.

The bank credit facility also contains covenants requiring us to maintain:

- a maximum ratio of total funded debt to consolidated EBITDA (each as defined in the bank credit facility), measured quarterly on a rolling four-quarter basis, of 3.75 to 1 through

March 31, 2004, declining to 3.5 to 1 beginning June 30, 2004, pro forma for any asset acquisitions;

- a minimum interest coverage ratio (as defined in the credit agreement), measured quarterly on a rolling four quarter basis, equal to 3.50 to 1;
- minimum current ratio (as defined in the credit agreement), measured quarterly, of 1 to 1; and
- a minimum tangible net worth (as defined in the credit agreement) of $60 million, plus one-half of certain equity contribution proceeds received after December 31, 2002.

Each of the following will be an event of default under the bank credit facility:

- failure to pay any principal, interest, fees, expenses or other amounts when due;
- failure to observe any agreement, obligation, or covenant in the credit agreement, subject to cure periods for certain failures;
- certain judgments against us or any of our subsidiaries, in excess of certain allowances;
- certain ERISA events involving us or our subsidiaries;
- cross defaults to certain material indebtedness;
- certain bankruptcy or insolvency events involving us or our subsidiaries;
- a change in control (as defined in the credit agreement); and
- the failure of any representation or warranty to be materially true and correct when made.

Senior Secured Notes. In June 2003, our operating partnership entered into a master shelf agreement with an institutional lender pursuant to which it issued $30.0 million aggregate principal amount of senior secured notes with an interest rate of 6.95% and a maturity of seven years. In July 2003, our operating partnership issued $10.0 million aggregate principal amount of senior secured notes pursuant to the master shelf agreement with an interest rate of 6.88% and a maturity of seven years.

The following is a summary of the material terms of the senior secured notes.

The notes represent senior secured obligations of our operating partnership and will rank at least *pari passu* in right of payment with the bank credit facility. The notes are secured, on an equal and ratable basis with the obligations of the operating partnership under the credit facility, by first priority liens on all of our material pipeline, gas gathering and processing assets, all material working capital assets and a pledge of all of our equity interests in certain of our subsidiaries. The senior secured notes are guaranteed by our operating partnership's subsidiaries and us.

The senior secured notes are redeemable, at our operating partnership's option and subject to certain notice requirements, at a purchase price equal to 100% of the principal amount together with accrued interest, plus a make-whole amount determined in accordance with the master shelf agreement.

The master shelf agreement relating to the notes contains substantially the same covenants and events of default as the bank credit facility.

If an event of default resulting from bankruptcy or other insolvency events occurs, the senior secured notes will become immediately due and payable. If any other event of default occurs and is continuing, holders of at least 50.1% in principal amount of the outstanding notes may at any time declare all the notes then outstanding to be immediately due and payable. If an event of default relating to nonpayment of principal, make-whole amounts or interest occurs, any holder of outstanding notes affected by such event of default may declare all the notes held by such holder to be immediately due and payable.

Intercreditor and Collateral Agency Agreement. In connection with the execution of the master shelf agreement in June 2003, the lenders under the bank credit facility and the initial purchasers of the senior secured notes entered into an Intercreditor and Collateral Agency Agreement, which was acknowledged and agreed to by our operating partnership and its subsidiaries. This agreement appointed Union Bank of California, N.A. to act as collateral agent and authorized Union Bank to execute various security documents on behalf of the lenders under the bank credit facility and the initial purchases of the senior secured notes. This agreement specifies various rights and obligations of lenders under the bank credit facility, holders of senior secured notes and the other parties thereto in respect of the collateral securing Crosstex Energy Services, L.P.'s obligations under the bank credit facility and the master shelf agreement.

Inflation

Inflation in the United States has been relatively low in recent years and did not have a material impact on our results of operations for the years ended December 31, 2000, 2001 or 2002 or the three months ended March 31, 2003. Although the impact of inflation has been insignificant in recent years, it is still a factor in the United States economy and may increase the cost to acquire or replace property, plant and equipment and may increase the costs of labor and supplies. To the extent permitted by competition, regulation and our existing agreements, we have and will continue to pass along increased costs to our customers in the form of higher fees.

Environmental

Our operations are subject to environmental laws and regulations adopted by various governmental authorities in the jurisdictions in which these operations are conducted. We believe we are in material compliance with all applicable laws and regulations. For a more complete discussion of the environmental laws and regulations that impact us, see "Business—Environmental Matters."

Recent Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 143,*Accounting for Asset Retirement Obligations*. This statement establishes standards for accounting for obligations associated with the retirement of tangible long-lived assets. This standard was required to be adopted by us beginning on January 1, 2003. We do not presently have any significant asset retirement obligations, and accordingly, the adoption of SFAS No. 143 did not have a significant impact on our financial position and results of operations.

In June 2002, the FASB issued SFAS No. 146,*Accounting for Costs Associated with Exit or Disposal Activities*. SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred rather than when the entity commits to an exit plan. This standard is effective for all exit or disposal activities which are initiated after December 31, 2002. The adoption of SFAS No. 146 did not have any impact on our financial position or results of operations.

In January 2003, the FASB issued Interpretation (FIN) No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, including Indirect Guarantees of Indebtedness of Others*. FIN No. 45 requires an entity to recognize a liability for the obligations it has undertaken in issuing a guarantee. This liability would be recorded at the inception of a guarantee and would be measured at fair value. Certain guarantees are excluded from the measurement and disclosure provisions while certain other guarantees are excluded from the measurement provisions of the interpretation. The measurement provisions of this statement apply prospectively to guarantees issued or modified after December 31, 2002. The disclosure provisions apply to financial statements for periods ending after December 15, 2002. The adoption of the statement is not expected to have a material effect on the Partnership's financial statements when adopted.

In January 2003, the FASB issued FASB Interpretation No. 46,*Consolidation of Variable Interest Entities*. FIN No. 46 requires an entity to consolidate a variable interest entity if it is designated as the primary beneficiary of that entity even if the entity does not have a majority of voting interests. A variable interest entity is generally defined as an entity where its equity is unable to finance its activities or where the owners of the entity lack the risk and rewards of ownership. The provisions of this statement apply at inception for any entity created after January 31, 2003. For an entity created before February 1, 2003, the provisions of this interpretation must be applied at the beginning of the first interim or annual period beginning after June 15, 2003. The Partnership is not the primary beneficiary of any variable interest entities, and accordingly, the adoption of FIN No. 46 will not have an impact on our financial statements.

On May 15, 2003, the Financial Accounting Standards Board issued Statement No. 150,*Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity.* The statement requires issuers to classify as liabilities (or assets in some circumstance) three classes of freestanding financial instruments that embody obligations for the issuer. Generally, the statement is effective for financial instruments entered into or modified after May 31, 2003 and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of this pronouncement will not have an impact on our financial statements.

Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of loss arising from adverse changes in market rates and prices. We face market risk from commodity price variations, primarily due to fluctuations in the price of a portion of the natural gas we sell, and for the portion of the natural gas we process and for which we have taken the processing risk, we are at risk for the difference in the value of the NGL products we produce versus the value of the gas used in fuel and shrinkage in their production. We also incur credit risks and risks related to interest rate variations.

Commodity Price Risk. For the three months ended March 31, 2003, approximately 8.2% of the natural gas we market was 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 gas at a percentage of the index price, our sale margins are higher during periods of higher natural gas prices and lower during periods of lower natural gas prices. In addition, of the gas we process at our Gregory processing plant, we were exposed to the processing risk on 29% of the gas we purchased during the three months ended March 31, 2003. As a result, our processing margins on this portion of the gas will be higher during periods when the price of gas is low relative to the value of the liquids produced and our margins will be lower during periods when the value of gas is high relative to the value of liquids. For the three months ended March 31, 2003, a $0.01 per gallon change in NGL prices offset by a change of $0.10 per MMBtu in the price of natural gas would have changed our processing margin by $67,678. Changes in natural gas prices indirectly may impact our profitability since prices can influence drilling activity and well operations and thus the volume of gas we can gather, transport, process and treat.

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 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. Hedges to protect our processing margins are generally for a more limited time frame than is possible for hedges in natural gas, as the financial markets for NGLs are not as developed as the markets for natural gas. Such hedges generally involve taking a short position with regard to the relevant liquids and an offsetting short position in the required volume of natural gas.

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, as happened in the case of the Enron loss discussed above. 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 decreases in such prices.

We manage our price risk related to future physical purchase or sale commitments for our producer services activities by entering into either corresponding physical delivery contracts or financial instruments with an objective to balance our future commitments and significantly reduce our risk to the movement in natural gas prices. However, we are subject to counterparty risk for both the physical and financial contracts. We account for certain of our producer services natural gas marketing activities as energy trading contracts or derivatives.

For each reporting period, we record the fair value of open energy trading contracts based on the difference between the quoted market price and the contract price. Accordingly, the change in fair value from the previous period is reported as profit or loss on energy trading contracts in the statement of operations. In addition, realized gains and losses from settled contracts are also recorded in profit or loss on energy trading contracts.

Credit Risk. We are diligent in attempting to ensure that we issue credit to only credit-worthy customers. However, our purchase and resale of gas exposes us to significant credit risk, as the margin on any sale is generally a very small percentage of the total sale price. Therefore, a credit loss can be very large relative to our overall profitability.

Interest Rate Risk. We will be exposed to changes in interest rates, primarily as a result of our anticipated long-term debt with floating interest rates. We expect to have $40.8 million of indebtedness outstanding at the closing of this offering. We may make use of interest rate swap agreements to adjust the ratio of fixed and floating rates in the debt portfolio, although no such agreements are currently in place. The impact of a 100 basis point increase in interest rates on our expected debt would have a minimal impact on our interest expense and income before taxes, as a substantial portion of our debt is at fixed interest rates.

BUSINESS

Overview

We are a rapidly growing independent midstream energy company engaged in the gathering, transmission, treating, processing and marketing of natural gas. We connect the wells of natural gas producers in our market areas to our gathering systems, treat natural gas to remove impurities to ensure that it meets pipeline quality specifications, process natural gas for the removal of natural gas liquids or NGLs, transport natural gas and ultimately provide an aggregated supply of natural gas to a variety of markets. We purchase natural gas from natural gas producers and other supply points and sell that natural gas to utilities, industrial consumers, other marketers and pipelines and thereby generate gross margins based on the difference between the purchase and resale prices. In addition, we purchase natural gas from producers not connected to our gathering system for resale and sell natural gas on behalf of producers for a fee.

Our major assets include over 2,500 miles of natural gas gathering and transmission pipelines, three natural gas processing plants connected to our gathering systems with a total NGL production capacity of 289,800 gallons per day and 53 natural gas treating plants. Our gathering systems consist of a network of pipelines that collect natural gas from points near producing wells and transport it to larger pipelines for further transmission. Our transmission pipelines primarily receive natural gas from our gathering systems and from third-party gathering and transmission systems and deliver natural gas to industrial end-users, utilities and other pipelines. Our processing plants remove NGLs from a natural gas stream and fractionates, or separates, the NGLs into separate NGL products, including ethane, propane, mixed butanes and natural gasoline. Our natural gas treating plants, located largely in the Texas Gulf Coast area, remove impurities from natural gas prior to delivering the gas into pipelines to ensure that it meets pipeline quality specifications.

Set forth in the table below is a list of our acquisitions since January 2000.

Acquisition	Acquisition Date	Purchase Price	Asset Type	Average Throughput at Time of Acquisition (MMBtu/d)	Average Throughput for Three Months Ended March 31, 2003 (MMBtu/d)
		(in thousands)			
Provident City Plant	February 2000	$ 350	Treating plants	3,000	23,324
Will-O-Mills (50%)	February 2000	2,000	Treating plants	11,800	15,601
Arkoma Gathering System	September 2000	10,500	Gathering pipeline	12,000	10,478
Gulf Coast System	September 2000	10,632	Gathering and transmission pipeline	117,000	94,903
CCNG Acquisition	May 2001	30,003	Gathering and transmission pipeline and processing plant	358,000	386,141
Pettus Gathering System	June 2001	450	Gathering system	—	—
Millennium Gas Services	October 2001	2,124	Treating assets	—	—
Hallmark Lateral	June 2002	2,300	Pipeline segment	—	52,443
Pandale System	June 2002	2,156	Gathering pipeline	17,000	11,993
KCS McCaskill Pipeline	June 2002	250	Pipeline segment	—	—
Vanderbilt System	December 2002	12,000	Transmission pipeline	32,000	35,082
Will-O-Mills (50%)	December 2002	2,200	Treating plant	10,590	15,601
DEFS Acquisition	June 2003	67,350	Gathering and transmission systems, processing plants and pipeline systems	271,500	

We have two operating divisions, the Midstream division, which consists of our natural gas gathering, transmission, processing, marketing and producer services operations, and the Treating division, which provides natural gas treating for the removal of carbon dioxide and other contaminants. For the year ended December 31, 2002, revenues for our Midstream division and Treating division were

$437.7 million and $14.8 million, respectively. For the three months ended March 31, 2003, revenues for our Midstream division and Treating division were $245.3 million and $5.3 million, respectively.

Midstream Division. Our primary Midstream assets include systems located primarily along the Texas Gulf Coast and in south-central Mississippi, which, in the aggregate, consist of approximately 2,500 miles of gathering and transmission pipelines and three natural gas processing plants. After giving pro forma effect our recent acquisition of assets from DEFS, for the year ended December 31, 2002 and the three months ended March 31, 2003, we would have gathered and transported approximately 496,536 MMBtu/d and 592,593 MMBtu/d of natural gas, respectively.

In our producer services operations, we purchase for resale volumes of natural gas that do not move through our gathering, processing or transmission assets from over 50 independent producers. We focus on supply aggregation transactions in which we either purchase and resell gas and thereby eliminate the need of the producer to engage in the marketing activities typically handled by in-house marketing or supply departments of larger companies, or act as agent for the producer. In a recent survey by Mastio & Co., we were ranked first in satisfaction among producers. According to the survey, producers rated buyers on 25 attributes, including creditworthiness, promptness of payment, willingness to solve problems, accessibility, responsiveness, experience and price competitiveness.

Treating Division. As of March 31, 2003, we owned 53 mobile, skid-mounted treating plants of various sizes, 30 of which were operated by our personnel, 10 of which were operated by producers, 13 of which were held in inventory. The treating plants remove carbon dioxide and hydrogen sulfide from natural gas before it is delivered into transportation systems to ensure that it meets pipeline quality specifications.

Competitive Strengths

We believe that we are well positioned to compete in the natural gas gathering, transmission, treating, processing and producer services businesses. Our competitive strengths include:

- *Strategic position in the Texas Gulf Coast and Mississippi.* Our Gregory and Conroe processing plants and 51% of our total gathering and transmission pipeline miles are located in the Texas Gulf Coast. The Texas Gulf Coast is characterized by consistently high levels of drilling activity, which provide us with significant opportunities to access newly developed gas supplies. Our Gregory processing plant and its associated gathering system are strategically located in the liquids-rich Corpus Christi Bay and Mustang Island area. This area is currently undergoing significant exploration activity, and we believe that most of the producers drilling in the area will choose to process and market their gas through our systems due to the lack of other economic alternatives. Our Texas Gulf Coast systems also have access to a variety of industrial and utility end-user markets, as well as to other interstate and intrastate pipeline systems. Many industrial consumers locate in this region because of its proximity to large quantities of natural gas. We believe our significant presence and asset base in the Texas Gulf Coast generally provides us with a competitive advantage in capturing new supplies of natural gas and markets for natural gas because of our resulting lower costs of handling newly connected gas and delivering it to market. The acquisition of the AIM pipeline system, located in south-central Mississippi, allowed us to establish a new core area outside of our strategic position in the Texas Gulf Coast. We believe we can use our proven expertise in expanding and developing acquired assets to develop and expand the AIM pipeline system through aggressive marketing, new construction and cross-selling our treating services.

- *Asset base with available capacity.* By aggressively marketing directly to producers and end users and adding connections to new customers, we believe we have the opportunity to leverage our existing asset base in order to more fully utilize the capacity of our systems and thereby significantly increase throughput and cash flows. Since our pipelines and gathering systems have

unused capacity, transporting additional volumes of natural gas through our systems should provide incremental operating income. Our Gulf Coast system, Vanderbilt system, Corpus Christi system, Gregory gathering system, Arkoma system and AIM pipeline system are operating at 45.1%, 24.8%, 59.2%, 60.4%, 49.0% and 40.3% of capacity, respectively, based on average daily throughput for the three months ended March 31, 2003. We believe our inventory of 13 treating plants gives us a competitive advantage for capturing new treating business since we can often have a plant in service quicker than our competitors.

- *Range of services.* We offer a full range of midstream services to natural gas producers, including gathering, transmission, treating, processing and marketing. In addition, as a component of our producer services business, we purchase natural gas for sale to others and in doing so provide risk management opportunities to natural gas producers. We believe this full range of services gives us advantages in competing for new business because we can provide substantially all the services a producer requires to get its production of natural gas to market as compared to our competitors who often do not provide a full range of services. For example, providing treating services allows us to establish new relationships with producers and facilitates the sale of additional services to producers. In addition, we provide a full range of services to natural gas buyers including an aggregated supply of natural gas, load balancing and price risk management, which allows buyers to find a significant volume of natural gas that meets their requirements without having to negotiate with multiple producers.

- *Proven acquisition and development expertise.* Since January 2000, we have acquired and integrated 13 operations with an aggregate purchase price of approximately $142.3 million, including our recent $67.4 million acquisition of assets from DEFS which enabled us to expand our operations into Mississippi and Alabama. Our management team's significant industry contacts have enabled us to become aware of, and gain access to, strategic acquisition opportunities. We intend to use our experience and reputation in strategically acquiring assets to continue to grow through accretive acquisitions, focusing on opportunities in which we see potential to improve throughput volumes and cash flows through marketing and new construction and expansion projects. We have invested in excess of $50.0 million in our construction and expansion projects from January 2000 to June 2003.

- *Flexible financial structure.* Our operating partnership has a $70.0 million acquisition facility, substantially all of which will be available upon the closing of this offering, and a $30.0 million working capital and letter of credit facility. In addition, our operating partnership has a $50.0 million master shelf facility for senior secured notes. Our operating partnership has issued $40.0 million of senior secured notes under this facility, and any future issuances will be subject to negotiation of certain terms, including pricing. We believe the available capacity under the bank credit facility and the senior secured notes, combined with our ability to access the capital markets, should provide us with a flexible financial structure that will facilitate our expansion and acquisition strategy.

- *Experienced and motivated management.* Our management team's extensive experience and contacts within the midstream industry provides a strong foundation for managing and enhancing our operations, for accessing strategic acquisition opportunities and for constructing new assets. Our senior management team, which indirectly owns approximately 49,000 common and 686,000 subordinated units and approximately 15% of our general partner, has an average of over 20 years of industry experience primarily with the type of assets and the markets in which we currently operate. Our management team also has substantial experience selling gas in a variety of interstate and intrastate markets. Please read "Management—Directors and Executive Officers of Crosstex Energy GP, LLC" for a discussion of the experience of our executive officers.

Business Strategy

Our strategy is to increase distributable cash flow per unit by making accretive acquisitions of assets that are essential to the production, transportation and marketing of natural gas, improving the profitability of our owned assets by increasing their utilization while controlling costs and pursuing new construction or expansion in core operating areas. Our strategy is based on our expectation of a continued high level of drilling in our principal geographic areas and a process of ongoing divestitures of gas processing and transportation assets by large industry participants. We believe these two factors should present opportunities for continued expansion in our existing areas of operation as well as opportunities to acquire assets in new geographic areas that may serve as a platform for future growth. Key elements of our strategy include the following:

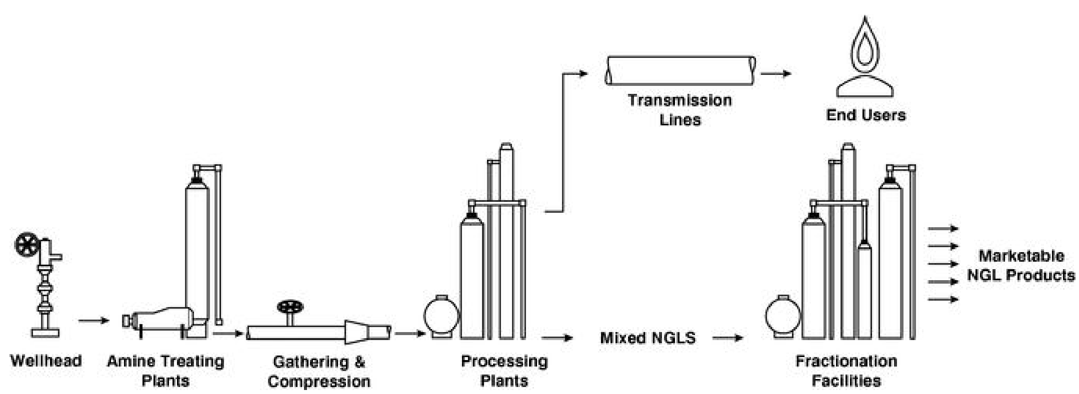
- *Pursuing accretive acquisitions.* We intend to use our substantial acquisition and integration experience to continue to make strategic acquisitions of midstream assets that offer the opportunity for operational efficiencies and the potential for increased utilization and expansion of the acquired asset. We pursue acquisitions that we believe will add to existing core areas in order to capitalize on our existing infrastructure, personnel, and producer and consumer relationships. We also examine opportunities to establish new core areas in regions with significant natural gas reserves and high levels of drilling activity or with growing demand for natural gas. We plan to establish new core areas primarily through the acquisition of key assets that will serve as a platform for further growth both through additional acquisitions and the construction of new assets. A recent example of establishing a new core area includes the AIM pipeline system acquired as part of the DEFS acquisition. This system provides us with a platform to develop a significant presence in the south-central Mississippi area.

- *Improving existing system profitability.* After we acquire or construct a new system, we begin an aggressive effort to market directly to both producers and end users in order to connect new supplies of natural gas, increase volumes and more fully utilize the system's capacity. Many of our recently acquired systems have excess capacity that provides us opportunities to increase throughput with minimal incremental cost. As part of this process, we focus on providing a full range of services to small and medium size independent producers and end users, including supply aggregation, transportation and hedging, which we believe provides us with a competitive advantage when we compete for sources of natural gas supply. Additionally, we emphasize increasing the percentage of our natural gas sales directly to end users, such as industrial and utility consumers in an effort to increase our operating margins. For the three months ended March 31, 2003, approximately 53% of our on-system natural gas sales were to industrial end users and utilities.

- *Undertaking construction and expansion opportunities.* We leverage our existing infrastructure and producer and customer relationships by constructing and expanding systems to meet new or increased demand for our gathering, transmission, treating, processing and marketing services. These projects include expansion of existing systems and construction of new facilities. As an example, we modified the Gregory system by adding a by-pass around our Gregory processing plant which allowed us to deliver an additional 30,000 Mcf/d of gas to the plant tailgate without processing. Our acquisition from Florida Gas Transmission established connections between our Corpus Christi and our Gulf Coast systems which increases our flexibility in balancing gas supply and market requirements throughout the regions covered. We are nearing completion of an expansion to increase the capacity of our Gregory processing plant to 150,000 Mcf/d, a 67.0% increase over its previous capacity. Upon completion of the expansion, we will begin marketing the additional gas through our Corpus Christi and Gulf Coast systems.

Industry Overview

The following diagram illustrates the natural gas treating, gathering, processing, fractionation and transmission process.



The midstream natural gas industry is the link between exploration and production of natural gas and the delivery of its components to end-use markets. The midstream industry is generally characterized by regional competition based on the proximity of gathering systems and processing plants to natural gas producing wells.

Natural gas gathering. The natural gas gathering process begins with the drilling of wells into gas bearing rock formations. Once a well has been completed, the well is connected to a gathering system. Gathering systems typically consist of a network of small diameter pipelines and, if necessary, compression systems that collect natural gas from points near producing wells and transport it to larger pipelines for further transmission.

Natural gas treating. Natural gas has a varied composition depending on the field, the formation and the reservoir from which it is produced. Natural gas from certain formations in the Texas Gulf Coast is high in carbon dioxide. Treating plants are placed at or near a well and remove carbon dioxide and hydrogen sulfide from natural gas before it is introduced into gathering systems to ensure that it meets pipeline quality specifications.

Natural gas processing and fractionation. The principal components of natural gas are methane and ethane, but most natural gas also contains varying amounts of NGLs and contaminants, such as water, sulfur compounds, nitrogen or helium. Most natural gas produced by a well is not suitable for long-haul pipeline transportation or commercial use and must be processed to remove the heavier hydrocarbon components and contaminants. Natural gas in commercial distribution systems is composed almost entirely of methane and ethane, with moisture and other contaminants removed to very low concentrations. Natural gas is processed not only to remove unwanted contaminants that would interfere with pipeline transportation or use of the natural gas, but also to separate from the gas those hydrocarbon liquids that have higher value as NGLs. The removal and separation of individual hydrocarbons by processing is possible because of differences in weight, boiling point, vapor pressure and other physical characteristics. Natural gas processing involves the separation of natural gas into pipeline quality natural gas and a mixed NGL stream, as well as the removal of contaminants. NGL fractionation facilities separate mixed NGL streams into discrete NGL products: ethane, propane, isobutane, normal butane and natural gasoline.

Natural gas transmission. Natural gas transmission pipelines receive natural gas from mainline transmission pipelines, plant tailgates, and gathering systems and deliver it to industrial end-users, utilities and to other pipelines.

Operations

Substantially all of our margins are derived from the value we add by gathering and transporting natural gas, treating natural gas, processing natural gas, purchasing natural gas for resale and marketing natural gas. Our natural gas gathering, transmission, processing, marketing and producer services operations are conducted by our Midstream division, and our treating operations are conducted by our Treating division.

Midstream Division

Our natural gas gathering and transmission operations include over 2,500 miles of pipeline and three processing plants. After giving pro forma effect to our recent acquisition of assets from DEFS, for the year ended December 31, 2002 and the three months ended March 31, 2003, we would have gathered and transported approximately 496,536 MMBtu/d and 592,593 MMBtu/d of natural gas, respectively.

Gulf Coast System. The Gulf Coast system is an intrastate pipeline system consisting of approximately 484 miles of gathering and transmission pipelines with a mainline from Refugio County in south Texas running northeast along the Gulf Coast to the Brazos River in Fort Bend County near Houston. Our gathering and transmission pipeline ranges in diameter from four to 20 inches. We acquired the Gulf Coast system in September 2000 for a purchase price of approximately $10.6 million.

The Gulf Coast system has two supply pipeline laterals which connect to gathering systems which collect natural gas from approximately 76 receipt points and five treating and processing plants operated by third parties. This system has three delivery laterals—an eight inch lateral into the Victoria area and a 16 inch lateral into the Bay City area—which deliver natural gas directly to large industrial and utility consumers along the Gulf Coast. The system interconnects with multiple third-party pipelines through which we may purchase volumes not gathered through our systems for resale or through which we might deliver natural gas to customers which are not connected to our system. We also hold firm transportation capacity on the TXU Lone Star pipeline, which provides access for our Gulf Coast mainline system in Fort Bend County to the Katy hub, a major natural gas physical exchange that allows access to seven third-party pipelines, including Kinder Morgan, TECO and Trunkline. The Gulf Coast system has a capacity of 200,000 Mcf/d and average throughput on this system was approximately 90,127 Mcf/d for the three months ended March 31, 2003.

We generate operating profits in our Gulf Coast system through the margins we earn by purchasing, gathering, transporting and reselling natural gas. We purchase natural gas from a producer, pipeline or marketing company and then transport and resell the gas. As of March 31, 2003, we were purchasing gas from over 75 producers primarily pursuant to month-to-month contracts and were reselling the natural gas to over 10 customers primarily pursuant to short-term or month-to-month arrangements. For the three months ended March 31, 2003, approximately 94% of the natural gas volumes we purchased were purchased at a fixed price relative to an index and the remainder were purchased at a percentage of an index, and all the natural gas volumes we sold were sold at a fixed price relative to an index.

Vanderbilt System. Our Vanderbilt system consists of approximately 200 miles of gathering and transmission pipelines located in Wharton and Fort Bend Counties near our Gulf Coast system. Natural gas is supplied to the system from approximately 24 receipt points. The gas had been sold to the Exxon Katy plant and in June 2003 we reversed the flow of gas and began deliveries to the Formosa Hydrocarbons processing plant at Point Comfort, Texas. Our Vanderbilt system has a capacity of

130,000 Mcf/d and average throughput was approximately 32,186 Mcf/d for the three months ended March 31, 2003. We acquired the Vanderbilt system in December 2002 for a purchase price of $12.0 million.

All the gas in the Vanderbilt system is now sold to Formosa Hydrocarbons under a ten year agreement which began in June 2003 to supply up to 60,000 Mcf/d. The gas is sold to Formosa at a fixed price relative to an index. Gas is purchased from approximately 10 producers, primarily pursuant to month-to-month arrangements, at approximately 24 receipt points. Approximately 76% percent of the gas is purchased at a percentage of an index, and the remainder is purchased at a fixed price relative to an index. We generate operating profits in the system through the margins we earn by purchasing gas from producers, then gathering, transporting and reselling the natural gas to Formosa.

Corpus Christi System. The Corpus Christi system is an intrastate pipeline system consisting of approximately 295 miles of gathering and transmission pipelines and extending from supply points in south Texas to markets in Corpus Christi, Texas. Our gathering and transmission pipelines range in diameter from four to 20 inches. We acquired the Corpus Christi system in May 2001 in conjunction with the acquisition of the Gregory gathering system and Gregory processing plant, which we collectively refer to as the CCNG Acquisition, for an aggregate purchase price of approximately $30 million. Based on the differences in how we operate and the prior owner operated the CCNG assets, the CCNG acquisition is not treated as an acquisition of a continuing business operation, but rather is accounted for as a purchase of assets. Prior to our acquisition, the CCNG assets were not treated as separate assets but part of a larger enterprise and very few transactions allocated to the CCNG systems were done on an arms-length basis with third parties and, accordingly, did not reflect market values. Since our acquisition, we have operated the assets as separate profit centers, with substantially all transactions done on an arms-length basis. After the completion of the acquisition, we hired 16 former employees of the seller, all of whom are in operational positions. Our Corpus Christi system had average throughput of approximately 152,000 MMBtu of gas per day at the time of our acquisition. The main lines comprising the Corpus Christi system were constructed in the 1940's with additional expansions throughout the 1990's. We believe the expected remaining life of the pipeline system is approximately 50 years.

Natural gas is supplied to the Corpus Christi system from approximately 13 receipt points, 14 treating and processing plants and third-party gathering systems and pipelines. The system interconnects with multiple third-party pipelines through which we purchase volumes not gathered through our systems for resale and deliver natural gas to customers which are not connected to our system, including the Banquette hub. The Corpus Christi system has a capacity of 350,000 Mcf/d and average throughput on this system was approximately 155,646 Mcf/d for the three months ended March 31, 2003.

We generate operating profits in our Corpus Christi system through the margins we earn by purchasing, gathering, transporting and reselling natural gas. As of March 31, 2003, we were purchasing natural gas from approximately 27 producers generally on month-to-month or short-term arrangements. For the three months ended March 31, 2003, substantially all of the natural gas volumes we purchased were purchased at a fixed price relative to an index.

The Corpus Christi system transports natural gas to the Corpus Christi area where its customers include multiple major refineries and other industrial installations, as well as the local electric utility. As of March 31, 2003, we were selling gas to over 13 customers primarily pursuant to contracts that expire at various times between 2003 and 2006. For the three months ended March 31, 2003, all of the natural gas volumes we sold were sold at a fixed price relative to an index. New customers added since the acquisition of this system have increased our sales volumes by 50,000 Mcf/d, replacing less profitable sales volumes that have been discontinued. Additionally, we have a 15 year agreement to provide transportation services to Calpine Energy Services, LP, the owner of a co-generation facility in

Corpus Christi that came online in the fourth quarter of 2002. Under the agreement, we receive minimum annual payments in exchange for providing firm capacity of up to 100,000 MMBtu/d. This 500 megawatt co-generation facility receives gas solely through two interconnections to the Corpus Christi transmission system. During the three month period ended March 31, 2003, we transported approximately 51,000 MMBtu/d to the Calpine facility.

In June 2002, we acquired from Florida Gas Transmission approximately 70 miles of 20 inch transmission line, which we refer to as the Hallmark Lateral. We constructed an addition to this transmission line to connect our Gulf Coast and Corpus Christi systems. This connection allows us to transport gas between our two systems, reducing our dependence on third-party suppliers, move gas supplies to more favorable markets and enhance our margins. In November 2002, we completed construction of the interconnect between the Hallmark Lateral and the Florida Gas Transmission mainline. With this connection, we began selling gas into the Florida markets and we sold approximately 51,566 Mcf/d into Florida for the three months ended March 31, 2003.

Gregory Gathering System. We acquired the Gregory processing plant and the Gregory gathering system in May 2001 in connection with the acquisition of the Corpus Christi system. The plant and the gathering system are located north of Corpus Christi, Texas. The gathering system is connected to approximately 70 receipt points in San Patricio County, the Corpus Christi Bay area, Mustang Island, and adjacent coastal areas. The gathering system consists of approximately 297 miles of pipeline ranging in diameter from two inches to 18 inches with a total estimated throughput capacity of 200,000 Mcf/d. Until recently, all of the gas from the gathering system had been delivered to the inlet of the processing plant. Accordingly, the capacity of the gathering system was constrained by the inlet capacity of the plant, which is approximately 90,000 Mcf/d. We have modified the system to put a by-pass around the plant so that approximately 30,000 Mcf/d of gas can be delivered to the plant tailgate without processing in addition to volumes processed in the plant. The gathering system had average throughput of approximately 120,715 Mcf/d for the three months ended March 31, 2003. Our Gregory gathering system had average throughput of approximately 76,500 Mcf/d of gas per day at the time of our acquisition. The Gregory gathering system was constructed in the 1980s and we believe the expected remaining life of the pipeline system is approximately 50 years.

We generate operating profits in our Gregory gathering system and our Gregory processing plant through the margins earned by purchasing, gathering, transporting and reselling natural gas, and through the incremental margin, if any, generated by processing the portion of the gas for which we retain the processing risk. As of March 31, 2003, we were purchasing gas from over 65 producers primarily pursuant to month-to-month contracts, and for the three months ended March 31, 2003, approximately 96% of the natural gas volumes we purchased were purchased at a fixed price relative to an index and the remainder were purchased at percentage of an index. The first 100,000 MMBtu of the processed natural gas from our Gregory processing plant is sold to a subsidiary of Kinder Morgan pursuant to a contract expiring in 2006 at a price based on a fixed price relative to a monthly index. Liquids produced are sold under two contracts, one expiring in 2007, and the other expiring in March 2004.

Gregory Processing Plant. Our Gregory processing plant is a cryogenic turbo-expander with a 210,000 gallon per day fractionator that removes liquid hydrocarbons from the liquids-rich gas produced into the Gregory gathering system. Our Gregory processing plant has an inlet capacity of approximately 90,000 Mcf/d and average throughput was approximately 84,554 Mcf/d for the three months ended March 31, 2003. At the time of our acquisition, the plant was processing approximately 43,400 Mcf/d of gas per day. We are nearing completion of an expansion to the processing plant which will increase the capacity to 150,000 Mcf/d. The Gregory processing plant was constructed in the 1980s and expanded and upgraded in 1998. We believe the expected remaining life of the Gregory processing plant is approximately 20 years.

In addition to the margins generated by the Gregory gathering system, we generate revenues at our Gregory processing plant under two types of arrangements:

- For the three months ended March 31, 2003, we purchased approximately 29% of the natural gas volumes on our Gregory system under contracts in which we were exposed to the risk of loss or gain in processing the natural gas. Under these contracts, we fractionate the NGLs into separate NGL products, which we then sell at prices based upon the market price for NGL products. All of the processed natural gas is delivered to a single customer at a price based on a fixed price relative to a monthly index. This contract expires in March 2006. Since we extract Btus from the gas stream in the form of the liquids or consume it as fuel during processing, we reduce the Btu content of the natural gas but seek to more than offset this by creating value from the separated NGL products. Accordingly, our margins under these arrangements can be negatively affected in periods where the value of natural gas is high relative to the value of NGLs.

- For the three months ended March 31, 2003, we purchased approximately 71% of the natural gas volumes on our Gregory system at a spot or market price less a discount that includes a fee for processing and marketing the natural gas and NGLs at our Gregory processing plant with no risk of loss or gain in processing the natural gas. Under these contracts, the producer retains ownership of the fractionated NGLs, and accordingly bears the risk and retains the benefits associated with processing the natural gas.

Arkoma Gathering System. We acquired the Arkoma gathering system, located in the southeastern region of Oklahoma, in September 2000 for $10.5 million. In addition, since acquiring this system, we have acquired the Shawnee extension, consisting of 15 miles of gathering pipelines extending through additional supply areas in this region. The Arkoma gathering system when acquired was approximately 84 miles in length and included a 3,700 horsepower compressor station. With the addition of the Shawnee extension and additional well connections, the system is now approximately 100 miles in length and ranges in diameter from two to 10 inches. This low-pressure system gathers gas from approximately 158 wells to three compressor stations for discharge to a mainline transmission pipeline. This system has a capacity of 20,000 Mcf/d and average throughput was approximately 9,793 Mcf/d for the three months ended March 31, 2003.

We generate a margin for gathering and transporting gas in the Arkoma gathering system equal to a percentage of the proceeds from the sale of the natural gas into the mainline transmission pipeline. We take title to the gas at the metering point into the gathering system, with payment based upon an allocation of the metered volume sold into the mainline transmission facilities of our customer with the producer sharing their pro rata portion of the fuel costs for the compression and the removal of water from the natural gas stream.

AIM Pipeline System. We acquired the AIM pipeline system from DEFS in June 2003 in connection with the DEFS acquisition. The AIM pipeline system is located in 15 counties of south Mississippi spanning from the city of Jackson in the northwest to Hattiesburg in the southeast. The system has wellhead supply connections in most of the gas fields in the counties of operation—primarily Jasper, Jefferson Davis, Lawrence, Marion and Simpson counties. The system delivers natural gas through direct market connections to utilities and industrial end users. The pipeline system consists of approximately 638 miles of pipeline ranging in diameter from four to 20 inches with a total estimated capacity of 195,000 Mcf/d. Average throughput on this system was approximately 79,000 Mcf/d at the time of our acquisition. The system was constructed in the 1970s and we believe the expected remaining life of the pipeline system is approximately 30 years.

We generate operating profits in our AIM pipeline system by purchasing, gathering, transporting and reselling natural gas. We purchase gas from approximately 60 producers at the delivery points into the system. The majority of contracts are priced at a fixed basis to an area index.

Seminole Gas Processing Plant. We own an undivided 12.4% interest in the Seminole gas processing plant, which is located in Gaines County, Texas. The Seminole plant has dedicated long-term reserves from the Seminole San Andres unit, to which it also supplies carbon dioxide under a long-term arrangement. Revenues at the plant are derived from a fee it charges producers, including those at the Seminole San Andres unit, for each Mcf of carbon dioxide returned to the producer for reinjection. The fees currently average $0.5815 for each Mcf of carbon dioxide returned. Reinjected carbon dioxide is used in a tertiary oil recovery process in the field. The plant also receives 50% of the NGLs produced by the plant. We have entered into a one-year contract with Duke Energy NGL Services, L.P. to market our NGLs on our behalf, and receive our share of proceeds from the sale of carbon dioxide from the plant operator. We are separately billed by the plant operator for our share of expenses. The plant had capacity of 150,000 Mcf/d at the time of acquisition with an approved expansion of 60,000 Mcf/d underway to increase capacity to 210,000 Mcf/d. Average throughput for the plant was approximately 139,000 Mcf/d at the time of our acquisition. The plant was constructed in the 1980s and we believe the expected remaining life of the pipeline system is approximately 30 years.

Conroe Gas Plant And Gathering System. We acquired the Conroe gas plant and gathering system in June 2003 in connection with the DEFS asset acquisition. Located in Montgomery County, Texas, the Conroe gas plant is a cryogenic gas processing plant with 10 miles of gathering pipelines located within the Conroe Field Unit, which is operated by ExxonMobil. The plant gathers low pressure and high pressure natural gas through contracts with over 20 producers. The plant has outlet natural gas connections to Kinder Morgan Texas Pipeline, L.P. and Copano Field Services. Recovered NGLs are delivered into the Chaparral NGL pipeline. The plant has a capacity of 65,000 Mcf/d and average throughput on this system was approximately 30 MMcf/d at the time of our acquisition. The Conroe gas plant was constructed in the 1930s and we believe the expected remaining life of the pipeline system is approximately 20 years.

We generate operating profits at our Conroe gas plant primarily from compression and processing fees and from retaining 40% of the NGLs from the recycled lift gas.

Black Warrior Pipeline System. We acquired the Black Warrior pipeline system in June 2003 in connection with the DEFS asset acquisition. The system is located in Fayette, Lamar, Picken and Tuscaloosa Counties in west-central Alabama. The system gathers coalbed methane gas from the Black Warrior Basin and other conventional wells. The system is a series of three natural gas gathering and transmission systems consisting of approximately 125 miles of four to twelve inch pipeline with an estimated capacity of 70,000 Mcf/d. One supplier to the system accounted for over half of the gas gathered. We deliver the gas primarily to industrial end users. Average throughput on this system was approximately 13,800 Mcf/d at the time of our acquisition. The system was constructed in the 1970s and we believe the remaining life of the pipeline system is approximately 15 years.

We generate operating profits in our Black Warrior pipeline system by gathering, transporting and reselling natural gas. All gas is purchased at the delivery points into the system. The majority of the contracts are priced at a fixed basis to an area index.

Other Systems. We own several small gathering systems totaling approximately 135 miles, including our Manziel system in Wood County, Texas, our San Augustine system in San Augustine County, Texas, our Freestone Rusk system in Freestone County, Texas our Jack Starr and North Edna systems in Jackson County, Texas and our Cadeville and Aurora Centana systems in Louisiana. Through Crosstex Pipeline Partners, a limited partnership of which we are the co-general partner, we own a 28% interest in five gathering systems in east Texas, totaling 64 miles with a combined capacity of 112,000 Mcf/d. We also own five industrial bypass systems each of which supplies natural gas directly from a pipeline to a dedicated customer. The combined volumes for these five industrial bypass systems was approximately 5,000 MMBtu/d for the three months ended March 31, 2003. In addition to these

systems, we own various smaller gathering and transmission systems located in Texas, New Mexico and Louisiana.

Producer Services. We currently purchase for resale volumes of natural gas that do not move through our gathering, processing or transmission assets from over 50 independent producers. We engage in such activities on more than 30 interstate and intrastate pipelines with a major emphasis on Gulf Coast pipelines. We focus on supply aggregation transactions in which we either purchase and resell gas and thereby eliminate the need of the producer to engage in the marketing activities typically handled by in-house marketing or supply departments of larger companies, or act as agent for the producer.

Our business strategy includes developing relationships with natural gas producers to facilitate the purchase of their production on a long-term basis. We believe that this business also provides us with strategic insights and valuable market intelligence which may impact our expansion and acquisition strategy.

We offer to our customers the ability to hedge their purchase or sale price by agreeing to sell to us or to purchase from us volumes of natural gas. This risk management tool enables our customers to reduce pricing volatility associated with the sale and purchase of natural gas. When we agree to purchase or sell natural gas from a customer, we contemporaneously execute a contract for the sale or purchase of such natural gas, we enter into an offsetting obligation under futures contracts on the New York Mercantile Exchange or by using over-the-counter derivative instruments with third parties.

Treating Division

As of March 31, 2003, we owned 53 treating plants, 30 of which were operated by our personnel, 10 of which were operated by producers, and 13 of which were held in inventory. We entered the treating business in 1998 with the acquisition of WRA Gas Services. In October 2001, we completed our largest acquisition of gas treating assets with the acquisition of Millennium Gas Services, Inc., which added 11 treating plants, four of which were in operation and seven of which were placed in our inventory. With these two acquisitions and the acquisition of additional plants, we have one of the largest gas treating operations in the Texas Gulf Coast. The treating plants remove carbon dioxide and hydrogen sulfide from natural gas before it is introduced to transportation systems to ensure that it meets pipeline quality specifications. Natural gas from certain formations in the Texas Gulf Coast as well as other locations are high in carbon dioxide. The majority of our active plants are treating gas from the Wilcox and Edwards formations in the Texas Gulf Coast, both of which are deeper formations that are high in carbon dioxide. Our active treating facilities include 38 amine plants and two hydrogen sulfide scavenger installations. In cases where producers pay us to operate the treating facilities, we either charge a fixed rate per Mcf of natural gas treated or charge a fixed monthly fee.

In addition to our treating plants, we have three gathering systems with an aggregate of 43 miles of gathering pipeline located in Val Verde, Crockett, Dewitt and Live Oak counties, Texas that are connected to approximately 73 producing wells. These gathering systems are connected to three of our treating plants. The diameter of these gathering pipelines ranges from two to six inches. These gathering assets in the aggregate have a capacity of 65,000 Mcf/d and average throughput was approximately 20,900 Mcf/d for the three months ended March 31, 2003. In cases where we both gather and treat natural gas, our fee is generally based on throughput.

A component of our strategy is to purchase used plants and then refurbish and repair them at our shop and seven-acre yard in Victoria, Texas and our 14-acre yard in Odessa, Texas. We believe that we can purchase used plants and recondition them at a significant cost savings to purchasing new plants. We have an inventory of plants of varying sizes which can be deployed after refurbishment. We also mount most of the plant equipment on skids allowing them to be moved in a timely and cost efficient manner. At such time as our active plants come offline, we will put them in our inventory pending redeployment. We believe our plant inventory gives us an advantage of several weeks in the time required to respond to a producer's request for treating services.

Treating process. The amine treating process involves a continuous circulation of a liquid chemical called amine that physically contacts with the natural gas. Amine has a chemical affinity for hydrogen sulfide and carbon dioxide that allows it to absorb the impurities from the gas. After mixing, gas and amine are separated and the impurities are removed from the amine by heating. Treating plants are sized by the amine circulation capacity in terms of gallons per minute. The size range of the 38 amine plants in operation is 3.5 to 300 gallons per minute, and the size range of the 13 plants in inventory is 3.5 to 1,000 gallons per minute.

Hydrogen sulfide scavenger facilities use a liquid or solid chemical that reacts with hydrogen sulfide thereby removing it from the gas. Used chemicals are disposed of and cannot be regenerated as amine can. The facilities are primarily vertical towers mounted on concrete foundations. As of March 31, 2003, we had two such facilities which were operated by the producer.

Risk Management

It is our policy that as we purchase natural gas, we establish a margin by selling natural gas for physical delivery to third-party users, using over-the-counter derivative instruments or by entering into a future delivery obligation under futures contracts on the New York Mercantile Exchange. Through these transactions, we seek to maintain a position that is substantially balanced between purchases, on the one hand, and sales or future delivery obligations, on the other hand. Our policy is not to acquire and hold natural gas future contracts or derivative products for the purpose of speculating on price changes.

Competition

The natural gas gathering, transmission, treating, processing and marketing industries are highly competitive. We face strong competition in acquiring new natural gas supplies. Our competitors in obtaining additional gas supplies and in treating new natural gas supplies include major integrated oil companies, major interstate and intrastate pipelines, and other natural gas gatherers that gather, process and market natural gas. Competition for natural gas supplies is primarily based on the reputation, efficiency and reliability of the gatherer and the pricing arrangements offered by the gatherer. The main difference between us and our competitors is that we offer most midstream services, while our competitors typically offer only a few select services. Many of our competitors have capital resources and control supplies of natural gas substantially greater than ours. Our major competitors in the Texas Gulf Coast area for natural gas supplies and markets include El Paso Field Services, Kinder Morgan Inc., Houston Pipeline Company and Duke Energy Field Services. Our major competitors in Mississippi for natural gas supplies and markets include Southern Natural Gas and Gulf South Pipeline Company.

Our gas treating and processing operations face competition from manufacturers of new treating plants and from a small number of regional operators that provide plant leasing and operations similar to ours. We also face competition from vendors of used equipment that occasionally lease and operate plants for producers. Our primary competitor for natural gas treating services in our principal market area is The Hanover Company.

In marketing natural gas, we have numerous competitors, including marketing affiliates of interstate pipelines, major integrated oil companies, and local and national natural gas gatherers, brokers and marketers of widely varying sizes, financial resources and experience. Local utilities and distributors of natural gas are, in some cases, engaged directly, and through affiliates, in marketing activities that compete with our marketing operations.

Natural Gas Supply

Our end-user pipelines have connections with major interstate and intrastate pipelines which we believe have ample supplies of natural gas in excess of the volumes required for these systems. In connection with the construction and acquisition of our gathering systems, we evaluated well and reservoir data furnished by producers to determine the availability of natural gas supply for the systems. Based on those evaluations, we believe that there should be adequate natural gas supply to recoup our investment with an adequate rate of return. We do not routinely obtain independent evaluations of reserves dedicated to our systems due to the cost of such evaluations. Accordingly, we do not have estimates of total reserves dedicated to our systems or the anticipated life of such producing reserves.

Regulation

Regulation by FERC of Interstate Natural Gas Pipelines. We do not own any interstate natural gas pipelines, so FERC does not directly regulate any of our operations. However, FERC's regulation influences certain aspects of our business and the market for our products. In general, FERC has authority over natural gas companies that provide natural gas pipeline transportation services in interstate commerce and its authority to regulate those services includes:

- the certification and construction of new facilities;
- the extension or abandonment of services and facilities;
- the maintenance of accounts and records;
- the acquisition and disposition of facilities;
- the initiation and discontinuation of services; and
- various other matters.

In recent years, FERC has pursued pro-competitive policies in its regulation of interstate natural gas pipelines. However, we cannot assure you that FERC will continue this approach as it considers matters such as pipelines' rates and rules and policies that may affect rights of access to natural gas transportation capacity.

Intrastate Pipeline Regulation. Our intrastate natural gas pipeline operations generally are not subject to rate regulation by FERC, but they are subject to regulation by various agencies of the states in which they are located. However, to the extent that our intrastate pipeline systems transport natural gas in interstate commerce, the rates, terms and conditions of such transportation service are subject to FERC jurisdiction under Section 311 of the Natural Gas Policy Act, which regulates, among other things, the provision of transportation services by an intrastate natural gas pipeline on behalf of a local distribution company or an interstate natural gas pipeline. Most states have agencies that possess the authority to review and authorize natural gas transportation transactions and the construction, acquisition, abandonment and interconnection of physical facilities. Some states also have state agencies that regulate transportation rates, service terms and conditions and contract pricing to ensure their reasonableness and to ensure that the intrastate pipeline companies that they regulate do not discriminate among similarly situated customers.

Our operations in Texas are subject to the Texas Gas Utility Regulatory Act, as implemented by the TRRC. Generally the TRRC is vested with authority to ensure that rates charged for natural gas sales or transportation services are just and reasonable. The rates we charge for transportation services are deemed just and reasonable under Texas law unless challenged in a complaint. We cannot predict whether such a complaint will be filed against us or whether the TRRC will change its regulation of these rates.

Our operations in New Mexico, where we own a private line that is used to serve one customer, are not regulated by the New Mexico Public Regulation Commission. Similarly, our eighty-four mile gathering line in Oklahoma is not regulated by the Oklahoma Corporation Commission. While it is possible that Oklahoma or New Mexico may try to assert jurisdiction on these lines, it is not likely that the assertion of that jurisdiction would have a significant effect on our operations in those states because both states tend to have light-handed regulation of natural gas pipeline facilities.

Gathering Pipeline Regulation. Section 1(b) of the NGA exempts natural gas gathering facilities from the jurisdiction of FERC under the NGA. We own a number of natural gas pipelines that we believe meet the traditional tests FERC has used to establish a pipeline's status as a gatherer not subject to FERC jurisdiction. However, the distinction between FERC-regulated transmission services and federally unregulated gathering services is the subject of substantial, on-going litigation, so the classification and regulation of our gathering facilities are subject to change based on future determinations by FERC and the courts. State regulation of gathering facilities generally includes various safety, environmental and, in some circumstances, nondiscriminatory take requirements, and in some instances complaint-based rate regulation.

We are subject to state ratable take and common purchaser statutes. The ratable take statutes generally require gatherers to take, without undue discrimination, natural gas production that may be tendered to the gatherer for handling. Similarly, common purchaser statutes generally require gatherers to purchase without undue discrimination as to source of supply or producer. These statutes are designed to prohibit discrimination in favor of one producer over another producer or one source of supply over another source of supply. These statutes have the effect of restricting our right as an owner of gathering facilities to decide with whom we contract to purchase or transport natural gas.

Natural gas gathering may receive greater regulatory scrutiny at both the state and federal levels now that FERC has taken a more light-handed approach to regulation of the gathering activities of interstate pipeline transmission companies and a number of such companies have transferred gathering facilities to unregulated affiliates. For example, the TRRC has approved changes to its regulations governing transportation and gathering services performed by intrastate pipelines and gatherers, which prohibit such entities from unduly discriminating in favor of their affiliates. Many of the producing states have adopted some form of complaint-based regulation that generally allows natural gas producers and shippers to file complaints with state regulators in an effort to resolve grievances relating to natural gas gathering access and rate discrimination. Our gathering operations could be adversely affected should they be subject in the future to the application of state or federal regulation of rates and services. Our gathering operations also may be or become subject to safety and operational regulations relating to the design, installation, testing, construction, operation, replacement and management of gathering facilities. Additional rules and legislation pertaining to these matters are considered or adopted from time to time. We cannot predict what effect, if any, such changes might have on our operations, but the industry could be required to incur additional capital expenditures and increased costs depending on future legislative and regulatory changes.

Sales of Natural Gas. The price at which we sell natural gas currently is not subject to federal regulation and, for the most part, is not subject to state regulation. Our sales of natural gas are affected by the availability, terms and cost of pipeline transportation. As noted above, the price and terms of access to pipeline transportation are subject to extensive federal and state regulation. FERC is continually proposing and implementing new rules and regulations affecting those segments of the natural gas industry, most notably interstate natural gas transmission companies, that remain subject to FERC's jurisdiction. These initiatives also may affect the intrastate transportation of natural gas under certain circumstances. The stated purpose of many of these regulatory changes is to promote competition among the various sectors of the natural gas industry and these initiatives generally reflect more light-handed regulation. We cannot predict the ultimate impact of these regulatory changes to our natural gas marketing operations, and we note that some of FERC's more recent proposals may

adversely affect the availability and reliability of interruptible transportation service on interstate pipelines. We do not believe that we will be affected by any such FERC action materially differently than other natural gas marketers with whom we compete.

Environmental Matters

General. Our operation of processing and fractionation plants, pipelines and associated facilities in connection with the gathering and processing of natural gas and the transportation, fractionation and storage of NGLs is subject to stringent and complex federal, state and local laws and regulations relating to release of hazardous substances or wastes into the environment or otherwise relating to protection of the environment. As with the industry generally, compliance with existing and anticipated environmental laws and regulations increases our overall costs of doing business, including our cost of planning, constructing, and operating our plants, pipelines, and other facilities. Included in our construction and operation costs are capital cost items necessary to maintain or upgrade our equipment and facilities.

Any failure to comply with applicable environmental laws and regulations, including those relating to obtaining required governmental approvals, may result in the assessment of administrative, civil, or criminal penalties, imposition of investigatory or remedial activities and, in less common circumstances, issuance of injunctions or construction bans or delays. While we believe that we currently hold material governmental approvals required to operate our major facilities, we are currently evaluating and updating permits for certain of our facilities that primarily were obtained in recent acquisitions. As part of the regular overall evaluation of our operations, we have implemented procedures and are presently working to ensure that all governmental approvals for both recently acquired facilities and existing operations are updated, as may be necessary. We believe that our operations and facilities are in substantial compliance with applicable environmental laws and regulations and that the cost of compliance with such laws and regulations will not have a material adverse effect on our results of operations or financial condition.

The clear trend in environmental regulation is to place more restrictions and limitations on activities that may affect the environment, and thus there can be no assurance as to the amount or timing of future expenditures for environmental compliance or remediation, and actual future expenditures may be different from the amounts we currently anticipate. Moreover, risks of process upsets, accidental releases or spills are associated with our operations and we cannot assure you that we will not incur significant costs and liabilities as a result of such upsets, releases, or spills, including those relating to claims for damage to property and persons. In the event of future increases in costs, we may be unable to pass on those increases to our customers. A discharge of hazardous substances or wastes into the environment could, to the extent the event is not insured, subject us to substantial expense, including both the cost to comply with applicable laws and regulations and claims made by neighboring landowners and other third parties for personal injury or damage to property. We will attempt to anticipate future regulatory requirements that might be imposed and plan accordingly in order to remain in compliance with changing environmental laws and regulations and to minimize the costs of such compliance.

Hazardous Substance and Waste. To a large extent, the environmental laws and regulations affecting our operations relate to the release of hazardous substances or solid wastes into soils, groundwater, and surface water, and include measures to control environmental pollution of the environment. These laws and regulations generally regulate the generation, storage, treatment, transportation, and disposal of solid and hazardous wastes, and may require investigatory and corrective actions of facilities where such waste may have been released or disposed. For instance, the Comprehensive Environmental Response, Compensation and Liability Act, or CERCLA, also known as the "Superfund" law, and comparable state laws, impose liability without regard to fault or the legality of the original conduct, on certain classes of persons that contributed to a release of "hazardous substance" into the environment. These persons include the owner or operator of the site where a release occurred and companies that disposed or arranged for the disposal of the hazardous substances found at the site. Under CERCLA, these persons may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment, for damages to natural resources, and for the costs of certain health studies. CERCLA also authorizes the EPA and, in some cases, third parties to take actions in response to threats to the public health or the environment and to seek to recover from the responsible classes of persons the costs they incur. It is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by hazardous substances or other wastes released into the environment. Although "petroleum" as well as natural gas and NGLs are excluded from CERCLA's definition of a "hazardous substance," in the course of our ordinary operations we will generate wastes that may fall within the definition of a "hazardous substance." We may be responsible under CERCLA for all or part of the costs required to clean up sites at which such wastes have been disposed. We have not received any notification that we may be potentially responsible for cleanup costs under CERCLA or any analogous state laws.

We also generate both hazardous and nonhazardous solid wastes that are subject to requirements of the federal Resource Conservation and Recovery Act, or RCRA, and comparable state statutes. From time to time, the Environmental Protection Agency, or EPA, has considered the adoption of stricter disposal standards for nonhazardous wastes, including crude oil and natural gas wastes. We are not currently required to comply with a substantial portion of the RCRA requirements because our operations generate minimal quantities of hazardous wastes. However, it is possible that some wastes generated by us that are currently classified as nonhazardous may in the future be designated as "hazardous wastes," resulting in the wastes being subject to more rigorous and costly disposal requirements. Changes in applicable regulations may result in an increase in our capital expenditures or plant operating expenses.

We currently own or lease, and have in the past owned or leased, properties that have been used over the years for natural gas gathering and processing and for NGL fractionation, transportation and storage. Solid waste disposal practices within the NGL industry and other oil and natural gas related industries have improved over the years with the passage and implementation of various environmental laws and regulations. Nevertheless, some hydrocarbons and other solid wastes have been disposed of on or under various properties owned or leased by us during the operating history of those facilities. In addition, a number of these properties may have been operated by third parties over whom we had no control as to such entities' handling of hydrocarbons or other wastes and the manner in which such substances may have been disposed of or released. These properties and wastes disposed thereon may be subject to CERCLA, RCRA, and analogous state laws. Under these laws, we could be required to remove or remediate previously disposed wastes or property contamination, including groundwater contamination or to perform remedial operations to prevent future contamination.

Air Emissions. Our operations are subject to the Clean Air Act and comparable state statutes. Amendments to the Clean Air Act were enacted in 1990. Moreover, recent or soon to be adopted changes to state implementation plans for controlling air emissions in regional, non-attainment areas require or will require most industrial operations in the United States to incur capital expenditures in order to meet air emission control standards developed by the EPA and state environmental agencies. As a result of these amendments, our processing and fractionating plants, pipelines, and storage facilities that emit volatile organic compounds or nitrogen oxides may become subject to increasingly stringent regulations, including requirements that some sources install maximum or reasonably available control technology. Such requirements, if applicable to our operations, could cause us to incur capital expenditures in the next several years for air pollution control equipment in connection with maintaining or obtaining governmental approvals addressing air emission-related issues. In addition, the 1990 Clean Air Act Amendments established a new operating permit for major sources, which applies

to some of our facilities. Failure to comply with applicable air statutes or regulations may lead to the assessment of administrative, civil or criminal penalties, and may result in the limitation or cessation of construction or operation of certain air emission sources. Although we can give no assurances, we believe implementation of the 1990 Clean Air Act Amendments will not have a material adverse effect on our financial condition or results of operations.

Clean Water Act. The Federal Water Pollution Control Act, also known as the Clean Water Act, and similar state laws impose restrictions and strict controls regarding the discharge of pollutants, including natural gas liquid-related wastes, into state waters or waters of the United States. Regulations promulgated pursuant to these laws require that entities that discharge into federal and state waters obtain National Pollutant Discharge Elimination System, or NPDES, and/or state permits authorizing these discharges. The Clean Water Act and analogous state laws assess administrative, civil and criminal penalties for discharges of unauthorized pollutants into the water and impose substantial liability for the costs of removing spills from such waters. In addition, the Clean Water Act and analogous state laws require that individual permits or coverage under general permits be obtained by covered facilities for discharges of storm water runoff. We believe that we are in substantial compliance with Clean Water Act permitting requirements as well as the conditions imposed thereunder, and that continued compliance with such existing permit conditions will not have a material effect on our results of operations.

Employee Safety. We are subject to the requirements of the Occupational Safety and Health Act, referred to as OSHA, and comparable state laws that regulate the protection of the health and safety of workers. In addition, the OSHA hazard communication standard requires that information be maintained about hazardous materials used or produced in operations and that this information be provided to employees, state and local government authorities and citizens. We believe that our operations are in substantial compliance with the OSHA requirements, including general industry standards, record keeping requirements, and monitoring of occupational exposure to regulated substances.

Endangered Species Act. The Endangered Species Act restricts activities that may affect endangered species or their habitats. While we have no reason to believe that we operate in any area that is currently designed as habitat for endangered or threatened species, the discovery of previously unidentified endangered species could cause us to incur additional costs or become subject to operating restrictions or bans in the affected areas.

Safety Regulations. Our pipelines are subject to regulation by the U.S. Department of Transportation under the Hazardous Liquid Pipeline Safety Act, as amended, or HLPSA, relating to the design, installation, testing, construction, operation, replacement and management of pipeline facilities. The HLPSA covers crude oil, carbon dioxide, NGL and petroleum products pipelines and requires any entity which owns or operates pipeline facilities to comply with the regulations under the HLPSA, to permit access to and allow copying of records and to make certain reports and provide information as required by the Secretary of Transportation. We believe that our pipeline operations are in substantial compliance with applicable HLPSA requirements; however, due to the possibility of new or amended laws and regulations or reinterpretation of existing laws and regulations, there can be no assurance that future compliance with the HLPSA will not have a material adverse effect on our results of operations or financial positions.

Title to Properties

Substantially all of our pipelines are constructed on rights-of-way granted by the apparent record owners of the property. Lands over which pipeline rights-of-way have been obtained may be subject to prior liens that have not been subordinated to the right-of-way grants. We have obtained, where necessary, easement agreements from public authorities and railroad companies to cross over or under, or to lay facilities in or along, watercourses, county roads, municipal streets, railroad properties and state highways, as applicable. In some cases, property on which our pipeline was built was purchased in fee. Our Gregory processing plant is on land that we own in fee.

Our general partner believes that we have satisfactory title to all of our assets. Title to property may be subject to encumbrances. Our general partner believes that none of such encumbrances should materially detract from the value of our properties or from our interest in these properties or should materially interfere with their use in the operation of our business.

Office Facilities

In addition to our gathering and treating facilities discussed above, we occupy approximately 17,172 square feet of space at our executive offices in Dallas, Texas under a lease expiring in November 2004. While we may require additional office space as our business expands, we believe that our existing facilities are adequate to meet our needs for the immediate future, and that additional facilities will be available on commercially reasonable terms as needed.

Employees

As of July 7, 2003, we had approximately 170 full-time employees, including 23 employees who previously worked for DEFS. Approximately half of our employees are general and administrative, engineering, accounting and commercial personnel and the remainder are operational employees. We are not party to any collective bargaining agreements, and we have not had any significant labor disputes in the past. We believe that we have good relations with our employees.

Litigation

We are not currently a party to any material litigation. Our operations are subject to a variety of risks and disputes normally incident to our business. As a result, at any given time we may be a defendant in various legal proceedings and litigation arising in the ordinary course of business. We maintain insurance policies with insurers in amounts and with coverage and deductibles as the managing general partner believes are reasonable and prudent. However, we cannot assure that this insurance will be adequate to protect us from all material expenses related to potential future claims for personal and property damage or that these levels of insurance will be available in the future at economical prices.

MANAGEMENT

Management of Crosstex Energy, L.P.

Crosstex Energy GP, LLC, as the general partner of our general partner, manages our operations and activities on behalf of our general partner. Our general partner is not elected by our unitholders and is not subject to re-election on a regular basis in the future. Unitholders do not directly or indirectly participate in our management or operations. Our general partner owes a fiduciary duty to our unitholders. Our general partner is liable, as general partner, for all of our debts (to the extent not paid from our assets), except for indebtedness or other obligations that are made specifically non-recourse to it. Whenever possible, our general partner intends to incur indebtedness or other obligations that are non-recourse.

Three members of the board of directors of Crosstex Energy GP, LLC serve on a conflicts committee to review specific matters which the board of directors believes may involve conflicts of interest. The conflicts committee determines if the resolution of a conflict of interest is fair and reasonable to us. The members of the conflicts committee may not be officers or employees of our general partner or directors, officers or employees of its affiliates and must meet the independence standards to serve on an audit committee of a board of directors established by the Nasdaq National Market. Additionally, the members of the conflicts committee are prohibited from holding any ownership interest in us or in any of our affiliates other than common units. Any matters approved by the conflicts committee are conclusively deemed to be fair and reasonable to us, approved by all of our partners, and not a breach by our general partner of any duties it may owe us or our unitholders.

Two members of the board of directors also serve on a compensation committee, which oversees compensation decisions for the officers of our general partner as well as the compensation plans described below. In addition, three members of the board of directors serve on an audit committee that reviews our external financial reporting, is responsible for engaging our independent auditors and reviews procedures for internal auditing and the adequacy of our internal accounting controls. The members of the audit committee must meet the independence standards established by the Nasdaq National Market.

Directors and Executive Officers of Crosstex Energy GP, LLC

The following table shows information for the directors and executive officers of Crosstex Energy GP, LLC. Executive officers and directors are elected for one-year terms or until their successors are duly appointed or elected.

Name	Age	Position with Crosstex Energy GP, LLC
Barry E. Davis	41	President, Chief Executive Officer and Director
James R. Wales	49	Executive Vice President—Midstream Division
A. Chris Aulds	41	Executive Vice President—Treating Division
Jack M. Lafield	52	Senior Vice President—Business Development
William W. Davis	50	Senior Vice President, Chief Financial Officer and Secretary
Michael P. Scott	48	Senior Vice President—Engineering and Operations
C. Roland Haden	62	Director and Member of the Audit and Conflicts Committees
Bryan H. Lawrence	60	Chairman of the Board
Sheldon B. Lubar	73	Director and Member of the Audit and Compensation* Committees
Robert F. Murchison	48	Director and Member of the Compensation and Conflicts Committees
Stephen A. Wells	58	Director and Member of the Audit* and Conflicts Committee

* Indicates chairman of committee.

Barry E. Davis, President, Chief Executive Officer and Director, led the management buyout of the midstream assets of Comstock Natural Gas, Inc. in December 1996, which transaction resulted in the formation of our predecessor. Mr. Davis was President and Chief Operating Officer of Comstock Natural Gas and founder of Ventana Natural Gas, a gas marketing and pipeline company that was purchased by Comstock Natural Gas. Mr. Davis started Ventana Natural Gas in June 1992. Prior to starting Ventana, he was Vice President of Marketing and Project Development for Endevco, Inc. Before joining Endevco, Mr. Davis was employed by Enserch Exploration in the marketing group. Mr. Davis holds a B.B.A. in Finance from Texas Christian University.

James R. Wales, Executive Vice President—Midstream Division, joined our predecessor in December 1996. As one of the founders of Sunrise Energy Services, Inc., he helped build Sunrise into a major national independent natural gas marketing company, with sales and service volumes in excess of 600,000 MMBtu/d. Mr. Wales started his career as an engineer with Union Carbide. In 1981, he joined Producers Gas Company, a subsidiary of Lear Petroleum Corp., and served as manager of its Mid-Continent office. In 1986, he joined Sunrise as Executive Vice President of Supply, Marketing and Transportation. From 1993 to 1994, Mr. Wales was the Chief Operating Officer of Triumph Natural Gas, Inc., a private midstream business. Prior to joining Crosstex, Mr. Wales was Vice President for Teco Gas Marketing Company. Mr. Wales holds a B.S. degree in Civil Engineering from the University of Michigan, and a Law degree from South Texas College of Law.

A. Chris Aulds, Executive Vice President—Treating Division, together with Barry E. Davis, participated in the management buyout of Comstock Natural Gas in December 1996. Mr. Aulds joined Comstock Natural Gas, Inc. in October 1994 as a result of the acquisition by Comstock of the assets and operations of Victoria Gas Corporation. Mr. Aulds joined Victoria in 1990 as Vice President responsible for gas supply, marketing and new business development and was directly involved in the providing of risk management services to gas producers. Prior to joining Victoria, Mr. Aulds was employed by Mobil Oil Corporation as a production engineer before being transferred to Mobil's gas marketing division in 1989. There he assisted in the creation and implementation of Mobil's third- party gas supply business segment. Mr. Aulds holds a B.S. degree in Petroleum Engineering from Texas Tech University.

Jack M. Lafield, Senior Vice President—Business Development, joined our predecessor in August 2000. For five years prior to joining Crosstex, Mr. Lafield was Managing Director of Avia Energy, an energy consulting group, and was involved in all phases of acquiring, building, owning and operating midstream assets and natural gas reserves. He also provided project development and consulting in domestic and international energy projects to major industry and financing organizations, including development, engineering, financing, implementation and operations. Prior to consulting, Mr. Lafield held positions of President and Chief Executive Officer of Triumph Natural Gas, a private midstream business he founded, President and Chief Operating Officer of Nagasco, Inc. (a joint venture with Apache Corporation), President of Producers' Gas Company, and Senior Vice President of Lear Petroleum Corp. Mr. Lafield holds a B.S. degree in Chemical Engineering from Texas A&M University, and is a graduate of the Executive Program at Stanford University.

William W. Davis, Senior Vice President and Chief Financial Officer, joined our predecessor in September 2001, and has 25 years of finance and accounting experience. Prior to joining our predecessor, Mr. Davis held various positions with Sunshine Mining and Refining Company from 1983 to September 2001, including Vice President—Financial Analysis from 1983 to 1986, Senior Vice President and Chief Accounting Officer from 1986 to 1991 and Executive Vice President and Chief Financial Officer from 1991 to 2001. In addition, Mr. Davis served as Chief Operating Officer in 2000 and 2001. Mr. Davis graduated magna cum laude from Texas A&M University with a B.B.A. in Accounting and is a Certified Public Accountant. Mr. Davis is not related to Barry E. Davis.

Michael P. Scott, Senior Vice President—Engineering and Operations, joined our predecessor in July 2001. Before joining our predecessor, Mr. Scott held various positions at Aquila Gas Pipeline Corporation, including Director of Engineering from 1992 to 2001, Director of Operations from 1990 to 1992, and Director of Project Development from 1989 to 1990. Prior to Aquila, Mr. Scott held various project development and engineering positions at Cabot Corporation/Cabot Transmission, Perry Gas Processors and General Electric. Mr. Scott holds a B.S. degree in Mechanical Engineering from Oklahoma State University.

C. Roland Haden joined us as a director upon the completion of our initial public offering. Mr. Haden held the positions of Vice Chancellor of the Texas A&M System, Director of the Texas Engineering Experiment Station and Dean of Look College of Engineering at Texas A&M University from 1993 to 2002. Prior to joining Texas A&M University, Mr. Haden served as Vice Chancellor for Academic Affairs and Provost of Louisiana State University from 1991 to 1993 and held various positions with Arizona State University, including Dean and Professor of Engineering & Applied Sciences from 1989 to 1991, Provost, ASU West Campus from 1988 to 1989, Vice President for Academic Affairs from 1987 to 1988 and Dean and Professor of Engineering and Applied Sciences from 1978 to 1987. Mr. Haden formerly served as a director of Square D Company, a Fortune 500 electrical manufacturing company, as a director of E-Systems, a Fortune 500 defense contractor, and as a member of the Telecommunications Advisory Board of A.T. Kearney, a nationally ranked consulting firm. He has been a director of Inter-tel, Inc., a leading telecommunications company, since 1983. Mr. Haden holds a bachelor's degree from the University of Texas, Arlington, a Masters degree from the California Institute of Technology, and a Ph.D. from the University of Texas, Austin, all in electrical engineering.

Bryan H. Lawrence, Chairman of the Board, joined our predecessor as a director in May 2000. Mr. Lawrence is a founder and senior manager of Yorktown Partners LLC, the manager of the Yorktown group of investment partnerships, which make investments in companies engaged in the energy industry. The Yorktown partnerships were formerly affiliated with the investment firm of Dillon, Read & Co. Inc., where Mr. Lawrence had been employed since 1966, serving as a Managing Director until the merger of Dillon Read with SBC Warburg in September 1997. Mr. Lawrence also serves as a director of Carbon Energy Corporation, D&K Healthcare Resources, Inc., Hallador Petroleum Company, TransMontaigne Inc., and Vintage Petroleum, Inc. (each a United States publicly traded company) and Cavell Energy Corp. (a Canadian publicly traded company) and certain non-public companies in the energy industry in which Yorktown partnerships hold equity interests including PetroSantander Inc., Savoy Energy, L.P., Athanor Resources Inc., Camden Resources, Inc., ESI Energy Services Inc., Ellora Energy Inc., and Dernick Resources Inc. Mr. Lawrence is a graduate of Hamilton College and also has an M.B.A. from Columbia University.

Sheldon B. Lubar joined us as a director upon the completion of our initial public offering. Mr. Lubar has been Chairman of the Board of Lubar & Co. Incorporated, a private investment and venture capital firm he founded, since 1977. He was Chairman of the Board of Christiana Companies, Inc., a logistics and manufacturing company, from 1987 until its merger with Weatherford International in 1995. Mr. Lubar has also been a Director of C2, Inc., a logistics and manufacturing company, since 1995, MGIC Investment Corporation, a mortgage insurance company, since 1991, Grant Prideco, Inc., an energy services company, since 2000, and Weatherford International, Inc., an energy services company, since 1995. Mr. Lubar holds a bachelor's degree in Business Administration and a Law degree from the University of Wisconsin—Madison. He was awarded an honorary Doctor of Commercial Science degree from the University of Wisconsin—Milwaukee.

Robert F. Murchison joined us as a director upon the completion of our initial public offering. Mr. Murchison has been the President of the general partner of Murchison Capital Partners, L.P., a private equity investment partnership since 1992. Prior to founding Murchison Capital Partners, L.P., Mr. Murchison held various positions with Romacorp, Inc., the franchisor and operator of Tony Roma's

restaurants, including Chief Executive Officer from 1984 to 1986 and Chairman of the board of directors from 1984 to 1993. He served as a director of Cenergy Corporation, an oil and gas exploration and production company, from 1984 to 1987, Conquest Exploration Company from 1987 to 1991 and has served as a director of TNW Corporation, a short line railroad holding company, since 1981 and Tecon Corporation, a holding company with holdings in real estate development, investor owned water utilities, rail car repair and the fund of funds management business, since 1978. Mr. Murchison holds a bachelor's degree in history from Yale University.

Stephen A. Wells joined us as a director upon the completion of our initial public offering. Mr. Wells has been the President of Wells Resources, Inc., a private oil, gas and ranching company since 1983. Mr. Wells has served in executive management positions with various energy companies, with an emphasis in oil field services. He served as Chief Executive Officer and director of Grasso Corporation, a contract production management company, from 1992 to 1994, Chief Executive Officer and director of Coastwide Energy Services, Inc. from 1993 to 1996, and President, Chief Executive Officer and director of Wells Strathclyde Company, an oil field services company he co-founded from 1978 to 1982. Mr. Wells also serves as a director and audit committee chair of Oil States International and as a director and audit committee chair of Pogo Producing Company. Mr. Wells holds a bachelor's degree in accounting from Abilene Christian University.

Reimbursement of Expenses of the General Partner

Our general partner does not receive any management fee or other compensation for its management of our partnership. Our general partner and its affiliates are reimbursed for expenses incurred on our behalf. These expenses include the costs of employee, officer and director compensation and benefits properly allocable to us, and all other expenses necessary or appropriate to the conduct of the business of, and allocable to, us. The partnership agreement provides that our general partner will determine the expenses that are allocable to us in any reasonable manner determined by our general partner in its sole discretion. For the twelve month period ending in December 2003, the amount which we will reimburse the general partner and its affiliates for costs incurred with respect to the general and administrative services performed on our behalf will not exceed $6.0 million. This reimbursement cap does not apply to the cost of any third-party legal, accounting or advisory services received, or the direct expenses of management incurred, in connection with acquisition or business development opportunities evaluated on behalf of the partnership. On December 31, 2003, the $6.0 million limit on such reimbursements will expire and expenses will most likely be higher.

Compensation of Directors

Each director of Crosstex Energy GP, LLC who is not an employee of Crosstex Energy GP, LLC (except Mr. Lawrence) is paid an annual retainer fee of $25,000. Directors do not receive an attendance fee for each board meeting, but an attendance fee of $1,000 is paid to each director for each committee meeting he attends. Directors are also reimbursed for related out-of-pocket expenses. Each committee chairman receives $2,500 annually. Barry E. Davis, as an officer of Crosstex Energy GP, LLC, is otherwise compensated for his services and therefore receives no separate compensation for his service as a director. Outside directors are entitled to take all or any portion of their compensation in the form of unit options or restricted units. Outside directors are also entitled to a one-time grant of 10,000 options at an exercise price of $20.

Executive Compensation

The following table sets forth certain compensation information for the Chief Executive Officer and the five other most highly compensated executive officers of the general partner of our general partner in 2002. We reimburse our general partner and its affiliates for expenses incurred on our behalf, including the costs of officer compensation allocable to us. The named executive officers have also received certain equity-based awards from our general partner's general partner. We were formed in July 2002 but conducted no business until mid-December 2002. As such, the compensation set forth below includes salary and bonus information paid to each of the named executive officers by Crosstex Energy GP, LLC and our predecessor.

Summary Compensation Table

	Annual Compensation(1)				Long Term Compensation Awards	
Name and Principal Position	**Year**	**Salary(1)**	**Bonus(2)**	**Other Annual Compensation**	**Shares Underlying Options(3)**	**All Other Compensation**
Barry E. Davis *President and Chief Executive Officer*	2002	$ 201,500	$ 100,750	—	30,000	—
James R. Wales *Executive Vice President—Midstream Division*	2002	$ 171,064	$ 59,872	—	20,000	—
A. Chris Aulds *Executive Vice President—Treating Division*	2002	$ 171,064	$ 59,872	—	20,000	—
Jack M. Lafield *Senior Vice President—Business Development*	2002	$ 160,875	$ 56,306	—	17,500	—
William W. Davis *Senior Vice President and Chief Financial Officer*	2002	$ 160,875	$ 96,306	—	17,500	—
Michael P. Scott *Senior Vice President—Engineering and Operations*	2002	$ 134,304	$ 47,007	—	12,500	—

(1) Reflects the aggregate salary paid by Crosstex Energy GP, LLC and our predecessor for fiscal 2002. The portion of the amount shown paid by us subsequent to the closing of our initial public offering on December 17, 2002 for each of Messrs. Davis, Wales, Aulds, Lafield, W. Davis, and Scott was $8,396, $7,128, $7,128, $6,703, $6,703 and $5,596, respectively.

(2) Performance bonuses were earned by the executive officers for service to our predecessor prior to the closing of our initial public offering.

(3) Executive officers have received equity-based awards from our general partner. No awards have vested to date under our Long-Term Incentive Plan. For a description of awards granted to date under the Long-Term Incentive Plan. See "—Long-Term Incentive Plan."

Option Grants

The following table contains information about unit option grants to the named executive officers for the year ended December 31, 2002 (except as indicated):

Option Grants in Last Fiscal Year

Name	Individual Grants: Number of Securities Underlying Options/SARs Granted(1)	Percent of Total Options/ SARs Granted to Employees in Fiscal Year(2)	Exercise or Base Price	Market Price on Date of Grant	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term: 5%	10%
Barry E. Davis	30,000	15.4%	$ 20.00	$ 20.00	12/17/12	$ 377,337	$ 956,245
James R. Wales	20,000	10.3%	20.00	20.00	12/17/12	251,558	637,497
A. Chris Aulds	20,000	10.3%	20.00	20.00	12/17/12	251,558	637,497
Jack M. Lafield	17,500	9.0%	20.00	20.00	12/17/12	220,113	557,810
William W. Davis	17,500	9.0%	20.00	20.00	12/17/12	220,113	557,810
Michael P. Scott	12,500	6.4%	20.00	20.00	12/17/12	157,224	398,436

(1) All options were granted pursuant to the Crosstex Energy GP, LLC Long-Term Incentive Plan.

(2) The total number of options granted to employees in 2002 used to calculate these percentages includes 195,000 common units underlying options granted upon the closing of our initial public offering. The options vest at a rate of one-third per year beginning December 17, 2003.

Option Exercises and Year-End Option Values

The following table provides information about the number of units issued upon option exercises by the named executive officers during 2002, and the value realized by the named executive officers. The table also provides information about the number and value of options that were held by the named executive officers at December 31, 2002.

Aggregated Option Exercise in Last Fiscal Year and Fiscal Year End Option Values

Name	Shares Acquired on Exercise	Value Realized	Number of Securities Underlying Unexercised Options at December 31, 2002: Exercisable	Unexercisable	Value of Unexercised In-the-Money Options at December 31, 2002(1): Exercisable	Unexercisable
Barry E. Davis	—	—	—	30,000	—	$ 42,000
James R. Wales	—	—	—	20,000	—	28,000
A. Chris Aulds	—	—	—	20,000	—	28,000
Jack M. Lafield	—	—	—	17,500	—	24,500
William W. Davis	—	—	—	17,500	—	24,500
Michael P. Scott	—	—	—	12,500	—	17,500

(1) Based on the $21.40 per unit fair market value of our common units on December 31, 2002, the last trading day of 2002, less the option exercise price.

Employment Agreements

The executive officers of the general partner of our general partner, including Barry E. Davis, James R. Wales, A. Chris Aulds, Jack M. Lafield, William W. Davis and Michael P. Scott, have entered

into employment agreements with Crosstex Energy GP, LLC. The following is a summary of the material provisions of those employment agreements. All of these employment agreements are substantially similar, with certain exceptions as set forth below.

Each of the employment agreements has an initial term that expires two years from the effective date, but will automatically be extended such that the remaining term of the agreements will not be less than one year. The employment agreements provide for a base annual salary of $201,500, $171,064, $171,064, $160,875, $160,875 and $134,304 for Barry E. Davis, James R. Wales, A. Chris Aulds, Jack M. Lafield, William W. Davis and Michael P. Scott, respectively.

Except in the event of our becoming bankrupt or ceasing operations, termination for cause or termination by the employee other than for good reason, the employment agreements provide for continued salary payments, bonus and benefits following termination of employment for the remainder of the employment term under the agreement. If a change in control occurs during the term of an employee's employment and either party to the agreement terminates the employee's employment as a result thereof, the employee will be entitled to receive salary payments, bonus and benefits following termination of employment for the remainder of the employment term under the agreement.

The employment agreements also provide for a noncompetition period that will continue until the later of one year after the termination of the employee's employment or the date on which the employee is no longer entitled to receive severance payments under the employment agreement. During the noncompetition period, the employees are generally prohibited from engaging in any business that competes with us or our affiliates in areas in which we conduct business as of the date of termination and from soliciting or inducing any of our employees to terminate their employment with us or accept employment with anyone else or interfere in a similar manner with our business.

Long-Term Incentive Plan

Crosstex Energy GP, LLC established a long-term incentive plan for employees and directors of Crosstex Energy GP, LLC and its affiliates who perform services for us.

The long-term incentive plan consists of two components: restricted units and unit options. The long-term incentive plan currently permits the grant of awards covering an aggregate of 700,000 common units, 233,000 of which may be awarded in the form of restricted units and 467,000 of which may be awarded in the form of unit options. The plan is administered by the compensation committee of Crosstex Energy GP, LLC's board of directors.

Crosstex Energy GP, LLC's board of directors in its discretion may terminate or amend the long-term incentive plan at any time with respect to any units for which a grant has not yet been made. Crosstex Energy GP, LLC's board of directors also has the right to alter or amend the long-term incentive plan or any part of the plan from time to time, including increasing the number of units that may be granted subject to unitholder approval as required by the exchange upon which the common units are listed at that time. However, no change in any outstanding grant may be made that would materially impair the rights of the participant without the consent of the participant.

Restricted Units. A restricted unit is a "phantom" unit that entitles the grantee to receive a common unit upon the vesting of the phantom unit or, in the discretion of the compensation committee, cash equivalent to the value of a common unit. At the time of this offering, we will not grant any restricted units. In the future, the compensation committee may make additional grants under the plan to employees and directors containing such terms as the compensation committee shall determine under the plan. The committee may base its determination upon the achievement of specified financial objectives. In addition, the restricted units will vest upon a change of control of us, our general partner or Crosstex Energy GP, LLC.

If a grantee's employment or membership on the board of directors terminates for any reason, the grantee's restricted units will be automatically forfeited unless, and to the extent, the compensation committee provides otherwise. Common units to be delivered upon the vesting of restricted units may be common units acquired by Crosstex Energy GP, LLC in the open market, common units already owned by Crosstex Energy GP, LLC, common units acquired by Crosstex Energy GP, LLC directly from us or any other person or any combination of the foregoing. Crosstex Energy GP, LLC will be entitled to reimbursement by us for the cost incurred in acquiring common units. If we issue new common units upon vesting of the restricted units, the total number of common units outstanding will increase. The compensation committee, in its discretion, may grant tandem distribution equivalent rights with respect to restricted units.

We intend the issuance of the common units upon vesting of the restricted units under the plan to serve as a means of incentive compensation for performance and not primarily as an opportunity to participate in the equity appreciation of the common units. Therefore, plan participants will not pay any consideration for the common units they receive, and we will receive no remuneration for the units.

Unit Options. The long-term incentive plan currently permits the grant of options covering common units. Unit options will have an exercise price that, in the discretion of the compensation committee, may be less than, equal to or more than the fair market value of the units on the date of grant. In general, unit options granted will become exercisable over a period determined by the compensation committee. In addition, the unit options will become exercisable upon a change in control of us, our general partner or Crosstex Energy GP, LLC or upon the achievement of specified financial objectives.

Upon exercise of a unit option, Crosstex Energy GP, LLC will acquire common units in the open market or directly from us or any other person or use common units already owned by Crosstex Energy GP, LLC, or any combination of the foregoing. Crosstex Energy GP, LLC will be entitled to reimbursement by us for the difference between the cost incurred by it in acquiring these common units and the proceeds received by it from an optionee at the time of exercise. Thus, the cost of the unit options will be borne by us. If we issue new common units upon exercise of the unit options, the total number of common units outstanding will increase, and Crosstex Energy GP, LLC will pay us the proceeds it received from the optionee upon exercise of the unit option. The unit option plan has been designed to furnish additional compensation to employees and directors and to align their economic interests with those of common unitholders.

Short-Term Incentive Plan

Crosstex Energy GP, LLC has established a short-term incentive plan for management and other employees who perform services for us. The short-term incentive plan will be administered by the compensation committee. The short-term incentive plan is designed to enhance our financial performance by rewarding management and employees with cash awards for achieving certain performance objectives, including partnership financial targets, individual performance targets or a combination of both. The performance objective for each year is recommended by the compensation committee of the board of directors. Individual participants and payments each year are determined by and in the discretion of the compensation committee, and the compensation committee will be able to amend the plan at any time.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table shows the beneficial ownership of units of Crosstex Energy, L.P. as of June 30, 2003 held by:

- each person who beneficially owns 5% or more of the units then outstanding;
- all the directors of Crosstex Energy GP, LLC;
- each named executive officer of Crosstex Energy GP, LLC; and
- all the directors and executive officers of Crosstex Energy GP, LLC as a group.

Name of Beneficial Owner(1)	Common Units Beneficially Owned	Percentage of Common Units Beneficially Owned	Subordinated Units Beneficially Owned	Percentage of Subordinated Units Beneficially Owned	Percentage of Total Units Beneficially Owned
Crosstex Energy Holdings Inc.	333,000	12.6%	4,667,000	100.0%	68.5%
Barry E. Davis(2)(3)	—	—	—	—	—
James R. Wales(2)(3)	—	—	—	—	—
A. Chris Aulds(2)(3)	—	—	—	—	—
Jack M. Lafield(2)(3)	—	—	—	—	—
William W. Davis(2)(3)	—	—	—	—	—
Michael P. Scott(2)(3)	—	—	—	—	—
C. Roland Haden(4)	2,500	—	—	—	—
Bryan H. Lawrence(5)	—	—	—	—	—
Sheldon B. Lubar(6)	—	—	—	—	—
Stephen A. Wells	5,000	—	—	—	—
Robert F. Murchison(7)	25,000	—	—	—	—
All directors and executive officers as a group (11 persons)	32,500	1.2%	—	—	—

* Less than 1%.

(1) The address of each person listed above is 2501 Cedar Springs, Suite 600, Dallas, Texas 75201, except for Crosstex Energy Holdings Inc. and Bryan H. Lawrence which is 410 Park Avenue, New York, New York 10022.

(2) Barry E. Davis, James R. Wales, A. Chris Aulds, Jack M. Lafield, William W. Davis and Michael P. Scott each hold an ownership interest in Crosstex Energy Holdings Inc. as indicated in the following table.

(3) Grants of options to purchase a total of 195,000 common units were made upon the closing of the initial public offering to employees of Crosstex Energy GP, LLC, including the named executive officers. See "—Long-Term Incentive Plan."

(4) These units are held in a trust for the benefit of the Mr. Haden's children. Mr. Haden and his spouse are trustees of the trust.

(5) Bryan H. Lawrence is a member and a manager of the general partner of both Yorktown Energy Partners IV, L.P. and Yorktown Energy Partners V, L.P. Both of these limited partnerships own an interest in Crosstex Energy Holdings Inc. as indicated in the following table.

(6) Sheldon B. Lubar is a general partner of Lubar Nominees, and Lubar Nominees holds an ownership interest in Crosstex Energy Holdings Inc. as indicated in the following table.

(7) These units are held by Murchison Capital Partners, L.P. Mr. Murchison is the President of the Murchison Management Corp., which serves as the general partner of Murchison Capital Partners, L.P.

The following table shows the beneficial ownership of Crosstex Energy Holdings Inc. as of June 30, 2003. Crosstex Energy Holdings Inc. owns Crosstex Energy GP, LLC and, together with Crosstex Energy GP, LLC, our general partner and, as reflected above, common units and subordinated units.

Name of Beneficial Owner(1)	Percent of Equity
Yorktown Energy Partners IV, L.P.(2)	61.6%
Yorktown Energy Partners V, L.P.(2)	15.4%
Lubar Nominees(3)	6.0%
Barry E. Davis(4)	6.8%
James R. Wales(4)	2.6%
A. Chris Aulds(4)	4.0%
Jack M. Lafield(4)	*
William W. Davis(4)	*
Michael P. Scott(4)	*
C. Roland Haden	—
Bryan H. Lawrence(5)	—
Sheldon B. Lubar(3)	6.0%
Stephen A. Wells	—
Robert F. Murchison	—
All directors and executive officers as a group (11 persons)(4)	20.9%

* Less than 1%.

(1) Unless otherwise indicated, the address of each person listed above is 2501 Cedar Springs, Suite 600, Dallas, Texas 75201.

(2) The address for Yorktown Energy Partners IV, L.P. and Yorktown Energy Partners V, L.P. is 410 Park Avenue, New York, New York 10022.

(3) Sheldon B. Lubar is a general partner of Lubar Nominees, and may be deemed to beneficially own the shares held by Lubar Nominees.

(4) Ownership percentage for such individual or group includes shares issuable pursuant to stock options which are presently exercisable or exercisable within 60 days.

(5) Bryan H. Lawrence is a member and a manager of the general partner of both Yorktown Energy Partners IV, L.P. and Yorktown Energy Partners V, L.P.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Our General Partner

Our operations and activities are managed by, and our officers are employed by, the operating partnership. Our general partner does not receive any management fee or other compensation in connection with its management of our business, but it is reimbursed for all direct and indirect expenses incurred on our behalf. For the twelve month period ending in December 2003, the amount which we will reimburse the general partner and its affiliates for costs incurred with respect to the general and administrative services performed on our behalf will not exceed $6.0 million. This reimbursement cap will not apply to the cost of any third-party legal, accounting or advisory services received, or the direct expenses of management incurred, in connection with acquisition or business development opportunities evaluated on behalf of the partnership.

Our general partner owns the 2% general partner interest and all of the incentive distribution rights. Our general partner is entitled to receive incentive distributions if the amount we distribute with respect to any quarter exceeds levels specified in our partnership agreement. Under the quarterly incentive distribution provisions, generally our general partner is entitled to 13% of amounts we distribute in excess of $0.50 per unit, 23% of the amounts we distribute in excess of $0.625 per unit and 48% of amounts we distribute in excess of $0.75 per unit.

Relationship with Crosstex Energy Holdings Inc.

General. Crosstex Energy Holdings Inc. owns 333,000 common units and 4,667,000 subordinated units representing an aggregate 55.7% limited partner interest in us upon completion of this offering. Our general partner owns a 2% general partner interest in us and the incentive distribution rights. Our general partner's ability, as general partner, to manage and operate Crosstex Energy, L.P. and Crosstex Energy Holdings' ownership of an aggregate 55.7% limited partner interest in us upon completion of this offering effectively gives our general partner the ability to veto some of our actions and to control our management.

Omnibus Agreement. Concurrent with the closing of our initial public offering, we entered into an agreement with Crosstex Energy Holdings Inc., Crosstex Energy GP, LLC and our general partner which governs potential competition among us and the other parties to the agreement. Crosstex Energy Holdings Inc. agreed, and caused its controlled affiliates to agree, for so long as management, Yorktown Energy Partners IV, L.P. and Yorktown Energy Partners V, L.P. and its affiliates, or any combination thereof, control our general partner, not to engage in the business of gathering, transmitting, treating, processing, storing and marketing of natural gas and the transportation, fractionation, storing and marketing of NGLs unless it first offers us the opportunity to engage in this activity or acquire this business, and the board of directors of Crosstex Energy GP, LLC, with the concurrence of its conflicts committee, elects to cause us not to pursue such opportunity or acquisition. In addition, Crosstex Energy Holdings Inc. has the ability to purchase a business that has a competing natural gas gathering, transmitting, treating, processing and producer services business if the competing business does not represent the majority in value of the business to be acquired and Crosstex Energy Holdings Inc. offers us the opportunity to purchase the competing operations following their acquisition. The noncompetition restrictions in the omnibus agreement do not apply to the assets retained and business conducted by Crosstex Energy Holdings Inc. at the closing of our initial public offering. Except as provided above, Crosstex Energy Holdings Inc. and its controlled affiliates are not prohibited from engaging in activities in which they compete directly with us. In addition, Yorktown Energy Partners IV, L.P., Yorktown Energy Partners V, L.P. and any affiliated Yorktown funds are not prohibited from owning or engaging in businesses which compete with us.

Initial Public Offering and Concurrent Transactions

On December 17, 2002, we completed an initial public offering of 2,300,000 common units representing limited partner interests and received therefrom net proceeds of approximately $40.2 million. Concurrently with the closing of the initial public offering, certain transactions were consummated in connection with the formation of the Partnership. These transactions involved the transfer to us by Crosstex Energy Holdings Inc. of substantially all the assets and liabilities of Crosstex Energy Services, Ltd. (the predecessor of our operating partnership Crosstex Energy Services, L.P.) in exchange for and the right to receive $2.5 million from the proceeds of the initial public offering and the issuance of 333,000 common units and 4,667,000 subordinated units (which are held by Crosstex Energy Holdings Inc.) and the incentive distribution rights and a 2% general partner interest in Crosstex Energy, L.P. (which are held by Crosstex Energy GP, L.P.). In addition, certain assets and liabilities of Crosstex Energy Services, Ltd. were not contributed to the Partnership, but, instead, were transferred to a subsidiary of Crosstex Energy Holdings Inc. including receivables associated with the Enron Corp. bankruptcy. Also, the Jonesville processing plant, which was largely inactive since the beginning of 2001, and the Clarkson plant, acquired shortly before our initial public offering, were not contributed to the Partnership, but instead were transferred to a subsidiary of Crosstex Energy Holdings Inc.

Related Party Transactions

Camden Resources, Inc. We treat gas for, and purchase gas from, Camden Resources, Inc. Yorktown Energy Partners IV, L.P. has made equity investments in both Camden and Crosstex Energy Holdings Inc. The gas treating and gas purchase agreements we have entered into with Camden are standard industry agreements containing terms substantially similar to those contained in our agreements with other third parties. During the year ended December 31, 2002 and the three months ended March 31, 2003, we purchased natural gas from Camden Resources, Inc. in the amount of approximately $10.1 million and $2.7 million, respectively and received approximately $399,000 and $47,580 in treating fees from Camden Resources, Inc.

Crosstex Pipeline Company. We indirectly own general and limited partner interests in Crosstex Pipeline Partners, L.P. that represent a 28% economic interest. We have entered into various transactions with Crosstex Pipeline Partners, and we believe that the terms of these transactions are comparable to those that we could have negotiated with unrelated third parties. During the year ended December 31, 2002, our predecessor: (1) purchased natural gas from Crosstex Pipeline Partners in the amount of approximately $3.4 million and paid Crosstex Pipeline Partners approximately $27,000 for transportation of natural gas, (2) received a management fee from Crosstex Pipeline Partners in the amount of approximately $125,000 and (3) received approximately $90,000 in distributions from Crosstex Pipeline Partners.

CONFLICTS OF INTEREST AND FIDUCIARY RESPONSIBILITIES

Conflicts of Interest

Conflicts of interest exist and may arise in the future as a result of the relationships between our general partner and its affiliates (including Crosstex Energy Holdings Inc.), on the one hand, and Crosstex Energy, L.P. and its limited partners, on the other hand. The directors and officers of our general partner's general partner, Crosstex Energy GP, LLC, have fiduciary duties to manage our general partner in a manner beneficial to its owners. At the same time, our general partner has a fiduciary duty to manage our partnership in a manner beneficial to Crosstex Energy, L.P. and the unitholders.

Whenever a conflict arises between our general partner or its affiliates, on the one hand, and us or any other partner, on the other, our general partner will resolve that conflict. Our partnership agreement contains provisions that give our general partner significantly greater latitude in resolving conflicts of interests than a director of a corporation would have. In effect, these provisions limit our general partner's fiduciary duties to the unitholders. Our partnership agreement also restricts the remedies available to unitholders for actions taken that, without those limitations, might constitute breaches of fiduciary duty. Our general partner may, but is not required to, seek the approval of the conflicts committee of the board of directors of the general partner of our general partner of such resolution.

Our general partner will not be in breach of its obligations under the partnership agreement or its duties to us or the unitholders if the resolution of the conflict is considered to be fair and reasonable to us. Any resolution will be conclusively deemed fair and reasonable to us if that resolution is:

- approved by the conflicts committee, although our general partner is not obligated to seek such approval;
- on terms no less favorable to us than those generally being provided to or available from unrelated third parties; or
- fair to us, taking into account the totality of the relationships between the parties involved, including other transactions that may be particularly favorable or advantageous to us.

Unless the resolution is specifically provided for in our partnership agreement, our general partner or the conflicts committee may consider:

- the relative interests of any parties to such conflict and the benefits and burdens related to such interest;
- any customary or accepted industry practices or historical dealings with a particular person or entity;
- generally accepted accounting practices or principles; and
- such additional factors it determines in its sole discretion to be relevant, reasonable or appropriate under the circumstances it considers relevant.

Conflicts of interest could arise in the situations described below, among others.

Actions taken by our general partner may affect the amount of cash available for distribution to unitholders or accelerate the right to convert subordinated units.

The amount of cash that is available for distribution to unitholders is affected by decisions of our general partner regarding such matters as:

- amount and timing of asset purchases and sales;

- cash expenditures;
- borrowings;
- the issuance of additional units; and
- the creation, reduction or increase of reserves in any quarter.

In addition, borrowings by us and our affiliates do not constitute a breach of any duty owed by our general partner to our unitholders, including borrowings that have the purpose or effect of:

- enabling our general partner to receive distributions on any subordinated units held by it or the incentive distribution rights; or
- hastening the expiration of the subordination period.

For example, in the event we have not generated sufficient cash from our operations to pay the minimum quarterly distribution on our common units and our subordinated units, our partnership agreement permits us to borrow funds, which would enable us to make this distribution on all outstanding units. Please read "Cash Distribution Policy—Subordination Period."

Our partnership agreement provides that we and our subsidiaries may borrow funds from our general partner and its affiliates. Our general partner and its affiliates may not borrow funds from us, the operating partnership or its operating subsidiaries.

We will reimburse our general partner and its affiliates for expenses.

We will reimburse our general partner and its affiliates for costs incurred in managing and operating us, including costs incurred in providing corporate staff and support services to us. Our partnership agreement provides that our general partner will determine the expenses that are allocable to us in any reasonable manner determined by the general partner in its sole discretion.

Our general partner intends to limit its liability regarding our obligations.

Our general partner intends to limit its liability under contractual arrangements so that the other party has recourse only to our assets and not against our general partner or its assets or any affiliate of our general partner or its assets. Our partnership agreement provides that any action taken by our general partner to limit its or our liability is not a breach of our general partner's fiduciary duties, even if we could have obtained terms that are more favorable terms without the limitation on liability.

Common unitholders will have no right to enforce obligations of our general partner and its affiliates under agreements with us.

Any agreements between us on the one hand, and our general partner and its affiliates, on the other, will not grant to the unitholders, separate and apart from us, the right to enforce the obligations of our general partner and its affiliates in our favor.

Contracts between us, on the one hand, and our general partner and its affiliates, on the other, will not be the result of arm's-length negotiations.

The partnership agreement allows our general partner to pay itself or its affiliates for any services rendered, provided these services are rendered on terms that are fair and reasonable to us. Our general partner may also enter into additional contractual arrangements with any of its affiliates on our behalf. Neither our partnership agreement nor any of the other agreements, contracts and arrangements between us and our general partner and its affiliates are or will be the result of arm's length negotiations.

All of these transactions entered into after the sale of the common units offered in this offering are to be on terms that are fair and reasonable to us.

Our general partner and its affiliates will have no obligation to permit us to use any facilities or assets of our general partner and its affiliates, except as may be provided in contracts entered into specifically dealing with that use. There is no obligation of our general partner and its affiliates to enter into any contracts of this kind.

Common units are subject to our general partner's limited call right.

Our general partner may exercise its right to call and purchase common units as provided in the partnership agreement or assign this right to one of its affiliates or to us. Our general partner may use its own discretion, free of fiduciary duty restrictions, in determining whether to exercise this right. As a result, a common unitholder may have his common units purchased from him at an undesirable time or price. Please read "The Partnership Agreement—Limited Call Right."

We may choose not to retain separate counsel for ourselves or for the holders of common units.

The attorneys, independent accountants and others who perform services for us have been retained by our general partner. Attorneys, independent accountants and others who will perform services for us are selected by our general partner or the conflicts committee and may perform services for our general partner and its affiliates. We may retain separate counsel for ourselves or the holders of common units in the event of a conflict of interest between our general partner and its affiliates, on the one hand, and us or the holders of common units, on the other, depending on the nature of the conflict. We do not intend to do so in most cases.

Our general partner's affiliates may compete with us.

Our partnership agreement provides that our general partner is restricted from engaging in any business activities other than those incidental to its ownership of interests in us. Except as provided in the partnership agreement and the omnibus agreement, affiliates of our general partner are not prohibited from engaging in other businesses or activities, including those that might be in direct competition with us.

Fiduciary duties owed to unitholders by our general partner are prescribed by law and the partnership agreement.

Our general partner is accountable to us and our unitholders as a fiduciary. Fiduciary duties owed to unitholders by our general partner are prescribed by law and our partnership agreement. The Delaware Revised Uniform Limited Partnership Act, which we refer to in this prospectus as the Delaware Act, provides that Delaware limited partnerships may, in their partnership agreements, restrict or expand the fiduciary duties owed by our general partner to limited partners and the partnership. Delaware law has not definitively established the limits on the ability of the partnership agreement to restrict such fiduciary duty.

Our partnership agreement contains various provisions restricting the fiduciary duties that might otherwise be owed by our general partner. We have adopted these restrictions to allow our general partner to take into account the interests of other parties in addition to our interests when resolving conflicts of interest. We believe this is appropriate and necessary because the board of directors of our general partner's general partner have fiduciary duties to manage our general partner in a manner beneficial both to its owners as well as to you. Without these modifications, the general partner's ability to make decisions involving conflicts of interest would be restricted. The modifications to the fiduciary standards benefit the general partner by enabling it to take into consideration all parties involved in the proposed action, so long as the resolution is fair and reasonable to us as described above. These

modifications also enable the general partner of our general partner to attract and retain experienced and capable directors. These modifications represent a detriment to the common unitholders because they restrict the remedies available to unitholders for actions that, without those limitations, might constitute breaches of fiduciary duty, as described below. The following is a summary of the material restrictions of the fiduciary duties owed by our general partner to the limited partners:

State-law fiduciary duty standards	Fiduciary duties are generally considered to include an obligation to act with due care and loyalty. The duty of care, in the absence of a provision in a partnership agreement providing otherwise, would generally require a general partner to act for our partnership in the same manner as a prudent person would act on his own behalf. The duty of loyalty, in the absence of a provision in a partnership agreement providing otherwise, would generally prohibit a general partner of a Delaware limited partnership from taking any action or engaging in any transaction where a conflict of interest is present.
Partnership agreement modified standards	Our partnership agreement contains provisions that waive or consent to conduct by our general partner and its affiliates that might otherwise raise issues as to compliance with fiduciary duties or applicable law. For example, our partnership agreement permits our general partner to make a number of decisions in its "sole discretion." This entitles our general partner to consider only the interests and factors that it desires and it has no duty or obligation to give any consideration to any interest of, or factors affecting, us, our affiliates or any limited partner. Other provisions of the partnership agreement provide that our general partner's actions must be made in its reasonable discretion. These standards reduce the obligations to which our general partner would otherwise be held.
	Our partnership agreement generally provides that affiliated transactions and resolutions of conflicts of interest not involving a required vote of unitholders must be "fair and reasonable" to us under the factors previously set forth. In determining whether a transaction or resolution is "fair and reasonable" our general partner may consider interests of all parties involved, including its own. Unless our general partner has acted in bad faith, the action taken by our general partner shall not constitute a breach of its fiduciary duty. These standards reduce the obligations to which our general partner would otherwise be held.
	In addition to the other more specific provisions limiting the obligations of our general partner, our partnership agreement further provides that our general partner and its officers and directors will not be liable for monetary damages to us, our limited partners or assignees for errors of judgment or for any acts or omissions if our general partner and those other persons acted in good faith.

Rights and Remedies of Unitholders	The Delaware Act generally provides that a limited partner may institute legal action on behalf of the partnership to recover damages from a third party where a general partner has refused to institute the action or where an effort to cause a general partner to do so is not likely to succeed. These actions could include actions against a general partner for breach of its fiduciary duties or of the partnership agreement. In addition, the statutory or case law of some jurisdictions may permit a limited partner to institute legal action on behalf of himself and all other similarly situated limited partners to recover damages from a general partner for violations of its fiduciary duties to the limited partners.

In order to become one of our limited partners, a common unitholder is required to agree to be bound by the provisions in the partnership agreement, including the provisions discussed above. This is in accordance with the policy of the Delaware Act favoring the principle of freedom of contract and the enforceability of partnership agreements. The failure of a limited partner or assignee to sign a partnership agreement does not render the partnership agreement unenforceable against that person.

We must indemnify our general partner and its officers, directors, employees, affiliates, partners, members, agents and trustees, to the fullest extent permitted by law, against liabilities, costs and expenses incurred by our general partner or these other persons. We must provide this indemnification if our general partner or these persons acted in good faith and in a manner they reasonably believed to be in, or (in the case of a person other than our general partner) not opposed to, our best interests. We also must provide this indemnification for criminal proceedings if our general partner or these other persons had no reasonable cause to believe their conduct was unlawful. Thus, our general partner could be indemnified for its negligent acts if it met these requirements concerning good faith and our best interests. To the extent that these provisions purport to include indemnification for liabilities arising under the Securities Act of 1933, in the opinion of the Securities and Exchange Commission, such indemnification is contrary to public policy and therefore unenforceable. If you have questions regarding the fiduciary duties of our general partner, you should consult with your own counsel. Please read "The Partnership Agreement—Indemnification."

DESCRIPTION OF THE COMMON UNITS

The Units

The common units and the subordinated units represent limited partner interests in us. The holders of units are entitled to participate in partnership distributions and exercise the rights or privileges available to limited partners under our partnership agreement. For a description of the relative rights and preferences of holders of common units and subordinated units in and to partnership distributions, please read this section and "Cash Distribution Policy." For a description of the rights and privileges of limited partners under our partnership agreement, including voting rights, please read "The Partnership Agreement."

Transfer Agent and Registrar

Duties

American Stock Transfer & Trust Company serves as registrar and transfer agent for the common units. We pay all fees charged by the transfer agent for transfers of common units, except the following that must be paid by unitholders:

- surety bond premiums to replace lost or stolen certificates, taxes and other governmental charges;
- special charges for services requested by a holder of a common unit; and
- other similar fees or charges.

There is no charge to unitholders for disbursements of our cash distributions. We will indemnify the transfer agent, its agents and each of their stockholders, directors, officers and employees against all claims and losses that may arise out of acts performed or omitted for its activities in that capacity, except for any liability due to any gross negligence or intentional misconduct of the indemnified person or entity.

Resignation or Removal

The transfer agent may resign, by notice to us, or be removed by us. The resignation or removal of the transfer agent will become effective upon our appointment of a successor transfer agent and registrar and its acceptance of the appointment. If no successor has been appointed and accepted the appointment within 30 days after notice of the resignation or removal, our general partner may act as the transfer agent and registrar until a successor is appointed.

Transfer of Common Units

The transfer of the common units to persons that purchase directly from the underwriters will be accomplished through the completion, execution and delivery of a transfer application by the investor. Any later transfers of a common unit will not be recorded by the transfer agent or recognized by us unless the transferee executes and delivers a transfer application. By executing and delivering a transfer application, the transferee of common units:

- becomes the record holder of the common units and is an assignee until admitted into our partnership as a substituted limited partner;
- automatically requests admission as a substituted limited partner in our partnership;
- agrees to be bound by the terms and conditions of, and executes, our partnership agreement;
- represents that the transferee has the capacity, power and authority to enter into the partnership agreement;

- grants powers of attorney to officers of our general partner and any liquidator of us as specified in the partnership agreement; and
- makes the consents and waivers contained in the partnership agreement.

An assignee will become a substituted limited partner of our partnership for the transferred common units upon the consent of our general partner and the recording of the name of the assignee on our books and records. Our general partner may withhold its consent in its sole discretion.

A transferee's broker, agent or nominee may complete, execute and deliver a transfer application. We are entitled to treat the nominee holder of a common unit as the absolute owner. In that case, the beneficial holder's rights are limited solely to those that it has against the nominee holder as a result of any agreement between the beneficial owner and the nominee holder.

Common units are securities and are transferable according to the laws governing transfer of securities. In addition to other rights acquired upon transfer, the transferor gives the transferee the right to request admission as a substituted limited partner in our partnership for the transferred common units. A purchaser or transferee of common units who does not execute and deliver a transfer application obtains only:

- the right to assign the common unit to a purchaser or other transferee; and
- the right to transfer the right to seek admission as a substituted limited partner in our partnership for the transferred common units.

Thus, a purchaser or transferee of common units who does not execute and deliver a transfer application:

- will not receive cash distributions or federal income tax allocations, unless the common units are held in a nominee or "street name" account and the nominee or broker has executed and delivered a transfer application; and
- may not receive some federal income tax information or reports furnished to record holders of common units.

The transferor of common units has a duty to provide the transferee with all information that may be necessary to transfer the common units. The transferor does not have a duty to insure the execution of the transfer application by the transferee and has no liability or responsibility if the transferee neglects or chooses not to execute and forward the transfer application to the transfer agent. Please read "The Partnership Agreement—Status as Limited Partner or Assignee."

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

THE PARTNERSHIP AGREEMENT

The following is a summary of the material provisions of our partnership agreement. Our partnership agreement, as well as the partnership agreement of the operating partnership, are included as exhibits to the registration statement of which this prospectus constitutes a part. We will provide prospective investors with a copy of the form of this agreement upon request at no charge. Unless the context otherwise requires, references in this prospectus to the "partnership agreement" constitute references to the partnership agreement of Crosstex Energy, L.P.

We summarize the following provisions of the partnership agreement elsewhere in this prospectus:

- with regard to distributions of available cash, please read "Cash Distribution Policy;"
- with regard to the transfer of common units, please read "Description of the Common Units—Transfer of Common Units;" and
- with regard to allocations of taxable income and taxable loss, please read "Material Tax Consequences."

Organization and Duration

We were organized on July 12, 2002 and will have a perpetual existence except as provided below under "—Termination and Dissolution."

Purpose

Our purpose under the partnership agreement is limited to serving as the limited partner of the operating partnership and engaging in any business activities that may be engaged in by the operating partnership or that are approved by our general partner. The partnership agreement of the operating partnership provides that the operating partnership may, directly or indirectly, engage in:

- its operations as conducted immediately before our initial public offering;
- any other activity approved by the general partner but only to the extent that the general partner reasonably determines that, as of the date of the acquisition or commencement of the activity, the activity generates "qualifying income" as this term is defined in Section 7704 of the Internal Revenue Code; or
- any activity that enhances the operations of an activity that is described in either of the two preceding clauses or any other activity provided such activity does not affect our treatment as a partnership for Federal income tax purposes.

Although our general partner has the ability to cause us, the operating partnership or its subsidiaries to engage in activities other than gathering, transmission, treating, processing and marketing of natural gas, our general partner has no current plans to do so. Our general partner is authorized in general to perform all acts deemed necessary to carry out our purposes and to conduct our business.

Power of Attorney

Each limited partner, and each person who acquires a unit from a unitholder and executes and delivers a transfer application, grants to our general partner and, if appointed, a liquidator, a power of attorney to, among other things, execute and file documents required for our qualification, continuance or dissolution. The power of attorney also grants our general partner the authority to amend, and to make consents and waivers under, the partnership agreement.

Capital Contributions

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

Limited Liability

Assuming that a limited partner does not participate in the control of our business within the meaning of the Delaware Act and that he otherwise acts in conformity with the provisions of the partnership agreement, his liability under the Delaware Act will be limited, subject to possible exceptions, to the amount of capital he is obligated to contribute to us for his common units plus his share of any undistributed profits and assets. If it were determined, however, that the right, or exercise of the right, by the limited partners as a group:

- to remove or replace our general partner;
- to approve some amendments to the partnership agreement; or
- to take other action under the partnership agreement;

constituted "participation in the control" of our business for the purposes of the Delaware Act, then the limited partners could be held personally liable for our obligations under the laws of Delaware, to the same extent as the general partner. This liability would extend to persons who transact business with us who reasonably believe that the limited partner is a general partner. Neither the partnership agreement nor the Delaware Act specifically provides for legal recourse against our general partner if a limited partner were to lose limited liability through any fault of our general partner. While this does not mean that a limited partner could not seek legal recourse, we know of no precedent for this type of a claim in Delaware case law.

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

Our subsidiaries conduct business in seven states. Maintenance of our limited liability as a limited partner of the operating partnership may require compliance with legal requirements in the jurisdictions in which the operating partnership conducts business, including qualifying our subsidiaries to do business there. Limitations on the liability of limited partners for the obligations of a limited partner have not been clearly established in many jurisdictions. If, by virtue of our limited partner interest in the operating partnership or otherwise, it were determined that we were conducting business in any state without compliance with the applicable limited partnership or limited liability company statute, or that the right or exercise of the right by the limited partners as a group to remove or replace the general partner, to approve some amendments to the partnership agreement, or to take other action under the partnership agreement constituted "participation in the control" of our business for purposes of the statutes of any relevant jurisdiction, then the limited partners could be held

personally liable for our obligations under the law of that jurisdiction to the same extent as our general partner under the circumstances. We will operate in a manner that our general partner considers reasonable and necessary or appropriate to preserve the limited liability of the limited partners.

Voting Rights

The following matters require the unitholder vote specified below. Certain significant decisions require approval by a "unit majority" of the common units. We define "unit majority" as:

- during the subordination period, at least a majority of the outstanding common units, excluding common units owned by the general partner and its affiliates, voting as a class and at least a majority of the outstanding subordinated units voting as a class; and
- thereafter, at least a majority of the outstanding common units.

Issuance of additional common units or units of equal rank with the common units during the subordination period	Unit majority, with certain exceptions described under "—Issuance of Additional Securities."
Issuance of units senior to the common units during the subordination period	Unit majority.
Issuance of units junior to the common units during the subordination period	No approval right.
Issuance of additional units after the subordination period	No approval right.
Amendment of the partnership agreement	Certain amendments may be made by our general partner without the approval of the unitholders. Other amendments generally require the approval of a unit majority. See "—Amendment of the Partnership Agreement."
Merger of our partnership or the sale of all or substantially all of our assets	Unit majority. See "—Merger, Sale or Other Disposition of Assets."
Amendment of the operating partnership agreement and other action taken by us as a limited partner of the operating partnership	Unit majority if such amendment or other action would adversely affect our limited partners (or any particular class of limited partners) in any material respect. See "—Action Relating to the Operating Partnership."
Dissolution of our partnership	Unit majority. See "—Termination and Dissolution."
Reconstitution of our partnership upon dissolution	Unit majority. See "—Termination and Dissolution."

Withdrawal of the general partner	The approval of a majority of the common units, excluding common units held by the general partner and its affiliates, is required in most circumstances for the withdrawal of the general partner prior to December 31, 2012 in a manner which would cause a dissolution of our partnership. See "—Withdrawal or Removal of our General Partner."
Removal of the general partner	Not less than $66^2/3$% of the outstanding units, voting as a single class, including units held by our general partner and its affiliates. See "—Withdrawal or Removal of our General Partner."

Transfer of the general partner interest	Our general partner may transfer all, but not less than all, of its general partner interest in us without a vote of our unitholders to an affiliate or another person in connection with its merger or consolidation with or into, or sale of all our substantially all of its assets to such person. The approval of a majority of the common units, excluding common units held by the general partner and its affiliates, is required in other circumstances for a transfer of the general partner interest to a third party prior to December 31, 2012. See "—Transfer of General Partner Interests."
Transfer of incentive distribution rights	Except for transfers to an affiliate or another person as part of the general partner's merger or consolidation with or into, or sale of all or substantially all of its assets to or sale of all or substantially all its equity interests to such person, the approval of a majority of the common units, excluding common units held by our general partner and its affiliates, voting separately as a class, is required in most circumstances for a transfer of the incentive distribution rights to a third party prior to December 31, 2012. See "—Transfer of Incentive Distribution Rights."
Transfer of ownership interests in the general partner	No approval required at any time. See "—Transfer of Ownership Interests in our General Partner."

Issuance of Additional Securities

Our partnership agreement authorizes us to issue an unlimited number of additional partnership securities and rights to buy partnership securities for the consideration and on the terms and conditions established by our general partner in its sole discretion without the approval of the unitholders. During the subordination period, however, except as we discuss in the following paragraph, we may not issue

equity securities ranking senior to the common units or an aggregate of more than 1,316,500 additional common units or units on a parity with the common units, in each case, without the approval of the holders of a majority of the outstanding common units and subordinated units, voting as separate classes.

During or after the subordination period, we may issue an unlimited number of common units without the approval of unitholders as follows:

- upon exercise of the underwriters' over-allotment option;
- upon conversion of the subordinated units into common units;
- upon conversion of units of equal rank with the common units under some circumstances;
- under employee benefit plans;
- upon conversion of the general partner interest and incentive distribution rights as a result of a withdrawal of our general partner;
- in the event of a combination or subdivision of common units;
- in connection with an acquisition or a capital improvement that increases cash flow from operations per unit on a pro forma basis; or
- if the proceeds of the issuance are used exclusively to repay indebtedness the cost of which to service is greater than the distribution obligations associated with the units issued in connection with its retirement.

It is possible that we will fund acquisitions through the issuance of additional common units or other equity securities. Holders of any additional common units we issue will be entitled to share equally with the then-existing holders of common units in our distributions of available cash. In addition, the issuance of additional partnership interests may dilute the value of the interests of the then-existing holders of common units in our net assets.

In accordance with Delaware law and the provisions of our partnership agreement, we may also issue additional partnership securities interests that, in the sole discretion of our general partner, have special voting rights to which the common units are not entitled.

Upon the issuance of additional partnership securities, other than upon exercise of the underwriters' over-allotment option, our general partner will be required to make additional capital contributions to the extent necessary to maintain its 2% general partner interest in us. Moreover, our general partner will have the right, which it may from time to time assign in whole or in part to any of its affiliates, to purchase common units, subordinated units or other equity securities whenever, and on the same terms that, we issue those securities to persons other than our general partner and its affiliates, to the extent necessary to maintain its percentage interest, including its interest represented by common units and subordinated units, that existed immediately prior to each issuance. The holders of common units will not have preemptive rights to acquire additional common units or other partnership securities.

Amendment of the Partnership Agreement

General. Amendments to the partnership agreement may be proposed only by or with the consent of our general partner, which consent may be given or withheld in its sole discretion. In order to adopt a proposed amendment, other than the amendments discussed below, our general partner must seek written approval of the holders of the number of units required to approve the amendment or call a meeting of the limited partners to consider and vote upon the proposed amendment. Except as we describe below, an amendment must be approved by a unit majority.

Prohibited Amendments. No amendment may be made that would:

- enlarge the obligations of any limited partner without its consent, unless approved by at least a majority of the type or class of limited partner interests so affected;
- enlarge the obligations of, restrict in any way any action by or rights of, or reduce in any way the amounts distributable, reimbursable or otherwise payable by us to our general partner or any of its affiliates without the consent of our general partner, which may be given or withheld in its sole discretion;
- change the term of our partnership;
- provide that our partnership is not dissolved upon an election to dissolve our partnership by our general partner that is approved by a unit majority; or
- give any person the right to dissolve our partnership other than our general partner's right to dissolve our partnership with the approval of a unit majority.

The provision of the partnership agreement preventing the amendments having the effects described in any of the clauses above can be amended upon the approval of the holders of at least 90% of the outstanding units voting together as a single class.

No Unitholder Approval. Our general partner may generally make amendments to the partnership agreement without the approval of any limited partner or assignee to reflect:

- a change in our name, the location of our principal place of business, our registered agent or our registered office;
- the admission, substitution, withdrawal, or removal of partners in accordance with the partnership agreement;
- a change that, in the sole discretion of our general partner, is necessary or advisable for us to qualify or to continue our qualification as a limited partnership or a partnership in which the limited partners have limited liability under the laws of any state or to ensure that neither we, the operating partnership nor any of its subsidiaries will be treated as an association taxable as a corporation or otherwise taxed as an entity for federal income tax purposes;
- an amendment that is necessary, in the opinion of our counsel, to prevent us or our general partner or its directors, officers, agents or trustees, from in any manner being subjected to the provisions of the Investment Company Act of 1940, the Investment Advisors Act of 1940, or plan asset regulations adopted under the Employee Retirement Income Security Act of 1974, whether or not substantially similar to plan asset regulations currently applied or proposed;
- subject to the limitations on the issuance of additional partnership securities described above, an amendment that in the discretion of our general partner is necessary or advisable for the authorization of additional partnership securities or rights to acquire partnership securities;
- any amendment expressly permitted in the partnership agreement to be made by our general partner acting alone;
- an amendment effected, necessitated or contemplated by a merger agreement that has been approved under the terms of the partnership agreement;
- any amendment that, in the discretion of our general partner, is necessary or advisable for the formation by us of, or our investment in, any corporation, partnership or other entity, as otherwise permitted by our partnership agreement;
- a change in our fiscal year or taxable year and related changes; or

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

In addition, our general partner may make amendments to the partnership agreement without the approval of any limited partner or assignee if those amendments, in the discretion of our general partner:

- do not adversely affect the limited partners (or any particular class of limited partners as compared to other classes of limited partners) in any material respect;
- are necessary or advisable to satisfy any requirements, conditions or guidelines contained in any opinion, directive, order, ruling or regulation of any federal or state agency or judicial authority or contained in any federal or state statute;
- are necessary or advisable to facilitate the trading of limited partner interests or to comply with any rule, regulation, guideline or requirement of any securities exchange on which the limited partner interests are or will be listed for trading, compliance with any of which our general partner deems to be in our best interest and the best interest of our limited partners;
- are necessary or advisable for any action taken by our general partner relating to splits or combinations of units under the provisions of the partnership agreement; or
- are required to effect the intent expressed in this prospectus or the intent of the provisions of our partnership agreement or are otherwise contemplated by our partnership agreement.

Opinion of Counsel and Unitholder Approval. Our general partner will not be required to obtain an opinion of counsel that an amendment will not result in a loss of limited liability to the limited partners or result in our being treated as an entity for federal income tax purposes if one of the amendments described above under "—No Unitholder Approval" should occur. No other amendments to the partnership agreement will become effective without the approval of holders of at least 90% of the units unless we obtain an opinion of counsel to the effect that the amendment will not affect the limited liability under applicable law of any of our limited partners or cause us, the operating partnership or its subsidiaries to be taxable as a corporation or otherwise to be taxed as an entity for federal income tax purposes (to the extent not previously taxed as such).

In addition to the above restrictions, any amendment that would have a material adverse effect on the rights or preferences of any type or class of outstanding units in relation to other classes of units will require the approval of at least a majority of the type or class of units so affected. Any amendment that reduces the voting percentage required to take any action must be approved by the affirmative vote of limited partners constituting not less than the voting requirement sought to be reduced.

Action Relating to the Operating Partnership

Without the approval of holders of units representing a unit majority, our general partner is prohibited from consenting on our behalf, as the limited partner of the operating partnership, to any amendment to the partnership agreement of the operating partnership or taking any action on our behalf permitted to be taken by a limited partner of the operating partnership, in each case that would adversely affect our limited partners (or any particular class of limited partners as compared to other classes of limited partners) in any material respect.

Merger, Sale or Other Disposition of Assets

The partnership agreement generally prohibits our general partner, without the prior approval of the holders of units representing a unit majority, from causing us to, among other things, sell, exchange or otherwise dispose of all or substantially all of our assets in a single transaction or a series of related transactions, including by way of merger, consolidation or other combination, or approving on our

behalf the sale, exchange or other disposition of all or substantially all of the assets of our subsidiaries as a whole. Our general partner may, however, mortgage, pledge, hypothecate or grant a security interest in all or substantially all of our assets without that approval. Our general partner may also sell all or substantially all of our assets under a foreclosure or other realization upon those encumbrances without that approval.

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

Termination and Dissolution

We will continue as a limited partnership until terminated under the partnership agreement. We will dissolve upon:

- the election of our general partner to dissolve us, if approved by the holders of units representing a unit majority;
- the sale, exchange or other disposition of all or substantially all of our assets and properties and our subsidiaries;
- the entry of a decree of judicial dissolution of our partnership; or
- the withdrawal or removal of our general partner or any other event that results in its ceasing to be our general partner other than by reason of a transfer of its general partner interest in accordance with the partnership agreement or withdrawal or removal following approval and admission of a successor.

Upon a dissolution under the last clause, the holders of a majority of the outstanding common units and subordinated units, voting as separate classes, may also elect, within specific time limitations, to reconstitute us and continue our business on the same terms and conditions described in the partnership agreement by forming a new limited partnership on terms identical to those in the partnership agreement and having as general partner an entity approved by the holders of units representing a unit majority, subject to our receipt of an opinion of counsel to the effect that:

- the action would not result in the loss of limited liability of any limited partner; and
- neither our partnership, the reconstituted limited partnership nor the operating partnership would be treated as an association taxable as a corporation or otherwise be taxable as an entity for federal income tax purposes upon the exercise of that right to continue.

Liquidation and Distribution of Proceeds

Upon our dissolution, unless we are reconstituted and continued as a new limited partnership, the liquidator authorized to wind up our affairs will, acting with all of the powers of our general partner that the liquidator deems necessary or desirable in its judgment, liquidate our assets and apply the proceeds of the liquidation as provided in "Cash Distribution Policy—Distributions of Cash upon Liquidation." The liquidator may defer liquidation of our assets for a reasonable period of time or distribute assets to partners in kind if it determines that a sale would be impractical or would cause undue loss to the partners.

Withdrawal or Removal of our General Partner

Except as described below, our general partner has agreed not to withdraw voluntarily as our general partner prior to December 31, 2012 without obtaining the approval of the holders of at least a majority of the outstanding common units, excluding common units held by our general partner and its affiliates, and furnishing an opinion of counsel regarding limited liability and tax matters. On or after December 31, 2012 our general partner may withdraw as general partner without first obtaining approval of any unitholder by giving 90 days' written notice, and that withdrawal will not constitute a violation of the partnership agreement. Notwithstanding the information above, our general partner may withdraw without unitholder approval upon 90 days' notice to the limited partners if at least 50% of the outstanding common units are held or controlled by one person and its affiliates other than our general partner and its affiliates. In addition, the partnership agreement permits our general partner in some instances to sell or otherwise transfer all of its general partner interest in us without the approval of the unitholders. Please read "—Transfer of General Partner Interests."

Upon the withdrawal of our general partner under any circumstances, other than as a result of a transfer by our general partner of all or a part of its general partner interest in us, the holders of a majority of the outstanding common units and subordinated units, voting as separate classes, may select a successor to that withdrawing general partner. If a successor is not elected, or is elected but an opinion of counsel regarding limited liability and tax matters cannot be obtained, we will be dissolved, wound up and liquidated, unless within 180 days after that withdrawal, the holders of a majority of the outstanding common units and subordinated units, voting as separate classes, agree in writing to continue our business and to appoint a successor general partner. Please read "—Termination and Dissolution."

Our general partner may not be removed unless that removal is approved by the vote of the holders of not less than $66\frac{2}{3}$% of the outstanding units, voting together as a single class, including units held by our general partner and its affiliates, and we receive an opinion of counsel regarding limited liability and tax matters. Any removal of the general partner is also subject to the approval of a successor general partner by the vote of the holders of a majority of the outstanding common units and subordinated units, voting as separate classes. The ownership of more than $33\frac{1}{3}$% of the outstanding units by our general partner and its affiliates would give it the practical ability to prevent its removal. At the closing of this offering, affiliates of the general partner will own 56.8% of the outstanding units.

The partnership agreement also provides that if Crosstex Energy GP, L.P. is removed as our general partner under circumstances where cause does not exist and units held by our general partner and its affiliates are not voted in favor of that removal:

- the subordination period will end and each outstanding subordinated unit will immediately convert into one common unit;
- any existing arrearages in payment of the minimum quarterly distribution on the common units will be extinguished; and
- our general partner will have the right to convert its general partner interest and its incentive distribution rights into common units or to receive cash in exchange for those interests based on the fair market value of those interests at the time.

In the event of removal of the general partner under circumstances where cause exists or withdrawal of a general partner where that withdrawal violates the partnership agreement, a successor general partner will have the option to purchase the general partner interest and incentive distribution rights of the departing general partner for a cash payment equal to the fair market value of those interests. Under all other circumstances where a general partner withdraws or is removed by the limited partners, the departing general partner will have the option to require the successor general partner to purchase the general partner interest of the departing general partner and its incentive

distribution rights for fair market value. In each case, this fair market value will be determined by agreement between the departing general partner and the successor general partner. If no agreement is reached, an independent investment banking firm or other independent expert selected by the departing general partner and the successor general partner will determine the fair market value. Or, if the departing general partner and the successor general partner cannot agree upon an expert, then an expert chosen by agreement of the experts selected by each of them will determine the fair market value.

If the option described above is not exercised by either the departing general partner or the successor general partner, the departing general partner's general partner interest and its incentive distribution rights will automatically convert into common units equal to the fair market value of those interests as determined by an investment banking firm or other independent expert selected in the manner described in the preceding paragraph.

In addition, we will be required to reimburse the departing general partner for all amounts due the departing general partner, including, without limitation, all employee-related liabilities, including severance liabilities, incurred for the termination of any employees employed by the departing general partner or its affiliates for our benefit.

Our general partner and its affiliates may at any time transfer units to one or more persons, without unitholder approval, except that they may not transfer subordinated units to us.

Transfer of General Partner Interests

Except for transfer by our general partner of all, but not less than all, of its general partner interest in us and the operating partnership to:

- an affiliate of the general partner (other than an individual); or
- another entity as part of the merger or consolidation of our general partner with or into another entity or the transfer by our general partner of all or substantially all of its assets to another entity,

our general partner may not transfer all or any part of its general partner interest in us and the operating partnership to another entity prior to December 31, 2012 without the approval of the holders of at least a majority of the outstanding common units, excluding common units held by the general partner and its affiliates. As a condition of this transfer, the transferee must assume the rights and duties of our general partner, agree to be bound by the provisions of the partnership agreement, and furnish an opinion of counsel regarding limited liability and tax matters.

Transfer of Ownership Interests in our General Partner

At any time, the partners of our general partner may sell or transfer all or part of their partnership interests in the general partner without the approval of the unitholders.

Transfer of Incentive Distribution Rights

Our general partner or its affiliates or a subsequent holder of incentive distribution rights may transfer its incentive distribution rights to an affiliate or to another person as part of its merger or consolidation with or into, or sale of all or substantially all of its assets, or sale of substantially all of its equity interests to, that person without the prior approval of the unitholders; but, in each case, the transferee must agree to be bound by the provisions of the partnership agreement. Prior to December 31, 2012, other transfers of the incentive distribution rights will require the affirmative vote of holders of a majority of the outstanding common units (excluding common units held by the general

partner or its affiliates). On or after December 31, 2012, the incentive distribution rights will be freely transferable.

Change of Management Provisions

The partnership agreement contains specific provisions that are intended to discourage a person or group from attempting to remove Crosstex Energy GP, L.P. as our general partner or otherwise change management. If any person or group other than our general partner and its affiliates acquires beneficial ownership of 20% or more of any class of units, that person or group loses voting rights on all of its units. This loss of voting rights does not apply to any person or group that acquires the units from our general partner or its affiliates and any transferees of that person or group approved by our general partner or to any person or group who acquires the units with the prior approval of the board of directors.

Our partnership agreement also provides that if our general partner is removed under circumstances where cause does not exist and units held by our general partner and its affiliates are not voted in favor of that removal:

- the subordination period will end and each outstanding subordinated unit will immediately convert into one common unit;

- any existing arrearages in payment of the minimum quarterly distribution on the common units will be extinguished; and
- our general partner will have the right to convert its general partner interest and its incentive distribution rights into common units or to receive cash in exchange for those interests.

Limited Call Right

If at any time our general partner and its affiliates hold more than 80% of the then-issued and outstanding partnership securities of any class, our general partner will have the right, which it may assign in whole or in part to any of its affiliates or to us, to acquire all, but not less than all, of the remaining partnership securities of the class held by unaffiliated persons as of a record date to be selected by our general partner, on at least ten but not more than 60 days notice. The purchase price in the event of this purchase is the greater of:

- the highest cash price paid by our general partner or any of its affiliates for any partnership securities of the class purchased within the 90 days preceding the date on which our general partner first mails notice of its election to purchase those partnership securities; and
- the current market price as of the date three days before the date the notice is mailed.

As a result of our general partner's right to purchase outstanding partnership securities, a holder of partnership securities may have his partnership securities purchased at an undesirable time or price. The tax consequences to a unitholder of the exercise of this call right are the same as a sale by that unitholder of his common units in the market. Please read "Material Tax Consequences—Disposition of Common Units."

Meetings; Voting

Except as described below regarding a person or group owning 20% or more of any class of units then outstanding, unitholders or assignees who are record holders of units on the record date will be entitled to notice of, and to vote at, meetings of our limited partners and to act upon matters for which approvals may be solicited. Common units that are owned by an assignee who is a record holder, but who has not yet been admitted as a limited partner, will be voted by our general partner at the written direction of the record holder. Absent direction of this kind, the common units will not be voted,

except that, in the case of common units held by our general partner on behalf of non-citizen assignees, our general partner will distribute the votes on those common units in the same ratios as the votes of limited partners on other units are cast.

Our general partner does not anticipate that any meeting of unitholders will be called in the foreseeable future. Any action that is required or permitted to be taken by the unitholders may be taken either at a meeting of the unitholders or without a meeting if consents in writing describing the action so taken are signed by holders of the number of units necessary to authorize or take that action at a meeting. Meetings of the unitholders may be called by our general partner or by unitholders owning at least 20% of the outstanding units of the class for which a meeting is proposed. Unitholders may vote either in person or by proxy at meetings. The holders of a majority of the outstanding units of the class or classes for which a meeting has been called, represented in person or by proxy, will constitute a quorum unless any action by the unitholders requires approval by holders of a greater percentage of the units, in which case the quorum will be the greater percentage.

Each record holder of a unit has a vote according to his percentage interest in us, although additional limited partner interests having special voting rights could be issued. Please read "—Issuance of Additional Securities." However, if at any time any person or group, other than our general partner and its affiliates, or a direct or subsequently approved transferee of our general partner or its affiliates, acquires, in the aggregate, beneficial ownership of 20% or more of any class of units then outstanding, that person or group will lose voting rights on all of its units and the units may not be voted on any matter and will not be considered to be outstanding when sending notices of a meeting of unitholders, calculating required votes, determining the presence of a quorum or for other similar purposes. Common units held in nominee or street name account will be voted by the broker or other nominee in accordance with the instruction of the beneficial owner unless the arrangement between the beneficial owner and his nominee provides otherwise. Except as the partnership agreement otherwise provides, subordinated units will vote together with common units as a single class.

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

Status as Limited Partner or Assignee

Except as described above under "—Limited Liability," the common units will be fully paid, and unitholders will not be required to make additional contributions.

An assignee of a common unit, after executing and delivering a transfer application, but pending its admission as a substituted limited partner, is entitled to an interest equivalent to that of a limited partner for the right to share in allocations and distributions from us, including liquidating distributions. Our general partner will vote and exercise other powers attributable to common units owned by an assignee that has not become a substitute limited partner at the written direction of the assignee. Please read "—Meetings; Voting." Transferees that do not execute and deliver a transfer application will be treated neither as assignees nor as record holders of common units, and will not receive cash distributions, federal income tax allocations or reports furnished to holders of common units. Please read "Description of the Common Units—Transfer of Common Units."

Non-citizen Assignees; Redemption

If we are or become subject to federal, state or local laws or regulations that, in the reasonable determination of our general partner, create a substantial risk of cancellation or forfeiture of any property that we have an interest in because of the nationality, citizenship or other related status of any limited partner or assignee, we may redeem the units held by the limited partner or assignee at their current market price. In order to avoid any cancellation or forfeiture, our general partner may require

each limited partner or assignee to furnish information about his nationality, citizenship or related status. If a limited partner or assignee fails to furnish information about his nationality, citizenship or other related status within 30 days after a request for the information or our general partner determines after receipt of the information that the limited partner or assignee is not an eligible citizen, the limited partner or assignee may be treated as a non-citizen assignee. In addition to other limitations on the rights of an assignee that is not a substituted limited partner, a non-citizen assignee does not have the right to direct the voting of his units and may not receive distributions in kind upon our liquidation.

Indemnification

Under the partnership agreement, in most circumstances, we will indemnify the following persons, to the fullest extent permitted by law, from and against all losses, claims, damages or similar events:

- our general partner;
- any departing general partner;
- any person who is or was an affiliate of a general partner or any departing general partner;
- any person who is or was a member, partner, officer, director, employee, agent or trustee of our general partner or any departing general partner or any affiliate of a general partner or any departing general partner; or
- any person who is or was serving at the request of a general partner or any departing general partner or any affiliate of a general partner or any departing general partner as an officer, director, employee, member, partner, agent or trustee of another person.

Any indemnification under these provisions will only be out of our assets. Unless it otherwise agrees in its sole discretion, our general partner will not be personally liable for, or have any obligation to contribute or loan funds or assets to us to enable us to effectuate, indemnification. We may purchase insurance against liabilities asserted against and expenses incurred by persons for our activities, regardless of whether we would have the power to indemnify the person against liabilities under the partnership agreement.

Books and Reports

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

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

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

Right to Inspect Our Books and Records

The partnership agreement provides that a limited partner can, for a purpose reasonably related to his interest as a limited partner, upon reasonable demand and at his own expense, have furnished to him:

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

Our general partner may, and intends to, keep confidential from the limited partners trade secrets or other information the disclosure of which our general partner believes in good faith is not in our best interests or that we are required by law or by agreements with third parties to keep confidential.

Registration Rights

Under the partnership agreement, we have agreed to register for resale under the Securities Act of 1933 and applicable state securities laws any common units, subordinated units or other partnership securities proposed to be sold by our general partner or any of its affiliates or their assignees if an exemption from the registration requirements is not otherwise available. These registration rights continue for two years following any withdrawal or removal of Crosstex Energy GP, L.P. as our general partner. We are obligated to pay all expenses incidental to the registration, excluding underwriting discounts and commissions. Please read "Units Eligible for Future Sale."

UNITS ELIGIBLE FOR FUTURE SALE

Affiliates of our general partner hold 333,000 common units and 4,667,000 subordinated units. All of these subordinated units will convert into common units at the end of the subordination period and some may convert earlier. The sale of these units could have an adverse impact on the price of the common units or on any trading market that may develop.

The common units sold in the offering will generally be freely transferable without restriction or further registration under the Securities Act of 1933, except that any common units owned by an "affiliate" of ours may not be resold publicly other than in compliance with the registration requirements of the Securities Act or under an exemption under Rule 144 or otherwise. Rule 144 permits securities acquired by an affiliate of the issuer to be sold into the market in an amount that does not exceed, during any three-month period, the greater of:

- 1% of the total number of the securities outstanding; or
- the average weekly reported trading volume of the common units for the four calendar weeks prior to the sale.

Sales under Rule 144 are also subject to specific manner of sale provisions, notice requirements and the availability of current public information about us. A person who is not deemed to have been an affiliate of our company at any time during the three months preceding a sale, and who has beneficially owned his common units for at least two years, would be entitled to sell common units under Rule 144 without regard to the public information requirements, volume limitations, manner of sale provisions and notice requirements of Rule 144.

Prior to the end of the subordination period, we may not issue equity securities of the partnership ranking prior or senior to the common units or an aggregate of more than 1,316,500 additional common units or an equivalent amount of securities ranking on a parity with the common units, without the approval of the holders of a majority of the outstanding common units and subordinated units, voting as separate classes, subject to certain exceptions described under "The Partnership Agreement—Issuance of Additional Securities."

The partnership agreement provides that, after the subordination period, we may issue an unlimited number of limited partner interests of any type without a vote of the unitholders. The partnership agreement does not restrict our ability to issue equity securities ranking junior to the common units at any time. Any issuance of additional common units or other equity securities would result in a corresponding decrease in the proportionate ownership interest in us represented by, and could adversely affect the cash distributions to and market price of, common units then outstanding. Please read "The Partnership Agreement—Issuance of Additional Securities."

Under the partnership agreement, our general partner and its affiliates have the right to cause us to register under the Securities Act of 1933 and state laws the offer and sale of any units that they hold. Subject to the terms and conditions of the partnership agreement, these registration rights allow the general partner and its affiliates or their assignees holding any units to require registration of any of these units and to include any of these units in a registration by us of other units, including units offered by us or by any unitholder. Our general partner will continue to have these registration rights for two years following its withdrawal or removal as our general partner. In connection with any registration of this kind, we will indemnify each unitholder participating in the registration and its officers, directors and controlling persons from and against any liabilities under the Securities Act or any state securities laws arising from the registration statement or prospectus. We will bear all costs and expenses incidental to any registration, excluding any underwriting discounts and commissions. Except as described below, the general partner and its affiliates may sell their units in private transactions at any time, subject to compliance with applicable laws.

Crosstex Energy, L.P., Crosstex Energy Holdings Inc., our general partner and the directors and executive officers of the general partner of our general partner have agreed not to sell any common units they beneficially own for a period of 90 days from the date of this prospectus. Please read "Underwriting" for a description of these lock-up provisions.

MATERIAL TAX CONSEQUENCES

This section discusses the material tax consequences that may be relevant to prospective unitholders who are individual citizens or residents of the United States. It is based upon current provisions of the Internal Revenue Code, existing regulations, proposed regulations to the extent noted, and current administrative rulings and court decisions, all of which are subject to change. Later changes in these authorities may cause the tax consequences to vary substantially from the consequences described below. Unless the context otherwise requires, references in this section to "us" or "we" are references to Crosstex Energy, L.P. and the operating partnership.

No attempt has been made in the following discussion to comment on all federal income tax matters affecting us or the unitholders. Moreover, the discussion focuses on unitholders who are individual citizens or residents of the United States and has only limited application to corporations, estates, trusts, nonresident aliens or other unitholders subject to specialized tax treatment, such as tax-exempt institutions, foreign persons, individual retirement accounts (IRAs), real estate investment trusts (REITs), or mutual funds. Accordingly, we recommend that each prospective unitholder consult, and depend on, his own tax advisor in analyzing the federal, state, local and foreign tax consequences particular to him of the ownership or disposition of common units.

All statements as to matters of law and legal conclusions, but not as to factual matters, contained in this section, unless otherwise noted, are the opinion of Thompson & Knight L.L.P., counsel to the general partner and to us, and are, to the extent noted herein, based on the accuracy of certain factual matters.

No ruling has been or will be requested from the IRS regarding any matter affecting us or prospective unitholders. An opinion of counsel represents only that counsel's best legal judgment and does not bind the IRS or the courts. Accordingly, the opinions and statements made here may not be sustained by a court if contested by the IRS. Any contest of this sort with the IRS may materially and adversely impact the market for the common units and the prices at which the common units trade. In addition, the costs of any contest with the IRS will be borne directly or indirectly by the unitholders and our general partner. Furthermore, the tax treatment of us, or of an investment in us, may be significantly modified by future legislative or administrative changes or court decisions. Any modifications may or may not be retroactively applied.

For the reasons described below, Thompson & Knight L.L.P. has not rendered an opinion with respect to the following specific federal income tax issues:

- the treatment of a unitholder whose common units are loaned to a short seller to cover a short sale of common units (please read "—Tax Consequences of Unit Ownership—Treatment of short sales");
- whether our monthly convention for allocating taxable income and losses is permitted by existing Treasury Regulations (please read "—Disposition of Common Units—Allocations between transferors and transferees"); and
- whether our method for depreciating Section 743 adjustments is sustainable (please read "—Tax Consequences of Unit Ownership—Section 754 election").

Partnership Status

A partnership is not a taxable entity and incurs no federal income tax liability. Instead, each partner of a partnership is required to take into account his share of items of income, gain, loss and deduction of the partnership in computing his federal income tax liability, even if no cash distributions are made to him by the partnership. Distributions by a partnership to a partner are generally not

taxable unless the amount of cash distributed is in excess of the partner's adjusted basis in his partnership interest.

No ruling has been or will be sought from the IRS and the IRS has made no determination as to our status for federal income tax purposes or whether our operations generate "qualifying income" under Section 7704 of the Internal Revenue Code. Instead, we will rely on the opinion of Thompson & Knight L.L.P. that, based upon the Internal Revenue Code, its regulations, published revenue rulings and court decisions, that the operating partnership will be disregarded as an entity separate from us for federal income tax purposes so long as the operating partnership and its general partner (which is a limited liability company) do not elect to be treated as a corporation and we will be classified as a partnership so long as:

- We do not elect to be treated as a corporation; and
- For each taxable year, more than 90% of our gross income is "qualifying income" within the meaning of Section 7704(d) of the Internal Revenue Code.

Qualifying income includes certain income and gains derived from the transportation and processing of crude oil, natural gas and products thereof. Other types of qualifying income include interest other than from a financial business, dividends, gains from the sale of real property and gains from the sale or other disposition of assets held for the production of income that otherwise constitutes qualifying income. We estimate that more than 96% of our current income is within one or more categories of income that are qualifying income in the opinion of Thompson & Knight L.L.P. The portion of our income that is qualifying income can change from time to time.

Section 7704 of the Internal Revenue Code provides that publicly traded partnerships will, as a general rule, be taxed as corporations. However, an exception, referred to as the "Qualifying Income Exception," exists with respect to publicly traded partnerships of which 90% or more of the gross income for every taxable year consists of "qualifying income." Although we expect to conduct our business so as to meet the Qualifying Income Exception, if we fail to meet the Qualifying Income Exception, other than a failure that is determined by the IRS to be inadvertent and that is cured within a reasonable time after discovery, we will be treated as if we had transferred all of our assets, subject to liabilities, to a newly formed corporation, on the first day of the year in which we fail to meet the Qualifying Income Exception, in return for stock in that corporation, and as if we had then distributed that stock to the unitholders in liquidation of their interests in us. This contribution and liquidation should be tax-free to unitholders and us so long as we, at that time, do not have liabilities in excess of the tax basis of our assets. Thereafter, we would be treated as a corporation for federal income tax purposes.

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

The discussion below assumes that we will be treated as a partnership for federal income tax purposes. See the discussion above of the opinion of Thompson & Knight L.L.P. that we will be treated as a partnership for federal income tax purposes.

Limited Partner Status

Unitholders who have become limited partners of Crosstex Energy, L.P. will be treated as our partners for federal income tax purposes. Also:

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

will be treated as our partners for federal income tax purposes. Assignees of common units who are entitled to execute and deliver transfer applications and become entitled to direct the exercise of attendant rights, but who fail to execute and deliver transfer applications, may not be treated as one of our partners for federal income tax purposes. Furthermore, a purchaser or other transferee of common units who does not execute and deliver a transfer application may not receive some federal income tax information or reports furnished to record holders of common units unless the common units are held in a nominee or street name account and the nominee or broker has executed and delivered a transfer application for those common units.

A beneficial owner of common units whose common units have been transferred to a short seller to complete a short sale would appear to lose his status as one of our partners with respect to those common units for federal income tax purposes. Please read "—Tax Consequences of Unit Ownership—Treatment of short sales."

No portion of our income, gain, deductions or losses is reportable by a unitholder who is not one of our partners for federal income tax purposes, and any cash distributions received by a unitholder who is not one of our partners for federal income tax purposes would therefore appear to be fully taxable as ordinary income. These holders are urged to consult their own tax advisors with respect to the consequences of holding common units for federal income tax purposes.

The following assumes that a unitholder is treated as one of our partners.

Tax Consequences of Unit Ownership

Flow-through of taxable income. Each unitholder will be required to report on his income tax return his share of our income, gains, losses and deductions even if no cash distributions are received by him. Consequently, we may allocate income to a unitholder even if he has not received a cash distribution from us. Each unitholder will be required to include in income his allocable share of our income, gains, losses and deductions for our taxable year ending with or within his taxable year. Our taxable year ends on December 31.

Treatment of distributions. Our distributions to a unitholder generally will not be taxable to him for federal income tax purposes to the extent of his tax basis in his common units immediately before the distribution. Our cash distributions in excess of a unitholder's tax basis generally will be considered to be gain from the sale or exchange of the common units, taxable in accordance with the rules described under "—Disposition of Common Units" below. Any reduction in a unitholder's share of our liabilities for which no partner, including the general partner, bears the economic risk of loss, which are known as "nonrecourse liabilities," will be treated as a distribution of cash to that unitholder. To the extent our distributions cause a unitholder's "at risk" amount to be less than zero at the end of any taxable year, he must recapture any losses deducted in previous years. Please read "—Limitations on deductibility of losses."

A decrease in a unitholder's percentage interest in us because of our issuance of additional common units will decrease his share of our nonrecourse liabilities and result in a corresponding

deemed distribution of cash. A non-pro rata distribution of money or property may result in ordinary income to a unitholder, regardless of his tax basis in his common units, if the distribution reduces the unitholder's share of our "unrealized receivables," including depreciation recapture and substantially appreciated "inventory items," both as defined in the Internal Revenue Code, and collectively, "Section 751 Assets." To that extent, he will be treated as having been distributed his proportionate share of our Section 751 Assets and having exchanged those assets with us in return for the non-pro rata portion of the actual distribution made to him. This latter deemed exchange will generally result in the unitholder's realization of ordinary income, which will equal the excess of (1) the non-pro rata portion of that distribution over (2) the unitholder's tax basis for the share of Section 751 Assets deemed relinquished in the exchange.

Ratio of taxable income to distributions. We estimate that a purchaser of common units in this offering who owns those common units from the date of closing of this offering through December 31, 2006, will be allocated an amount of federal taxable income for that period that will be 20% or less of the cash distributed with respect to that period. We anticipate that after the taxable year ending December 31, 2006, the ratio of allocable taxable income to cash distributions to the unitholders will increase. These estimates are based upon the assumption that gross income from operations will approximate the amount required to make the minimum quarterly distribution on all units and other assumptions with respect to capital expenditures, cash flow and anticipated cash distributions. These estimates and assumptions are subject to, among other things, numerous business, economic, regulatory, competitive and political uncertainties beyond our control. In particular, our estimate is based upon our use of a seven year recovery period for our gathering systems and certain other property, which is consistent with a decision of the Court of Appeals for the Tenth Circuit on the issue. The IRS has stated that it will continue to litigate whether the recovery period is seven years or 15 years for taxpayers, such as us, for whom the appeal in any tax controversy would be to another Court of Appeals. The lower courts that have addressed the issue have not been consistent. A district court in Wyoming held that the recovery period for similar property is seven years, and the government agreed to dismiss the appeal of this issue because the appeal was to the Tenth Circuit. The Tax Court and a district court in Michigan have held that the recovery period for similar property is 15 years. Legislation to resolve this dispute between the courts has been proposed by Congress as part of the Energy Tax Incentives Act of 2003. If passed, this Act would establish a seven year recovery period for natural gas gathering lines.

If we were required to depreciate our gathering systems over a 15 year recovery period, then we estimate that a purchaser of common units in this offering who owns such common units through December 31, 2006, will be allocated an amount of federal taxable income for such period that will be no more than 20% of the cash distributed with respect to that period, and that after the taxable year ending December 31, 2006, the ratio of allocable taxable income to cash distributions to unitholders will increase. Further, our estimates are based on current tax law and tax reporting positions that we will adopt and with which the IRS could disagree. Accordingly, these estimates may not prove to be correct. The actual percentage of distributions that will constitute taxable income could be higher or lower, and any differences could be material and could materially affect the value of the common units.

Basis of common units. A unitholder's initial tax basis for his common units will be the amount he paid for the common units plus his share of our nonrecourse liabilities. That basis will be increased by his share of our income and by any increases in his share of our nonrecourse liabilities. That basis will be decreased, but not below zero, by distributions he receives from us, by his share of our losses, by any decreases in his share of our nonrecourse liabilities and by his share of our expenditures that are not deductible in computing taxable income and are not required to be capitalized. A unitholder generally will have no share of our debt that is recourse to the general partner, but will have a share, generally based on his share of profits, of our nonrecourse liabilities. Please read "—Disposition of Common Units—Recognition of gain or loss."

Limitations on deductibility of losses. The deduction by a unitholder of his share of our losses will be limited to the tax basis in his common units and, in the case of an individual unitholder or a corporate unitholder, if more than 50% of the value of the corporate unitholder's stock is owned directly or indirectly by five or fewer individuals or some tax-exempt organizations, to the amount for which the unitholder is considered to be "at risk" with respect to our activities, if that is less than his tax basis. A unitholder must recapture losses deducted in previous years to the extent that distributions cause his at risk amount to be less than zero at the end of any taxable year. Losses disallowed to a unitholder or recaptured as a result of these limitations will carry forward and will be allowable to the extent that his tax basis or at risk amount, whichever is the limiting factor, is subsequently increased. Upon the taxable disposition of a unit, any gain recognized by a unitholder can be offset by losses that were previously suspended by the at risk limitation but may not be offset by losses suspended by the basis limitation. Any excess loss above that gain previously suspended by the at risk or basis limitations is no longer utilizable.

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

The passive loss limitations generally provide that individuals, estates, trusts and some closely-held corporations and personal service corporations can deduct losses from passive activities, which are generally corporate or partnership activities in which the taxpayer does not materially participate, only to the extent of the taxpayer's income from those passive activities. The passive loss limitations are applied separately with respect to each publicly traded partnership. Consequently, any passive losses we generate will only be available to offset our passive income generated in the future and will not be available to offset income from other passive activities or investments, including our investments in other publicly traded partnerships, or salary or active business income. Passive losses that are not deductible because they exceed a unitholder's share of our income may be deducted in full when he disposes of his entire investment in us in a fully taxable transaction with an unrelated party. The passive activity loss rules are applied after other applicable limitations on deductions, including the at risk rules and the basis limitation.

A unitholder's share of our net income may be offset by any of our suspended passive losses, but it may not be offset by any other current or carryover losses from other passive activities, including those attributable to other publicly traded partnerships.

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

- interest on indebtedness properly allocable to property held for investment;
- our interest expense attributed to portfolio income; and
- the portion of interest expense incurred to purchase or carry an interest in a passive activity to the extent attributable to portfolio income.

The computation of a unitholder's investment interest expense will take into account interest on any margin account borrowing or other loan incurred to purchase or carry a unit. Net investment income includes gross income from property held for investment and amounts treated as portfolio income under the passive loss rules, less deductible expenses, other than interest, directly connected with the production of investment income, but generally does not include gains attributable to the disposition of

property held for investment. The IRS has indicated that the net passive income earned by a publicly traded partnership will be treated as investment income to its unitholders. In addition, a unitholder's share of our portfolio income will be treated as investment income.

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

Allocation of income, gain, loss and deduction. In general, if we have a net profit, our items of income, gain, loss and deduction will be allocated among the general partner and the unitholders in accordance with their percentage interests in us. At any time that distributions are made to the common units in excess of distributions to the subordinated units, or incentive distributions are made to the general partner, gross income will be allocated to the recipients to the extent of these distributions. If we have a net loss for the entire year, that loss will be allocated first to the general partner and the unitholders in accordance with their percentage interests in us to the extent of their positive capital accounts and, second, to the general partner. In order to allocate neither gain nor loss to our unitholders for 2002 (and to provide thereto K-1s which so report), we allocated our net loss for the portion of 2002 that was after the initial offering to our general partner. Thus, we will allocate to our general partner an equal amount of our net income for 2003 or a future period.

Certain items of our income, gain, loss and deduction will be allocated to account for the difference between the tax basis and fair market value of our property at the time of this offering. We will use the remedial method with respect to such differences with respect to some, but not all, of our assets, and we may use other methods with respect to some assets. The effect to a unitholder purchasing common units in this offering will, as to those assets in respect of which we use the remedial method, be essentially the same as if the tax basis of such assets was equal to their fair market value at the time of this offering, and the effect of allocations that are made under the traditional method will be essentially the same as if those assets had a tax basis that is less than fair market value. In addition, recapture income will be allocated to the extent possible to the unitholder who was allocated the deduction giving rise to the treatment of that gain as recapture income in order to minimize the recognition of ordinary income by other unitholders. Finally, although we do not expect that our operations will result in the creation of negative capital accounts, if negative capital accounts nevertheless result, items of our income and gain will be allocated in an amount and manner to eliminate the negative balance as quickly as possible.

Thompson & Knight L.L.P. is of the opinion that, with the exception of the issues described in "—Tax Consequences of Unit Ownership—Section 754 election" and "—Disposition of Common Units—Allocations between transferors and transferees," the allocations in our partnership agreement will be given effect for federal income tax purposes in determining how our income, gain, loss or deduction will be allocated among the holders of our equity that is outstanding immediately after the offering that is made by this prospectus.

Treatment of short sales. A unitholder whose common units are loaned to a "short seller" to cover a short sale of common units may be considered as having disposed of those common units. If so, he

would no longer be a partner for tax purposes with respect to those common units during the period of the loan and may recognize gain or loss from the disposition. As a result, during this period:

- any of our income, gain, loss or deduction with respect to those common units would not be reportable by him;
- any cash distributions received by him on those common units would be fully taxable; and
- all of these distributions would appear to be ordinary income to him.

Thompson & Knight L.L.P. has not rendered an opinion regarding the treatment of a unitholder whose common units are loaned to a short seller; therefore, unitholders desiring to assure their status as partners and avoid the risk of gain recognition from a loan to a short seller are urged to modify any applicable brokerage account agreements to prohibit their brokers from borrowing or loaning their common units. The IRS has announced that it is studying issues relating to the tax treatment of short sales of partnership interests. Please read "—Disposition of Common Units—Recognition of gain or loss."

Alternative minimum tax. Each unitholder will be required to take into account his share of any items of our income, gain, loss or deduction for purposes of the alternative minimum tax. We do not expect to generate significant tax preference items or adjustments. Prospective unitholders are urged to consult with their tax advisors as to the impact of an investment in common units on their liability for the alternative minimum tax.

Tax rates. In general, the highest effective United States federal income tax rate for individuals for 2003 is 35% and the maximum United States federal income tax rate for net capital gains of an individual for 2003 is 15% if the asset disposed of was held for more than 12 months at the time of disposition.

Section 754 election. We made the election permitted by Section 754 of the Internal Revenue Code. That election is irrevocable without the consent of the IRS. The election generally permits us to adjust a common unit purchaser's tax basis in our assets under Section 743(b) of the Internal Revenue Code to reflect his purchase price when he buys common units from a holder thereof. This election does not apply to a person who purchases common units directly from us.

Treasury regulations under Section 743 of the Internal Revenue Code require, if the remedial allocation method is adopted, that the portion of the Section 743(b) adjustment that eliminates the effect of any unamortized difference in "book" and tax basis of recovery property to the holder of such a common unit be depreciated over the remaining recovery period of that property, but Treasury Regulation Section 1.167(c)-1(a)(6) may require that any such difference in "book" and tax basis of other property be depreciated over a different period. In addition, the holder of a common unit (other than a common unit that is sold in this offering) may be entitled by reason of a Section 743(b) adjustment to amortization deductions in respect of property to which the traditional method of eliminating differences in "book" and tax basis applies but to which the holder of a common unit that is sold in this offering will not be entitled.

Under our partnership agreement, our general partner is authorized to take a position to preserve our ability to determine the tax attributes of a common unit from its date of purchase and the amount that is paid therefor even if that position is not consistent with the Treasury Regulations.

We intend to depreciate the portion of a Section 743(b) adjustment attributable to any unamortized difference between the "book" and tax basis of an asset in respect of which we use the remedial method in a manner that is consistent with the regulations under Section 743 of the Internal Revenue Code as to recovery property in respect of which the remedial allocation method is adopted. Such method is arguably inconsistent with Treasury Regulation Section 1.167(c)-l(a)(6), which is not

expected to directly apply to a material portion of our assets. If we determine that this position cannot reasonably be taken, we may take a depreciation or amortization position which may result in lower annual depreciation or amortization deductions than would otherwise be allowable to some unitholders. In addition, if common units other than those that are sold in this offering are entitled to different treatment in respect of property as to which we are using the traditional method of eliminating differences in "book" and tax basis, we may also take a position that results in lower annual deductions to some or all of our unitholders than might otherwise be available. Counsel is unable to opine as to the validity of any position that is described in this paragraph because there is no clear applicable authority.

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

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

Tax Treatment of Operations

Accounting method and taxable year. We use the year ending December 31 as our taxable year and the accrual method of accounting for federal income tax purposes. Each unitholder will be required to include in income his share of our income, gain, loss and deduction for our taxable year ending within or with his taxable year. In addition, a unitholder who has a taxable year ending on a date other than December 31 and who disposes of all of his common units following the close of our taxable year but before the close of his taxable year will be required to include in income for his taxable year his share of more than one year of our income, gain, loss and deduction. Please read "—Disposition of Common Units—Allocations between transferors and transferees."

Tax basis, depreciation and amortization. The tax basis of our assets is used for purposes of computing depreciation and cost recovery deductions and, ultimately, gain or loss on the disposition of these assets. The federal income tax burden associated with the difference between the fair market value of our assets and their tax basis immediately prior to this offering will be borne by the general partner, its affiliates and our other unitholders as of that time. Please read "—Tax Consequences of Unit Ownership—Allocation of income, gain, loss and deduction."

To the extent allowable, we may elect to use the depreciation and cost recovery methods that will result in the largest deductions being taken in the early years after assets are placed in service. Property

we acquire or construct in the future may be depreciated using accelerated methods permitted by the Internal Revenue Code.

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

The costs that we incur in selling our common units ("syndication expenses") must be capitalized and cannot be deducted by us currently, ratably or upon our termination. There are uncertainties regarding the classification of costs as organization expenses, which will be amortized by us over a period of 60 months, and as syndication expenses, which may not be amortized by us. The underwriting discounts and commissions we incur will be treated as syndication expenses.

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

Disposition of Common Units

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

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

Except as noted below, gain or loss recognized by a unitholder, other than a "dealer" in common units, on the sale or exchange of a unit held for more than one year will generally be taxable as capital gain or loss. Capital gain recognized by an individual on the sale of common units held more than 12 months will generally be taxed at a maximum rate of 15%. However, a portion of this gain or loss, which will likely be substantial, will be separately computed and taxed as ordinary income or loss under Section 751 of the Internal Revenue Code to the extent attributable to assets giving rise to depreciation recapture, other potential recapture items, or other "unrealized receivables" or to "inventory items" we own. Ordinary income attributable to unrealized receivables, inventory items and depreciation recapture may exceed net taxable gain realized upon the sale of a unit and may be recognized even if there is a net taxable loss realized on the sale of a unit. Thus, a unitholder may recognize both ordinary income and a capital loss upon a sale of common units. Capital losses may offset capital gains and no more

than $3,000 of ordinary income, in the case of individuals, and may only be used to offset capital gains in the case of corporations.

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

The Internal Revenue Code treats a taxpayer as having sold a partnership interest, such as our units, in which gain would be recognized if it were actually sold at its fair market value, if the taxpayer or related persons enters into:

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

Moreover, if a taxpayer has previously entered into a short sale, an offsetting notional principal contract or a futures or forward contract with respect to the partnership interest, the taxpayer will be treated as having sold that position if the taxpayer or a related person then acquires the partnership interest or substantially identical property.

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

The use of this method may not be permitted under existing Treasury Regulations. If this method is not allowed under the Treasury Regulations, or only applies to transfers of less than all of the unitholder's interest, our taxable income or losses might be reallocated among the unitholders. We are authorized to revise our method of allocation between transferors and transferees as well as among unitholders whose interests vary during a taxable year to conform to a method permitted under future Treasury Regulations.

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

Notification requirements. A purchaser of common units other than an individual who is a citizen of the United States and who purchases through a broker is required to notify us in writing of that purchase within 30 days after the purchase. We are required to notify the IRS of that transaction and to furnish specified information to the transferor and transferee. Failure to notify us of a purchase may lead to the imposition of substantial penalties.

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

Tax-Exempt Organizations and Other Investors

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

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

A regulated investment company, or "mutual fund," is required to derive 90% or more of its gross income from interest, dividends and gains from the sale of stocks or securities or foreign currency or specified related sources. It is not anticipated that any significant amount of our gross income will include that type of income.

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

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

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

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

Administrative Matters

Information returns and audit procedures. We intend to furnish to each unitholder, within 90 days after the close of each calendar year, specific tax information, including a Schedule K-1, which describes his share of our income, gain, loss and deduction for our preceding taxable year. In preparing this information, which generally will not be reviewed by counsel, we will take various accounting and reporting positions, some of which have been mentioned earlier, to determine his share of income, gain, loss and deduction. We cannot assure you that any of those positions will yield a result that conforms to the requirements of the Internal Revenue Code, Treasury Regulations or administrative interpretations of the IRS. Any challenge by the IRS could negatively affect the value of the common units.

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

Partnerships generally are treated as separate entities for purposes of federal tax audits, judicial review of administrative adjustments by the IRS and tax settlement proceedings. The tax treatment of partnership items of income, gain, loss and deduction are determined in a partnership proceeding rather than in separate proceedings with the partners. The Internal Revenue Code requires that one partner be designated as the "Tax Matters Partner" for these purposes. The partnership agreement names our general partner as our Tax Matters Partner.

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

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

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

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

- whether the beneficial owner is:

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

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

  (3) a tax-exempt entity;

- the amount and description of common units held, acquired or transferred for the beneficial owner; and
- specific information including the dates of acquisitions and transfers, means of acquisitions and transfers, and acquisition cost for purchases, as well as the amount of net proceeds from sales.

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

Registration as a tax shelter. The Internal Revenue Code requires that "tax shelters" be registered with the Secretary of the Treasury. Although we may not be a "tax shelter" for such purposes, we have registered as a "tax shelter" with the Secretary of the Treasury in light of the substantial penalties that might be imposed if registration is required and not undertaken. We will advise you of our tax shelter registration number once one has been assigned.

Issuance of this tax shelter registration number does not indicate that investment in us or the claimed tax benefits have been reviewed, examined or approved by the IRS.

A unitholder who sells or otherwise transfers a common unit in a later transaction must furnish the registration number to the transferee. The penalty for failure of the transferor of a unit to furnish the registration number to the transferee is $100 for each failure. A unitholder must disclose our tax shelter registration number on his tax return on which any deduction, loss or other benefit we generate is claimed or on which any of our income is included. A unitholder who fails to disclose the tax shelter registration number on Form 8271 to be attached to his return, without reasonable cause for that failure, will be subject to a $250 penalty for each failure. Any penalties discussed are not deductible for federal income tax purposes.

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

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

- for which there is, or was, "substantial authority;" or
- as to which there is a reasonable basis and the pertinent facts of that position are disclosed on the return.

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

A substantial valuation misstatement exists if the value of any property, or the adjusted basis of any property, claimed on a tax return is 200% or more of the amount determined to be the correct amount of the valuation or adjusted basis. No penalty is imposed unless the portion of the underpayment attributable to a substantial valuation misstatement exceeds $5,000 ($10,000 for most corporations). If the valuation claimed on a return is 400% or more than the correct valuation, the penalty imposed increases to 40%.

State, Local, Foreign and Other Tax Consequences

In addition to federal income taxes, you will be subject to other taxes, including state, local and foreign income taxes, unincorporated business taxes, and estate, inheritance or intangible taxes that may be imposed by the various jurisdictions in which we do business or own property or in which you are a resident. Although an analysis of those various taxes is not presented here, each prospective unitholder should consider their potential impact on his investment in us. We own property or do business in Texas, Oklahoma, Louisiana, New Mexico, Arkansas, Mississippi and Alabama. We may also own property or do business in other jurisdictions in the future. Although you may not be required to file a return and pay taxes in some jurisdictions because your income from that jurisdiction falls below the filing and payment requirement, you will be required to file income tax returns and to pay income taxes in many of these jurisdictions in which we do business or own property and may be subject to penalties for failure to comply with those requirements. In some jurisdictions, tax losses may not produce a tax benefit in the year incurred and may not be available to offset income in subsequent taxable years. Some of the jurisdictions may require us, or we may elect, to withhold a percentage of income from amounts to be distributed to a unitholder who is not a resident of the jurisdiction. Withholding, the amount of which may be greater or less than a particular unitholder's income tax liability to the jurisdiction, generally does not relieve a nonresident unitholder from the obligation to file an income tax return. Amounts withheld will be treated as if distributed to unitholders for purposes of determining the amounts distributed by us. Please read "—Tax Consequences of Unit Ownership—Entity-level collections." Based on current law and our estimate of our future operations, we anticipate that any amounts required to be withheld will not be material.

It is the responsibility of each unitholder to investigate the legal and tax consequences, under the laws of pertinent jurisdictions, of his investment in us. Accordingly, each prospective unitholder is urged to consult his tax counsel or other advisor with regard to those matters. Further, it is the responsibility of each unitholder to file all state, local and foreign, as well as United States federal tax returns, that may be required of him. Thompson & Knight L.L.P. has not rendered an opinion on the state, local or foreign tax consequences of an investment in us.

INVESTMENT IN CROSSTEX ENERGY, L.P. BY EMPLOYEE BENEFIT PLANS

An investment in us by an employee benefit plan is subject to additional considerations because the investments of these plans are subject to the fiduciary responsibility and prohibited transaction provisions of ERISA, and restrictions imposed by Section 4975 of the Internal Revenue Code. For these purposes, the term "employee benefit plan" includes, but is not limited to, qualified pension, profit-sharing and stock bonus plans, Keogh plans, simplified employee pension plans and tax deferred annuities or IRAs established or maintained by an employer or employee organization. Among other things, consideration should be given to:

- whether the investment is prudent under Section 404(a)(1)(B) of ERISA;
- whether in making the investment, that plan will satisfy the diversification requirements of Section 404(a)(l)(C) of ERISA; and
- whether the investment will result in recognition of unrelated business taxable income by the plan and, if so, the potential after-tax investment return.

The person with investment discretion with respect to the assets of an employee benefit plan, often called a fiduciary, should determine whether an investment in us is authorized by the appropriate governing instrument and is a proper investment for the plan.

Section 406 of ERISA and Section 4975 of the Internal Revenue Code prohibits employee benefit plans, and also IRAs that are not considered part of an employee benefit plan, from engaging in specified transactions involving "plan assets" with parties that are "parties in interest" under ERISA or "disqualified persons" under the Internal Revenue Code with respect to the plan.

In addition to considering whether the purchase of common units is a prohibited transaction, a fiduciary of an employee benefit plan should consider whether the plan will, by investing in us, be deemed to own an undivided interest in our assets, with the result that our general partner also would be a fiduciary of the plan and our operations would be subject to the regulatory restrictions of ERISA, including its prohibited transaction rules, as well as the prohibited transaction rules of the Internal Revenue Code.

The Department of Labor regulations provide guidance with respect to whether the assets of an entity in which employee benefit plans acquire equity interests would be deemed "plan assets" under some circumstances. Under these regulations, an entity's assets would not be considered to be "plan assets" if, among other things:

- the equity interests acquired by employee benefit plans are publicly offered securities; i.e., the equity interests are widely held by 100 or more investors independent of the issuer and each other, freely transferable and registered under some provisions of the federal securities laws;

- the entity is an "operating company,"—i.e., it is primarily engaged in the production or sale of a product or service other than the investment of capital either directly or through a majority owned subsidiary or subsidiaries; or

- there is no significant investment by benefit plan investors, which is defined to mean that less than 25% of the value of each class of equity interest, disregarding some interests held by the general partner, its affiliates, and some other persons, is held by the employee benefit plans referred to above, IRAs and other employee benefit plans not subject to ERISA, including governmental plans.

Our assets should not be considered "plan assets" under these regulations because it is expected that the investment will satisfy the requirements in the first bullet point above.

Plan fiduciaries contemplating a purchase of common units should consult with their own counsel regarding the consequences under ERISA and the Internal Revenue Code in light of the serious penalties imposed on persons who engage in prohibited transactions or other violations.

UNDERWRITING

Subject to the terms and conditions of the underwriting agreement between us and the underwriters, the underwriters have agreed severally to purchase from us the following number of common units at the offering price less the underwriting discount set forth on the cover page of this prospectus.

Underwriters	Number of Common Units
A.G. Edwards & Sons, Inc.	
RBC Dain Rauscher Inc.	
Raymond James & Associates, Inc.	
Total	1,500,000

The underwriting agreement provides that the obligations of the underwriters are subject to certain conditions and that the underwriters will purchase all such common units if any of the units are purchased. The underwriters are obligated to take and pay for all of the common units offered hereby, other than those covered by the over-allotment option described below, if any are taken.

The underwriters have advised us that they propose to offer the common units to the public at the offering price set forth on the cover page of this prospectus and to certain dealers at such price less a concession not in excess of $ per unit. The underwriters may allow, and such dealers may re-allow, a concession not in excess of $ per unit to certain other dealers. After the offering, the offering price and other selling terms may be changed by the underwriters, but any such changes will not affect the net proceeds to be received by us in the offering.

Pursuant to the underwriting agreement, we have granted to the underwriters an option, exercisable for 30 days after the date of this prospectus, to purchase up to 225,000 additional common units at the offering price, less the underwriting discount set forth on the cover page of this prospectus, solely to cover over-allotments.

To the extent the underwriters exercise such option, the underwriters will become obligated, subject to certain conditions, to purchase approximately the same percentage of such additional units as the number set forth next to such underwriter's name in the preceding table bears to the total number of units in the table, and we will be obligated, pursuant to the option, to sell such units to the underwriters.

Crosstex Energy, L.P., Crosstex Energy Holdings Inc., the general partner and the directors and executive officers of the general partner of our general partner have agreed that during the 90 days after the date of this prospectus, they will not, without the prior written consent of A.G. Edwards & Sons, Inc., directly or indirectly, offer for sale, contract to sell, sell, distribute, grant any option, right or warrant to purchase, pledge, hypothecate or otherwise dispose of any common units, any securities convertible into, or exercisable or exchangeable for, common units or any other rights to acquire such common units, other than (1) pursuant to employee benefit plans as in existence as of the date of this prospectus, (2) to affiliates or (3) in connection with accretive acquisitions of assets or businesses in which common units are issued as consideration; *provided, however,* any recipient of common units will furnish to A.G. Edwards & Sons, Inc. a letter agreeing to be bound by these provisions for the remainder of the 90-day period. A.G. Edwards may, in its sole discretion, allow any of these parties to offer for sale, contract to sell, sell, distribute, grant any option, right or warrant to purchase, pledge, hypothecate or otherwise dispose of any common units, any securities convertible into, or exercisable or exchangeable for, common units or any other rights to acquire such common units prior to the expiration of such 90-day period in whole or in part at anytime without notice. A.G. Edwards has informed us that in the event that consent to a waiver of these restrictions is requested by us or any

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other person, A.G. Edwards, in deciding whether to grant its consent, will consider the unitholder's reasons for requesting the release, the number of units for which the release is being requested, and market conditions at the time of the request for such release. However, A.G. Edwards has informed us that as of the date of this prospectus there are no agreements between A.G. Edwards and any party that would allow such party to transfer any common units, nor does it have any intention of releasing any of the common units subject to the lock-up agreements prior to the expiration of the lock-up period at this time.

The following table summarizes the discounts that Crosstex Energy, L.P. will pay to the underwriters in the offering. These amounts assume both no exercise and full exercise of the underwriters' option to purchase additional common units.

	No Exercise	Full Exercise
Per Unit		
Total		

We expect to incur expenses of approximately $1.0 million in connection with this offering.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act.

Until the distribution of the common units is completed, rules of the SEC may limit the ability of the underwriters and certain selling group members to bid for and purchase the common units. As an exception to these rules, the underwriters are permitted to engage in certain transactions that stabilize, maintain or otherwise affect the price of the common units.

In connection with this offering, the underwriters may engage in stabilizing transactions, over-allotment transactions, syndicate covering transactions and penalty bids in accordance with Regulation M under the Securities Exchange Act of 1934.

- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.

- Over-allotment transactions involve sales by the underwriters of the common units in excess of the number of units the underwriters are obligated to purchase, which creates a syndicate short position. The short position may be either a covered short position or a naked short position. In a covered short position, the number of units over-allotted by the underwriters is not greater than the number of units they may purchase in the over-allotment option. In a naked short position, the number of units involved is greater than the number of units in the over-allotment option. The underwriters may close out any short position by either exercising their over-allotment option and/or purchasing common units in the open market.

- Syndicate covering transactions involve purchases of the common units in the open market after the distribution has been completed in order to cover syndicate short positions. In determining the source of the common units to close out the short position, the underwriters will consider, among other things, the price of common units available for purchase in the open market as compared to the price at which they may purchase common units through the over-allotment option. If the underwriters sell more common units than could be covered by the over-allotment option, a naked short position, the position can only be closed out by buying common units in the open market. A naked short position is more likely to be created if the underwriters are concerned that there could be downward pressure on the price of the common units in the open market after pricing that could adversely affect investors who purchase in the offering.

- Penalty bids permit the representatives to reclaim a selling concession from a syndicate member when the common units originally sold by the syndicate member are purchased in a stabilizing or syndicate covering transaction to cover syndicate short positions.

Similar to other purchase transactions, the underwriters' purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of the common units or preventing or retarding a decline in the market price of the common units. As a result, the price of the common units may be higher than the price that might otherwise exist in the open market.

The underwriters will deliver a prospectus to all purchasers of common units in the short sales. The purchasers of common units in short sales are entitled to the same remedies under the federal securities laws as any other purchaser of common units covered by this prospectus.

The underwriters are not obligated to engage in any of the transactions described above. If they do engage in any of these transactions, they may discontinue them at any time.

Neither Crosstex Energy, L.P. nor the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the common units. In addition, neither Crosstex Energy, L.P. nor the underwriters make any representation that the underwriters will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Because the National Association for Securities Dealers, Inc. views the common units offered hereby as interests in a direct participation program, the offering is being made in compliance with Rule 2810 of the NASD's Conduct Rules. Investor suitability with respect to the common units should be judged similarly to the suitability with respect to other securities that are listed for trading on a national securities exchange.

No sales to accounts of which the underwriter exercises discretionary authority may be made without the prior written approval of the customer.

An affiliate of RBC Dain Rauscher Inc. is a lender under our operating partnership's bank credit facility. The proceeds of this offering will be used to repay a portion of the outstanding indebtedness under our operating partnership's bank credit facility. A.G. Edwards & Sons, Inc. has performed various financial advisory services for us and our predecessor for which it received customary compensation. A.G. Edwards & Sons, Inc., RBC Dain Rauscher Inc. and Raymond James & Associates, Inc. were underwriters in our initial public offering that closed on December 17, 2002. The underwriters may, from time to time, engage in transactions with and perform services for us in the ordinary course of their business.

VALIDITY OF THE COMMON UNITS

The validity of the common units will be passed upon for us by Thompson & Knight, L.L.P., Dallas, Texas. Certain legal matters in connection with the common units offered hereby will be passed upon for the underwriters by Baker Botts L.L.P., Houston, Texas.

EXPERTS

The consolidated financial statements of Crosstex Energy, L.P. as of December 31, 2001 and 2002 and for the four months ended April 30, 2000 (Predecessor), the eight months ended December 31, 2000 and the years ended December 31, 2001 and 2002, and the balance sheet of Crosstex Energy G.P., L.P. as of December 31, 2002 have been included herein and in the registration statement in reliance upon the reports of KPMG LLP, independent accountants, appearing elsewhere herein, and upon the authority of said firm as experts in accounting and auditing. The audit report covering the December 31, 2001 financial statements of Crosstex Energy, L.P. refers to a change in the method of accounting for derivatives. The audit report covering the December 31, 2002 financial statements of Crosstex Energy, L.P. refers to a change in the method of amortizing goodwill.

The statement of revenues and direct operating expenses of the Certain Mid-Stream Assets of Duke Energy Field Services, LP for the year ended December 31, 2002 included in this prospectus has been audited by Deloitte & Touche LLP, independent auditors, as stated in their report appearing herein (which report expresses an unqualified opinion and includes an explanatory paragraph emphasizing that the statement was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission and is not intended to be a complete presentation of the revenues and direct operating expenses of the assets, as defined in the purchase and sale agreement between Duke Energy Field Services, LP and Crosstex Energy, L.P. dated April 29, 2003), and has been so included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the Securities and Exchange Commission a registration statement on Form S-l regarding the common units. This prospectus does not contain all of the information found in the registration statement. For further information regarding us and the common units offered by this prospectus, you may desire to review the full registration statement, including its exhibits and schedules, filed under the Securities Act. The registration statement of which this prospectus forms a part, including its exhibits and schedules, may be inspected and copied at the public reference room maintained by the SEC at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of the materials may also be obtained from the SEC at prescribed rates by writing to the public reference room maintained by the SEC at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the public reference room by calling the SEC at l-800-SEC-0330.

The SEC maintains a web site on the Internet at http://www.sec.gov. Our registration statement, of which this prospectus constitutes a part, can be downloaded from the SEC's website.

We intend to furnish our unitholders annual reports containing our audited financial statements and furnish or make available quarterly reports containing our unaudited interim financial information for the first three fiscal quarters of each of our fiscal years.

FORWARD-LOOKING STATEMENTS

Statements included in this prospectus which are not historical facts (including any statements concerning plans and objectives of management for future operations or economic performance, or assumptions or forecasts related thereto), including the information set forth in Appendix E, are forward-looking statements. These statements can be identified by the use of forward-looking terminology including "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. We and our representatives may from time to time make other oral or written statements which are also forward-looking statements.

These forward-looking statements are made based upon management's current plans, expectations, estimates, assumptions and beliefs concerning future events impacting us and therefore involve a number or risks and uncertainties. We caution that forward-looking statements are not guarantees and that actual results could differ materially from those expressed or implied in the forward-looking statements.

Because these forward-looking statements involve risks and uncertainties, actual results could differ materially from those expressed or implied by these forward-looking statements for a number of important reasons, including those discussed under "Risk Factors," and elsewhere in this prospectus.

You should read these statements carefully because they discuss our expectations about our future performance, contain projections of our future operating results or our future financial condition, or state other "forward-looking" information. Before you invest, you should be aware that the occurrence of any of the events described in "Risk Factors" and elsewhere in this prospectus could substantially harm our business, results of operations and financial condition and that upon the occurrence of any of these events, the trading price of our common units could decline, and you could lose all or part of your investment.

INDEX TO FINANCIAL STATEMENTS

Crosstex Energy, L.P.
Unaudited Pro Forma Financial Statements

Introduction

The following are our unaudited pro forma financial statements as of March 31, 2003, and for the year ended December 31, 2002 and the three months ended March 31, 2003. The unaudited pro forma condensed consolidated balance sheet assumes that the acquisition from Duke Energy Field Services, offering and related transactions occurred as of March 31, 2003, and the unaudited pro forma consolidated statements of operations assumes that the acquisition, this offering and related transactions and our initial public offering occurred on January 1, 2002. These transaction adjustments are presented in the notes to the unaudited pro forma financial statements. The unaudited pro forma financial statements and accompanying notes should be read together with the financial statements and related notes included elsewhere in the prospectus.

The pro forma financial statements reflect the following transactions:

- our acquisition of the DEFS assets for $67.4 million which closed on June 30, 2003;
- borrowings under our new credit facility in order to finance the acquisition from DEFS;
- borrowings under our new senior notes facility in order to repay borrowings under our new credit facility;
- our offering of 1,500,000 common units at an assumed offering price of $36.00 per common unit resulting in aggregate gross proceeds to us of $54.0 million;
- the payment of underwriting fees and commissions, and other fees and expenses associated with the offering, expected to be approximately $3.8 million; and
- for the pro forma statement of operations for the year ended December 31, 2002, our initial public offering of 2,300,000 common units at an offering price of $20.00 per common unit and the formation transactions related to our partnership.

The pro forma balance sheet and the pro forma statements of operations were derived by adjusting the historical financial statements of Crosstex Energy, L.P. The adjustments are based on currently available information and, therefore, the actual adjustments may differ from the pro forma adjustments. However, management believes that the adjustments provide a reasonable basis for presenting the significant effects of the acquisition from DEFS and the other transactions. The unaudited pro forma financial statements do not purport to present the financial position or results of operations of Crosstex Energy, L.P. had the acquisition from DEFS or the other transactions actually been completed as of the dates indicated. Moreover, the statements do not project the financial position or results of operations of Crosstex Energy, L.P. for any future date or period.

Crosstex Energy, L.P.

Unaudited Pro Forma Consolidated Balance Sheet

March 31, 2003

(In thousands, except unit data)

	Crosstex Energy, L.P.	Adjustments	Pro Forma	Offering Adjustments	Pro Forma As Adjusted
Assets					
Current assets:					
Cash and cash equivalents	$ 164	$ (67,900)(a) 68,912 (b) (1,012)(c)	$ 164	$ 54,000 (d) (3,835)(e) 1,102 (f) (48,912)(g)	$ 2,519
Accounts receivable	192,902		192,902		192,902
Assets from risk management activities	3,082		3,082		3,082
Prepaid expenses and other	2,695		2,695		2,695
Total current assets	198,843	—	198,843	2,355	201,198
Property and equipment, net	112,335	67,900 (a)	180,235		180,235
Assets from risk management activities	48		48		48
Intangible assets, net	5,132		5,132		5,132
Goodwill, net	4,873		4,873		4,873
Investment in limited partnerships	442		442		442
Other assets, net	882	1,012 (c)	1,894		1,894

Total assets	$ 322,555	$ 68,912	$ 391,467	$ 2,355	$ 393,822
Liabilities and Partners' Equity					
Current liabilities:					
Accounts payable and accrued gas purchases	$ 199,866	$ —	$ 199,866	$ —	$ 199,866
Accrued imbalances payable	239		239		239
Liabilities from risk management activities	5,561		5,561		5,561
Current portion of long-term debt	50		50		50
Other current liabilities	4,448		4,448		4,448
Total current liabilities	210,164	—	210,164	—	210,164
Long-term debt	20,750	68,912 (b)	89,662	(48,912)(g)	40,750
Liabilities from risk management activities	225		225		225
Liability from interest rate swap	285		285		285
Partners' equity:					
Common unitholders	58,854		58,854	54,000 (d) (3,835)(e)	109,019
Subordinated unitholders	33,919		33,919		33,919
General partner interest	1,083		1,083	1,102 (f)	2,185
Other comprehensive income (loss)	(2,725)		(2,725)		(2,725)
Total partners' equity	91,131	—	91,131	51,267	142,398
Total liabilities and partners' equity	$ 322,555	$ 68,912	$ 391,467	$ 2,355	$ 393,822

See accompanying notes to unaudited pro forma financial statements.

Crosstex Energy, L.P.

Unaudited Pro Forma Consolidated Statement of Operations

Three Months Ended March 31, 2003

(In thousands, except per unit data)

	Crosstex Energy, L.P.	DEFS Assets	Adjustments	Pro Forma	Offering Adjustments	Pro Forma As Adjusted
Revenues:						
Midstream	$ 245,315	$ 57,449	$ —	$ 302,764	$ —	$ 302,764
Treating	5,255			5,255		5,255
Total revenues	250,570	57,449	—	308,019	—	308,019
Operating costs and expenses:						
Midstream purchased gas	237,408	53,943		291,351		291,351
Treating purchased gas	2,416			2,416		2,416
Operating expenses	3,210	1,346		4,556		4,556
General and administrative	1,500			1,500		1,500
Stock based compensation	2,504			2,504		2,504
Impairments	—			—		—
(Profit) loss on energy trading contracts	(107)			(107)		(107)
Depreciation and amortization	2,435	962	170(h)	3,567		3,567
Total operating costs and expenses	249,366	56,251	170	305,787	—	305,787
Operating income (loss)	1,204	1,198	(170)	2,232	—	2,232
Other income (expense):						
Interest expense, net	(410)		(1,061)(i)	(1,471)	488(j)	(983)

Other income	38			38		38
Total other income (expense)	(372)	—	(1,061)	(1,433)	488	(945)
Net income	$ 832	$ 1,198	$ (1,231)	$ 799	$ 488	$ 1,287
General partner share of net income	17			16		26
Limited partners share of net income	$ 815			$ 783		$ 1,261
Net income per limited partners' unit:						
Basic	$ 0.11			$ 0.11		$ 0.14
Diluted	$ 0.11			$ 0.11		$ 0.14
Weighted average limited partners' units outstanding:						
Basic	$ 7,300			$ 7,300		$ 8,800(k)
Diluted	$ 7,340			$ 7,340		$ 8,840(k)

See accompanying notes to unaudited pro forma financial statements.

Crosstex Energy, L.P.

Unaudited Pro Forma Consolidated Statement of Operations

Year Ended December 31, 2002

(In thousands, except per unit data)

	Crosstex Historical	DEFS Assets	Adjustments	Pro Forma	Offering Adjustments	Pro Forma As Adjusted
Revenues:						
Midstream	$ 437,676	$ 137,255	$ (174)(l)	$ 574,757	$ —	$ 574,757
Treating	14,817			14,817		14,817
Total revenues	452,493	137,255	(174)	589,574	—	589,574
Operating costs and expenses:						
Midstream purchased gas	413,982	120,966	(109)(l)	534,839		534,839
Treating purchased gas	5,767			5,767		5,767
Operating expenses	10,468	5,282	(89)(l)	15,661		15,661
General and administrative	8,454		(2,454)(m)	6,000		6,000
Stock based compensation	41			41		41
Impairments	4,175	6,900	(6,900)(h)	4,175		4,175
(Profit) loss on energy trading contracts	(2,703)			(2,703)		(2,703)
Depreciation and amortization	7,745	4,277	(150)(l) 250 (h)	12,122		12,122
Total operating costs and expenses	447,929	137,425	(9,452)	575,902	—	575,902
Operating income (loss)	4,564	(170)	9,278	13,672		13,672
Other income (expense):						
Interest expense, net	(2,717)		(4,463)(i)	(5,757)	2,323(j)	(3,434)
			1,423 (n)			
Other income	155			155		155

Total other income (expense)	(2,562)	—	(3,040)	(5,602)	2,323	(3,279)
Net income	$ 2,002	$ (170)	$ 6,238	$ 8,070	$ 2,323	$ 10,393
General partner share of net income	6			161		208
Limited partners share of net income	$ 314			$ 7,909		$ 10,185
Net income per limited partners' unit:						
Basic	$ 0.04			$ 1.08		$ 1.16
Diluted	$ 0.04			$ 1.08		$ 1.16
Weighted average limited partners units outstanding:						
Basic	7,300			7,300		8,800 (k)
Diluted	7,310			7,310		8,810 (k)

See accompanying notes to unaudited pro forma financial statements.

Crosstex Energy, L.P.

Notes to Unaudited Pro Forma Financial Statements

Offering and Transactions

The pro forma financial statements reflect the following transactions:

- our acquisition of the DEFS assets for $67.4 million which closed on June 30, 2003;
- borrowings under our new credit facility in order to finance the acquisition from DEFS;
- borrowings under our new senior notes facility in order to repay borrowings under our new credit facility;
- our offering of 1,500,000 common units at an assumed offering price of $36.00 per common unit resulting in aggregate gross proceeds to us of $54.0 million;
- the payment of underwriting fees and commissions, and other fees and expenses associated with the offering, expected to be approximately $3.8 million; and
- for the pro forma statement of operations for the year ended December 31, 2002, our initial public offering of 2,300,000 common units at an offering price of $20.00 per common unit and the formation transactions related to our partnership.

Pro Forma Adjustments

(a) Records the preliminary purchase price allocation for our purchase of the DEFS assets. The purchase price was composed of the following:

Purchase price to DEFS	$ 67.4 million
Estimated acquisition expenses	0.5 million
Total estimated purchase price	$ 67.9 million

The pro forma estimated allocation of the purchase price is $67.9 million for property, plant and equipment. Our purchase price allocation may be adjusted upon the finalization of third-party appraisal reports.

(b) Reflects additional borrowings under our revolving credit facility in order to fund the purchase of the assets from DEFS and new borrowings under our senior notes facility in order to repay borrowings under our revolving credit facility.

(c) Reflects estimated debt issuance costs incurred in connection with amending our revolving credit facility and entering into our senior notes facility.

(d) Reflects the proceeds to us of $54.0 million from the issuance and sale of 1,500,000 common units at an offering price of $36.00 per common unit.

(e) Reflects the payment of underwriters' discounts and commissions and estimated offering expenses of $3.8 million. The underwriters' discounts and commissions and offering expenses will be allocated to the common units.

(f) Reflects the contribution of $1.1 million from our general partner in order to maintain its 2% interest.

(g) Represents the payment of $48.9 million under our revolving credit facility from proceeds of the offering and our general partner's contribution, which will reduce our long-term debt to

$40.0 million outstanding under our senior notes facility and $0.8 million of other indebtedness.

(h) Reflects the additional depreciation and amortization expense from the acquisition of the assets from DEFS. Pro forma depreciation expense was based on estimated useful lives of 15 years for the acquired assets. Due to our new carrying value of the DEFS assets, historical depreciation expense and impairment expense on the DEFS assets have been eliminated in these pro forma statements.

(i) Reflects increase of interest expense resulting from the borrowings under our revolving credit facility of $28.9 million and senior notes facility of $40.0 million. The interest rates used to determine the pro forma adjustment for the borrowings under the revolving credit facility were based on our weighted average borrowing rates of 3.99% and 4.75% for the three months ended March 31, 2003 and the year ended December 31, 2002, respectively. The interest rate used to determine the pro forma adjustment for the borrowings under the senior notes facility is the weighted average fixed rate of 6.93% on the senior notes that have been issued.

(j) Reflects reduction of interest expense resulting from repayment of the $48.9 million of borrowings under our bank credit facility with proceeds from this offering and the capital contribution of our general partner. The interest rates used to determine the pro forma adjustment for the borrowings under the revolving credit facility were based on our weighted average borrowing rates of 3.99% and 4.75% for the three months ended March 31, 2003 and the year ended December 31, 2002, respectively.

(k) The weighted average limited partners' units outstanding used in the income per unit calculation includes the limited partners' common and subordinated units and excludes the general partner interest. The weighted average limited partners' units outstanding have been adjusted to reflect the common units and subordinated units issued in connection with our initial public offering as if these units have been outstanding since January 1, 2002.

(l) The Jonesville gas plant owned by our predecessor was not contributed to us subsequent to our initial public offering. This adjustment reflects the elimination of the results on operations from the Jonesville gas plant, including depreciation and amortization and impairment, which was not contributed to us.

(m) Reflects the elimination of general and administrative expense to the extent our actual expenses exceed the $6.0 million reimbursement ($1.5 million per quarter) for the twelve month period ending in December 2003. Had the cap not been in place for the three months ended March 31, 2003, our general and administrative expenses would have been approximately $2 million. Our general partner will be reimbursed for expenses incurred on our behalf. These expenses include the costs of employee, officer and director compensation and benefits properly allocable to us. For the twelve month period ending in December 2003, this reimbursement will be limited to $6.0 million. This reimbursement cap will not apply to the cost of any third party legal, accounting or advisory services received, or direct expenses of management incurred, in connection with acquisition or business development opportunities evaluated on behalf of the partnership. In connection with our acquisition of the DEFS assets, we estimate additional general and administrative personnel will be added at an estimated annual cost of approximately $0.9 million. The DEFS acquisition will not change the $6.0 million cap for general and administrative expense for the twelve month period ending in December 2003.

(n) For the year ended December 31, 2002, the increase in interest expense in the statement of operations is partially offset by a reduction of interest expense resulting from the repayment of $33.0 million of borrowings under the bank credit facility with net proceeds from the initial public offering. The interest rate used to determine the pro forma adjustment was based on our predecessor's weighted average borrowing rate of 4.48% for the period January 1, 2002 through December 16, 2002.

Pro Forma Net Income Per Unit

Pro forma net income per limited partners' unit is determined by dividing the pro forma net income that would have been allocated to the holders of the common units and subordinated units, which is 98% of pro forma net income, by the number of common units and subordinated units expected to be outstanding at the close of the offering. For purposes of this calculation, the number of common units and subordinated units outstanding of 8,800,000 was assumed to have been outstanding since January 1, 2002. Pursuant to the partnership agreement, to the extent that the quarterly distribution exceeds certain thresholds, the general partner is entitled to certain incentive distributions which will result in less income proportionately being allocated to the holders of the common units and subordinated units. The pro forma net income per unit assumes that no incentive distributions were made to the general partner for the periods presented.

Description of Equity Interest

The common units and the subordinated units represent limited partner interests in us. The holders of the units are entitled to participate in partnership distributions and exercise the rights and privileges available to limited partners under our partnership agreement.

The common units will have the right to receive a minimum quarterly distribution of $0.50 per unit, plus any arrearages on the common units, before any distribution is made to the holders of the subordinated units. In addition, if the general partner and its affiliates own more than 80% of the aggregate ownership of common and subordinated units, the general partner will have the right to call the common units at a price that approximates fair market value.

The subordinated units generally receive quarterly cash distributions only when the common units have received a minimum quarterly distribution of $0.50 per unit for each quarter since the commencement of operations. Subordinated units will convert into common units on a one-for-one basis when the subordination period ends. The subordination period will end when we meet financial tests specified in the partnership agreement but generally cannot end before December 31, 2007.

The general partner interest is entitled to at least 2% of all distributions made by us. In addition, the general partner holds incentive distribution rights, which allow the general partner to receive a higher percentage of quarterly distributions of Available Cash from Operating Surplus after the minimum distributions have been achieved, and as additional target levels are met. The higher percentages range from 15% up to 50%. The pro forma financial statements assume that no incentive distributions were made to the general partner. In subsequent periods, we will apply the hypothetical liquidation at book value method in allocating income to the various partnership interests.

Independent Auditors' Report

The Partners
Crosstex Energy, L.P.:

We have audited the accompanying consolidated balance sheets of Crosstex Energy, L.P., a Delaware limited partnership and successor to Crosstex Energy Services, Ltd. (the Partnership), and subsidiaries as of December 31, 2001 and 2002 and the related consolidated statements of operations, changes in partners' equity, comprehensive income, and cash flows for the four months ended April 30, 2000 (Predecessor), the eight months ended December 31, 2000 and the years ended December 31, 2001 and 2002. The financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Crosstex Energy, L.P. and subsidiaries as of December 31, 2001 and 2002, and the consolidated results of their operations, comprehensive income, and their cash flows for the four months ended April 30, 2000 (Predecessor), the eight months ended December 31, 2000, and the years ended December 31, 2001 and 2002, and in conformity with accounting principles generally accepted in the United States of America.

As explained in note 2 to the consolidated financial statements, effective January 1, 2001, the Partnership changed its method of accounting for derivatives. Also, as explained in note 2, effective January 1, 2002, the Partnership changed its method of amortizing goodwill.

KPMG LLP

Dallas, Texas
February 7, 2003

CROSSTEX ENERGY, L.P.

(Successor to Crosstex Energy Services, Ltd.)

Consolidated Balance Sheets

December 31, 2001 and 2002 and March 31, 2003

(In thousands)

Assets	December 31, 2001	December 31, 2002	March 31, 2003 (unaudited)
Current assets:			
Cash and cash equivalents	$ 352	$ 1,308	$ 164
Accounts receivable:			
Trade	58,222	104,802	191,686
Imbalances	117	79	99
Related party	418	—	540
Other	192	637	577
Assets from risk management activities	3,361	2,947	3,082
Prepaid expenses and other	1,865	1,225	2,695
Total current assets	64,527	110,998	198,843
Property and equipment:			
Transmission assets	33,559	50,391	51,285
Gathering systems	12,541	22,624	23,136
Gas plants	37,373	39,475	41,718
Other property and equipment	2,692	2,754	3,044
Construction in process	5,092	6,935	7,566
Total property and equipment	91,257	122,179	126,749
Accumulated depreciation	(6,306)	(12,231)	(14,414)

Total property and equipment, net	84,951	109,948	112,335
Account receivable from Enron (net of allowance of $5,776 in 2001)	2,467	—	—
Assets from risk management activities	117	155	48
Intangible assets, net	9,678	5,340	5,132
Goodwill, net	4,873	4,873	4,873
Investment in limited partnerships	534	346	442
Other assets, net	1,229	778	882
Total assets	$ 168,376	$ 232,438	$ 322,555
Liabilities and Partners' Equity			
Current liabilities:			
Accounts payable and accrued gas purchases	$ 56,092	$ 110,793	$ 199,866
Accrued imbalances payable	422	149	239
Liabilities from risk management activities	7,565	4,006	5,561
Current portion of long-term debt	—	50	50
Other current liabilities	2,702	4,672	4,448
Total current liabilities	66,781	119,670	210,164
Long-term debt	60,000	22,500	20,750
Liabilities from risk management activities	440	271	225
Liability from interest rate swap	—	181	285
Partners' equity:			
Predecessor partners' equity	41,013	—	—
Common unitholders (2,633,000 units issued and outstanding at December 31, 2002 and March 31, 2003)	—	58,147	58,854
Subordinated unitholders (4,667,000 units issued and outstanding at December 31, 2002 and March 31, 2003)	—	31,829	33,919
General partner interest (2% interest with 149,000 equivalent units outstanding at December 31, 2002 and March 31, 2003)	—	1,016	1,083
Other comprehensive income (loss)	142	(1,176)	(2,725)
Total partners' equity	41,155	89,816	91,131
Total liabilities and partners' equity	$ 168,376	$ 232,438	$ 322,555

See accompanying notes to consolidated financial statements.

CROSSTEX ENERGY, L.P.

(Successor to Crosstex Energy Services, Ltd.)

Consolidated Statements of Operations

(In thousands)

	(Predecessor) Four Months Ended April 30, 2000	Eight Months Ended December 31, 2000	Years Ended December 31, 2001	Years Ended December 31, 2002	Three Months Ended March 31, 2002 (unaudited)	Three Months Ended March 31, 2003 (unaudited)
Revenues:						
Midstream	$ 3,591	$ 88,008	$ 362,673	$ 437,676	$ 77,808	$ 245,315
Treating	5,947	17,392	24,353	14,817	3,185	5,255
Total revenues	9,538	105,400	387,026	452,493	80,993	250,570
Operating costs and expenses:						
Midstream purchased gas	2,746	83,672	344,755	413,982	72,759	237,408
Treating purchased gas	4,731	14,876	18,078	5,767	1,113	2,416
Operating expenses	544	1,796	7,430	10,468	2,440	3,210
General and administrative	810	2,010	5,914	8,454	1,934	1,500
Stock based compensation	8,802	—	—	41	—	2,504
Impairments	—	—	2,873	4,175	3,150	—
(Profit) loss on energy trading contracts	(638)	(1,253)	3,714	(2,703)	(2,775)	(107)
Depreciation and amortization	522	2,261	6,101	7,745	1,909	2,435

Total operating costs and expenses	17,517	103,362	388,865	447,929	80,530	249,366
Operating income (loss)	(7,979)	2,038	(1,839)	4,564	463	1,204
Other income (expense):						
Interest expense, net	(79)	(530)	(2,253)	(2,717)	(680)	(410)
Other income	381	115	174	155	(35)	38
Total other income (expense)	302	(415)	(2,079)	(2,562)	(715)	(372)
Net income (loss)	$ (7,677)	$ 1,623	$ (3,918)	$ 2,002	$ (252)	$ 832

	Year Ended December 31, 2002	Three Months Ended March 31, 2003
Allocation of 2002 net income:		
Net income for the period from January, 1, 2002 to December 16, 2002	$ 1,682	
Net income for the period from December 17, 2002 to December 31, 2002	320	
Net income	$ 2,002	$ 832
General partner interest in net income for the period from December 17, 2002 to December 31, 2002, and for the three months ended March 31, 2003, respectively	$ 6	$ 17
Limited partners' interest in net income for the period from December 17, 2002 to December 31, 2002, and for the three months ended March 31, 2003, respectively	$ 314	$ 815
Net income per limited partners' unit:		
Basic and diluted	$ 0.04	$ 0.11
Weighted average limited partners' units outstanding:		
Basic	7,300	7,300
Diluted	7,310	7,340

See accompanying notes to consolidated financial statements.

CROSSTEX ENERGY, L.P.

(Successor to Crosstex Energy Services, Ltd.)

Consolidated Statements of Changes in Partners' Equity

(In thousands)

	Total
Balance, December 31, 1999	$ 3,242
Capital contributions	45
Equity based competition	7,999
Net loss	(7,677)
Balance, April 30, 2000 (Predecessor)	$ 3,609

	Crosstex Energy Services, Ltd. Partners' Equity	Crosstex Energy, L.P.				
		Common Units	Subordinated Units	General Partner Interest	Other Comprehensive Income	Total
Balance, May 5, 2000	$ —	$ —	$ —	$ —	$ —	$ —
Contributions of assets and liabilities predecessor	21,903	—	—	—	—	21,903
Capital contributions	16,828	—	—	—	—	16,828
Net income	1,623	—	—	—	—	1,623
Balance, December 31, 2000	40,354	—	—	—	—	40,354
Capital contributions	5,019	—	—	—	—	5,019
Distributions	(442)	—	—	—	—	(442)
Net loss	(3,918)	—	—	—	—	(3,918)
Cumulative adjustment from adoption of accounting standard	—	—	—	—	(1,006)	(1,006)
Hedging gains or losses reclassified to earnings	—	—	—	—	1,006	1,006
Adjustment in fair value of derivatives	—	—	—	—	142	142
Balance, December 31, 2001	41,013	—	—	—	142	41,155
Assets not contributed to Crosstex Energy, L.P.	(3,754)	—	—	—	—	(3,754)
Capital contributions	14,000	—	—	—	—	14,000
Stock based compensation	41	—	—	—	—	41
Net income from January 1, 2002 through December 16, 2002	1,682	—	—	—	—	1,682
Distributions	(2,500)	—	—	—	—	(2,500)

Transfer of equity in accordance with initial public offering	(50,482)	17,844	31,628	1,010	—	—
Net proceeds from the initial public offering	—	40,190	—	—	—	40,190
Net income from December 17, 2002 through December 31, 2002	—	113	201	6	—	320
Hedging gains or losses reclassified to earnings	—	—	—	—	(178)	(178)
Adjustment in fair value of derivatives	—	—	—	—	(1,140)	(1,140)
Balance, December 31, 2002	—	58,147	31,829	1,016	(1,176)	89,816
Offering costs	—	(472)	—	—	—	(472)
Stock based compensation	—	885	1,569	50	—	2,504
Net income	—	294	521	17	—	832
Hedging gains or losses reclassified to earnings	—	—	—	—	(384)	(384)
Adjustment in fair value of derivatives	—	—	—	—	(1,165)	(1,165)
Balance, March 31, 2003	$ —	$ 58,854	$ 33,919	$ 1,083	$ (2,725)	$ 91,131

See accompanying notes to consolidated financial statements.

CROSSTEX ENERGY, L.P.

(Successor to Crosstex Energy Services, Ltd.)

Consolidated Statements of Comprehensive Income

December 31, 2001 and 2002 and March 31, 2003

(In thousands)

	December 31,		March 31,
	2001	2002	2003
			(unaudited)
Net (loss) income	$ (3,918)	$ 2,002	$ 832
Cumulative adjustment from adoption of accounting standard	(1,006)	—	—
Hedging gains or losses reclassified to earnings	1,006	(178)	(384)
Adjustment in fair value of derivatives	142	(1,140)	(1,165)
Comprehensive income (loss)	$ (3,776)	$ 684	$ (717)

See accompanying notes to consolidated financial statements

CROSSTEX ENERGY, L.P.

(Successor to Crosstex Energy Services, Ltd.)

Consolidated Statements of Cash Flows

(In thousands)

	(Predecessor) Four Months Ended April 30, 2000	Eight Months Ended December 31, 2000	Years Ended December 31,		Three Months Ended March 31,	
			2001	2002	2002	2003
					(unaudited)	
Cash flows from operating activities:						
Net income (loss)	$ (7,677)	$ 1,623	$ (3,918)	$ 2,002	$ (252)	$ 832
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:						
Depreciation, depletion, and amortization	522	2,261	6,101	7,745	1,909	2,435
Impairments	—	—	2,873	4,175	3,150	—
Income (loss) on investment in affiliated partnerships	(15)	(48)	(35)	41	(21)	4
Noncash stock based compensation	7,999	—	—	41	—	2,504
Loss on sale of assets	—	—	—	—	—	—
Changes in assets and liabilities:						

Accounts receivable	(994)	(83,668)	47,565	(46,544)	7,899	(87,386)
Prepaid expenses	(328)	108	(1,566)	178	32	(1,470)
Accounts payable, accrued gas purchases, and other accrued liabilities	8,129	87,442	(63,115)	54,427	1,660	89,163
Risk management activities	—	(47)	4,573	(4,669)	(4,357)	36
Other	(256)	70	(804)	2,560	(27)	(328)
Net cash provided by (used in) operating activities	7,380	7,741	(8,326)	19,956	9,993	5,790
Cash flows from investing activities:						
Additions to property and equipment	(3,026)	(4,667)	(22,685)	(14,545)	(3,570)	(4,614)
Proceeds from disposition of assets	100	—	—	—		—
Asset purchases	—	(21,133)	(30,003)	(18,785)	—	—
Distributions from (investments in) affiliated partnerships	77	157	153	90	33	(100)
Net cash used in investing activities	(2,849)	(25,643)	(52,535)	(33,240)	(3,537)	(4,714)
Cash flows from financing activities:						
Proceeds from bank borrowings	7,000	51,950	267,131	384,050	46,250	44,100
Payments on bank borrowings	(6,847)	(36,950)	(229,150)	(421,500)	(51,750)	(45,850)
Predecessor cash	—	4,729	—	—	—	—
Distribution to partners	—	—	(442)	(2,500)	—	—
Net proceeds from initial public offering	—	—	—	40,190	—	(470)
Contribution from partners	45	16,828	5,019	14,000	—	—
Net cash provided by (used in) financing activities	198	36,557	42,558	14,240	(5,500)	(2,220)
Net increase (decrease) in cash and cash equivalents	4,729	18,655	(18,303)	956	956	(1,144)
Cash and cash equivalents, beginning of period	—	—	18,655	352	352	1,308
Cash and cash equivalents, end of period	$ 4,729	$ 18,655	$ 352	$ 1,308	$ 1,308	$ 164
Cash paid for interest	$ 144	$ 507	$ 2,720	$ 2,558	$ 447	$ 374
Noncash transactions—stock based compensation	7,999	—	—	41	—	2,504
Contributions of assets and liabilities of predecessor	—	21,903	—	—	—	—
Assets not contributed to Crosstex Energy, L.P.	—	—	—	3,754	—	—

See accompanying notes to consolidated financial statements.

CROSSTEX ENERGY, L.P.

(Successor to Crosstex Energy Services, Ltd.)

Notes to Consolidated Financial Statements

December 31, 2001 and 2002

(unaudited with respect to March 31, 2002 and 2003)

(1) Organization and Summary of Significant Agreements

(a) Description of Business

Crosstex Energy, L.P. (the Partnership), a Delaware limited partnership formed on July 12, 2002, is engaged in the gathering, transmission, treating, processing and marketing of natural gas. 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 natural gas liquids or NGLs, transports natural gas and ultimately provides an aggregated supply of natural gas to a variety of markets. In addition, the Partnership purchases natural gas from producers not connected to its gathering systems for resale and sells natural gas on behalf of producers for a fee.

(b) Initial Public Offering

On December 17, 2002, the Partnership completed an initial public offering of common units representing limited partner interests in the Partnership. Prior to its initial public offering, the Partnership was an indirect wholly owned subsidiary of Crosstex Energy Holdings Inc. (Crosstex Holdings). Crosstex Holdings conveyed to the Partnership its indirect wholly owned ownership interest in Crosstex Energy Services, Ltd. (CES) in exchange for (i) a 2% general partner interest (including certain Incentive Distribution Rights) in the Partnership, (ii) 333,000 common units and (iii) 4,667,000 subordinated units of the Partnership. Prior to the conveyance of CES to the Partnership, CES distributed certain assets to Crosstex Holdings including (i) the Jonesville and Clarkson gas plants, (ii) the Enron receivable and related derivative positions, and (iii) the right to receive a cash distribution of $2.5 million.

CES constitutes the Partnership's predecessor. The transfer of ownership interests in CES to the Partnership represented a reorganization of entities under common control and was recorded at historical cost. Accordingly, the accompanying financial statements include the historical results of operations of CES prior to transfer to the Partnership.

(c) Organization of Crosstex Energy Services, Ltd.

Crosstex Energy Services, Ltd. (the Predecessor), a Texas limited partnership was formed on December 19, 1996, to engage in the gathering, transmission, treating, processing, and marketing of natural gas.

Effective May 5, 2000, Crosstex Holdings acquired a 100% interest in Crosstex Energy, Inc. (CEI), the general partner of the Predecessor, and a 100% limited partnership interest in the Predecessor. Also, effective May 5, 2000, the Predecessor was dissolved and Crosstex Holdings formed a new partnership, Crosstex Energy Services, Ltd., with the same management organization and purpose as the Predecessor. CEI was the managing and sole general partner and held a 1% interest in CES.

Crosstex Holdings is majority owned by Yorktown Energy Partners IV, L.P. and Yorktown Energy Partners V, L.P. (collectively, Yorktown). Yorktown paid $21.9 million cash to capitalize Crosstex Holdings in exchange for 100% of the common stock of Crosstex Holdings. Subsequently, Crosstex

Holdings issued 722,771 shares of common stock to the management group of the Predecessor and CES in return for their 36.5% effective interest, resulting in CES management owning 25% of Crosstex Holdings and Yorktown owning the remaining 75%.

The accompanying consolidated financial statements include the results of operations of CES subsequent to the Yorktown transactions as of May 5, 2000.

Periods presented prior to May 5, 2000, relate to the Predecessor, and are not comparable in all respects to CES' financial statements due to a new basis of accounting established in connection with the Yorktown transaction.

The purchase price of $21.9 million was comprised of $13.9 million paid by Yorktown for an approximate 63.5% interest in the Predecessor and $800,000 cash and 722,711 shares of common stock of Crosstex Holdings valued at approximately $7.2 million issued to management in exchange for an approximate 36.5% economic interest held by management in the Predecessor. The purchase price of Crosstex Holdings which was pushed down to CES was allocated based on an estimated fair values as follows (in thousands):

Working capital	$	(9,604)
Property, plant, and equipment		11,804
Intangible assets		14,167
Goodwill		4,754
Investments		782
	$	21,903

Concurrent with the purchase of the Predecessor and the formation of CES, Crosstex Holdings contributed an additional $6.8 million as partner capital to CES for use as working capital and later during 2000 contributed another $10.0 million as partner capital.

(d) Basis of Presentation

The accompanying consolidated financial statements include the assets, liabilities, and results of operations of the Predecessor prior to May 5, 2000 and the Partnership (or CES as its predecessor) and its wholly owned subsidiaries thereafter. The consolidated operations are hereafter referred to herein collectively as the "Partnership." All material intercompany balances and transactions have been eliminated. Certain reclassifications have been made to the consolidated financial statements for the prior year to conform to the current presentation.

(2) Significant Accounting Policies

(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) Cash and Cash Equivalents

The Partnership considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

(c) Property, Plant, and Equipment

Property, plant, and equipment consist of intrastate gas transmission systems, gas gathering systems, industrial supply pipelines, natural gas processing plants, and gas treating plants.

Other property and equipment is primarily comprised of furniture, fixtures, and office equipment. Such items are depreciated over their estimated useful life of five years. Property, plant, and equipment are recorded at cost, including capitalized interest. Repairs and maintenance are charged against income when incurred. Renewals and betterments, which extend the useful life of the properties, are capitalized. Interest incurred during the construction period of new projects is capitalized and amortized over the life of the associated assets. Depreciation is provided using the straight-line method based on the estimated useful life of each asset, as follows:

	Useful Lives
Transmission assets	15 years
Gathering systems	7-15 years
Gas plants	10-15 years
Other property and equipment	5 years

Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, requires long-lived assets to be reviewed whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. In order to determine whether an impairment has occurred, the Partnership compares the net book value of the asset to the undiscounted expected future net cash flows. If impairment has occurred, the amount of such impairment is determined based on the expected future net cash flows discounted using a rate commensurate with the risk associated with the asset. Impairments of approximately $2,873,000 and $4,175,000 associated with certain assets and the related intangible assets were recorded in the years ended December 31, 2001 and 2002, respectively. The impairments recorded in 2001 and 2002 relate primarily to customer relationships recorded as intangible assets as part of the Yorktown transaction. Due to changes impacting the expected future cash flows of the related assets, the Partnership determined the intangible assets were impaired under SFAS No. 121 or SFAS No. 144.

When determining whether impairment of one of our long-lived assets has occurred, we must estimate the undiscounted cash flows attributable to the asset. Our estimate of cash flows is based on

assumptions regarding the purchase and resale margins on natural gas, volume of gas available to the asset, markets available to the asset, operating expenses, and future natural gas prices and NGL product prices. The amount of availability of gas to an asset is sometimes based on assumptions regarding future drilling activity, which may be dependent in part on natural gas prices. Projections of gas volumes and future commodity prices are inherently subjective and contingent upon a number of variable factors. Any significant variance in any of the above assumptions or factors could materially affect our cash flows, which would require us to record an impairment of an asset.

(d) Amortization of Intangibles

Until January 1, 2002, goodwill was amortized over the period of expected benefit. Goodwill related to the Yorktown transaction was being amortized on a straight-line basis over 15 years (see note 1). Such amortization was $296,000 for the year ended December 31, 2001. As discussed in note 2(n), the Partnership discontinued the amortization of goodwill effective January 1, 2002, with the adoption of SFAS No. 142.

Intangible assets are amortized on a straight-line basis over the expected period of benefits of the customer relationships, which average 15 years. Such amortization was approximately $772,000 and $454,000 for the years ended December 31, 2001 and 2002, respectively. See impairment of intangibles discussed in note 2(c).

(e) Gas Imbalance Accounting

Quantities of natural gas over-delivered or under-delivered related to imbalance agreements are recorded monthly as receivables or payables using weighted average prices at the time the imbalance was created. These imbalances are typically settled with deliveries of natural gas. The Partnership had an imbalance payable of $422,000 and $149,000, and an imbalance receivable of $117,000 and $79,000 at December 31, 2001 and 2002, respectively. Imbalances are carried at the lower of cost or market value.

(f) Revenue Recognition

The Partnership recognizes revenue for sales or services at the time the natural gas or NGLs are delivered or at the time the service is performed. See discussion of accounting for energy trading activities in note 2(h).

(g) Commodity Risk Management

The Partnership engages in price risk management activities in order to minimize the risk from market fluctuation in the price of natural gas and NGLs. To qualify as a hedge, the price movements in the commodity derivatives must be highly correlated with the underlying hedged commodity. Gains and losses related to commodity derivatives which qualify as hedges are recognized in income when the underlying hedged physical transaction closes and are included in the consolidated statements of operations as a cost of gas purchased.

Prior to January 1, 2001, these agreements were accounted for as hedges using the deferral method of accounting. Unrealized gains and losses were generally not recognized until the physical production required by the contracts was delivered. At the time of delivery, the resulting gains and losses were recognized as an adjustment to natural gas revenues. The cash flows related to any recognized gains or losses associated with these hedges were reported as cash flows from operations. If the hedge was terminated prior to maturity, gains or losses were deferred and included in income in the same period as the physical production required by the contracts was delivered.

Effective January 1, 2001, the Partnership adopted Statement of Financial Accounting Standards No. 133 (SFAS 133), *Accounting for Derivative Instruments and Hedging Activities*. This standard requires recognition of all derivative and hedging instruments in the statements of financial position as either assets or liabilities and measures them at fair value. If a derivative does not qualify for hedge accounting, it must be adjusted to fair value through earnings. However, if a derivative does qualify for hedge accounting, depending on the nature of the hedge, changes in fair value can be offset against the change in fair value of the hedged item through earnings or recognized in other comprehensive income until such time as the hedged item is recognized in earnings.

To qualify for cash flow hedge accounting, the cash flows from the hedging instrument must be highly effective in offsetting changes in cash flows due to changes in the underlying item being hedged. In addition, all hedging relationships must be designated, documented, and reassessed periodically. The impact of adopting SFAS No. 133 on January 1, 2001, was to record the fair value of derivatives as a liability in the amount of $1,006,000.

Currently, all derivative financial instruments that qualify for hedge accounting are designated as cash flow hedges. These instruments hedge the exposure of variability in expected future cash flows that is attributable to a particular risk. The effective portion of the gain or loss on these derivative instruments is recorded in other comprehensive income in partners' equity and reclassified into earnings in the same period in which the hedged transaction affects earnings. The asset or liability related to the derivative instruments is recorded on the balance sheet in assets or liabilities from risk management activities. Any ineffective portion of the gain or loss is recognized in earnings immediately.

(h) Producer Services

The Partnership conducts "off-system" gas marketing operations as a service to producers on systems that the Partnership does not own. The Partnership refers to these activities as part of Producer Services. In some cases, the Partnership earns an agency fee from the producer for arranging the marketing of the producer's natural gas. In other cases, the Partnership purchases the natural gas from the producer and enters into a sales contract with another party to sell the natural gas.

The Partnership manages its price risk related to future physical purchase or sale commitments for its Producer Services activities by entering into either corresponding physical delivery contracts or financial instruments with an objective to balance the Partnership's future commitments and significantly reduce its risk to the movement in natural gas prices. However, the Partnership is subject to counterparty risk for both the physical and financial contracts. Prior to October 26, 2002, the

Partnership accounted for its Producer Services natural gas marketing activities as energy trading contracts in accordance with EITF 98-10*Accounting for Contracts Involved in Energy Trading and Risk Management Activities*. EITF 98-10 required energy-trading contracts to be recorded at fair value with changes in fair value reported in earnings. In October 2002, the EITF reached a consensus to rescind EITF No. 98-10. Accordingly, energy trading contracts entered into subsequent to October 25, 2002, should be accounted for under accrual accounting rather than mark-to-market accounting unless the contracts meet the requirements of a derivative under SFAS No. 133. The Partnership's energy trading contracts qualify as derivatives, and accordingly, the Partnership continues to use mark-to-market accounting for both physical and financial contracts of its Producer Services business. Accordingly, any gain or loss associated with changes in the fair value of derivatives and physical delivery contracts relating to the Partnership's Producer Services natural gas marketing activities are recognized in earnings as profit or loss on energy trading contracts immediately.

For each reporting period, the Partnership records the fair value of open energy trading contracts based on the difference between the quoted market price and the contract price. Accordingly, the change in fair value from the previous period in addition to the realized gains or losses on settled contracts are reported as profit or loss on energy trading contracts in the statements of operations.

Margins earned on settled contracts from its producer services activities included in (profit) loss on energy trading contracts in the consolidated statement of operations was ($638), ($1,206), ($1,946), and ($1,785) for the four months ended April 30, 2000, the eight months ended December 31, 2000 and the years ended December 31, 2001 and 2002, respectively.

Energy trading contract volumes that were physically settled were as follows (in MMBtus):

	Four Months Ended April 30, 2000	Eight Months Ended December 31, 2000	Years Ended December 31,	
			2001	2002
Volumes purchased and sold	26,525,486	51,993,614	103,330,628	84,069,368

(i) Comprehensive Income (Loss)

During 1998, the Partnership adopted SFAS 130,*Reporting Comprehensive Income,* which establishes standards for reporting and display of comprehensive income and its components in a full set of general-purpose financial statements. Comprehensive income includes net income and other comprehensive income, which includes, but is not limited to, unrealized gains and losses on marketable securities, foreign currency translation adjustments, minimum pension liability adjustments, and effective January 1, 2001, unrealized gains and losses on derivative financial instruments. For the periods prior to January 1, 2001, comprehensive income and net income were equal and thus, SFAS No. 130 had no effect on the financial statements.

With the adoption of SFAS No. 133 on January 1, 2001, the Partnership began recording deferred hedge gains and losses on its derivative financial instruments that qualify as hedges as other comprehensive income.

(j) Income Taxes

No provision is made in the accounts of the Partnership for federal or state income taxes because such taxes are liabilities of the individual partners, and the amounts thereof depend upon their respective tax situations. The tax returns and amounts of allocable Partnership revenues and expenses are subject to examination by federal and state taxing authorities. If such examinations result in changes to allocable Partnership revenues and expenses, the tax liability of the Partners could be changed accordingly.

(k) Concentrations of Credit Risk

Financial instruments, which potentially subject the Partnership to concentrations of credit risk, consist primarily of trade accounts receivable and derivative financial instruments. Management believes the risk is limited, as the Partnership's customers represent a broad and diverse group of energy marketers and end users. In addition, the Partnership continually monitors and reviews credit exposure to its marketing counterparties and letters of credit or other appropriate security are obtained as considered necessary to limit the risk of loss. As of December 31, 2001 and 2002, and March 31, 2003 the reserve for doubtful accounts was approximately $5.8 million, $0 million, and $0 million, respectively. See note 10 for further discussion.

During the four months ended April 30, 2000, the eight months ended December 31, 2000, and the years ended December 31, 2001 and 2002, the Partnership had 2, 3, 3, and 1 customers, respectively, which individually accounted for more than 10% of consolidated revenues. The relevant percentages for these customers were: (i) for the four months ended April 30, 2000 - 50.4% and 21.1%; (ii) for the eight months ended December 31, 2000 - 28.8%, 20.7%, and 14.1%; (iii) for the year ended December 31, 2001 - 23.9%, 13.4%, and 11.5%; and (iv) for the year ended December 31, 2002 - 27.5%. While these customers represent a significant percentage of revenues, the loss of any of these would not have a material adverse impact on the Partnership's results of operations.

(l) Environmental Costs

Environmental expenditures are expensed or capitalized as appropriate, depending on the nature of the expenditures and their future economic benefit. Expenditures related to an existing condition caused by past operations that do not contribute to current or future revenue generation are expensed. Liabilities for these expenditures are recorded on an undiscontinued basis when environmental assessments or clean-ups are probable and the costs can be reasonably estimated. For the four months ended April 30, 2000, the eight months ended December 31, 2000 and the years ended December 31, 2001 and 2002, such expenditures were not significant.

(m) Crosstex Holdings' Option Plan

The Partnership applies the provisions of Accounting Principles Board Opinion No. 25,*Accounting for Stock Issued to Employees*(APB No. 25), and the related interpretations in accounting for the plan. In accordance with APB No. 25, compensation is recorded to the extent the fair value of the stock

exceeds the exercise price of the option at the measurement date. Compensation expense of $0, $0 and $41,000 was recognized in 2000, 2001 and 2002, respectively.

Had compensation cost for the Partnership been determined based on the fair value at the grant date for awards in accordance with SFAS No. 123*Accounting for Stock Based Compensation*, the Partnership's net income (loss) would have been as follows:

	Eight Months Ended December 31, 2000	Year Ended December 31, 2001	Year Ended December 31, 2002	Three Months Ended March 31, 2002	Three Months Ended March 31, 2003
				(unaudited)	(unaudited)
Net income (loss), as reported	$ 1,623	$ (3,918)	$ 2,002	$ (252)	$ 832
Add: Stock-based employee compensation expense included in reported net income	—	—	41	—	2,504
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	103	226	328	65	2,618
Pro forma net income (loss)	$ 1,520	$ (4,144)	$ 1,715	$ (317)	$ 718

Actual and pro forma earnings per unit for the period December 17, 2002 through December 31, 2002 would have been $0.04 per unit. Actual and pro forma earnings per unit for the three months ended March 31, 2003 would have been $0.11 and $0.10 per unit. Per unit amounts are not presented for periods prior to our initial public offering.

The fair value of each option is estimated on the date of grant using the Black Scholes option-pricing model with the following weighted average assumptions used for grants in 2000, 2001, 2002 and the three months ended March 31, 2003:

	Crosstex Holdings 2000	Crosstex Holdings 2001	Crosstex Holdings 2002	Crosstex Energy, L.P. Three Months Ended March 31, 2002	Crosstex Energy, L.P. Three Months Ended March 31, 2003
Dividend yield	0%	0%	0%	10%	10%
Expected volatility	0%	0%	0%	24%	24%
Risk free interest rate	6.9%	5.8%	4.1%	2.2%	2.15%
Expected life	3 years	3 years	3 years	3 years	3 years
Contractual life	4.6	3.6	3	10	10
Weighted average of fair value of options granted	$ —	$ —	$ —	$ 1.15	$ 1.23
Fair value of $10 options granted	2.04	3.27	3.17	—	—
Fair value of $12 options granted	—	1.52	1.40	—	—
Fair value of $14 options granted	—	—	0.91	—	—

Modification of Options

Crosstex Holdings modified certain outstanding options in the first quarter of 2003, which allows the option holders to elect to be paid in cash for the modified options based on the fair value of the options. The total number of Crosstex Holdings options, which have been modified is approximately 242,000. These modified options have been accounted for using variable accounting as of the option modification date. Crosstex Holdings is responsible for paying the intrinsic value of the options for the holders who elect to cash out their options. Beginning in the first quarter of 2003, the Partnership recognizes stock compensation expense based on the estimated fair value at period end of the options modified. The Partnership recognized stock-based compensation expense of approximately $2.5 million for the three months ended March 31, 2003.

(n) New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141,*Business Combinations,* requiring business combinations entered into after June 30, 2001, to be accounted for using the purchase method of accounting. Specifically identifiable intangible assets acquired, other than goodwill, will be amortized over their estimated useful economic life. This pronouncement had no effect on the Partnership's financial position or results of operations.

In June 2001, the FASB issued SFAS No. 142,*Goodwill and Other Intangible Assets.* SFAS No. 142 requires, among other things, that companies no longer amortize goodwill, but instead test goodwill for

impairment at least annually. In addition, SFAS No. 142 requires that the Partnership identify reporting units for purposes of assessing potential future impairments of goodwill, reassess the useful lives of other existing recognized intangible assets and cease amortization of intangible assets with an indefinite useful life. An intangible asset with an indefinite useful life should be tested for impairment in accordance with the guidance in SFAS No. 142. This statement is required to be applied in the fiscal years beginning after December 15, 2001 to all goodwill and other intangible assets recognized at that date, regardless of when those assets were initially recognized. SFAS No. 142 required the Partnership to complete a transitional goodwill impairment test within six months from the date of adoption and reassess the useful lives of other intangible assets within the first interim quarter after adoption. The Partnership had $4,873,000 recorded for goodwill, net of accumulated amortization at December 31, 2001 and recorded goodwill amortization expense of $296,000 for the year ended December 31, 2001.

The following table shows the Partnership's net earnings excluding goodwill amortization for the four months ended April 30, 2000, the eight months ended December 31, 2000, and the year ended December 31, 2001 and 2002.

	Four Months Ended April 30, 2000	Eight Months Ended December 31, 2000	Year Ended December 31, 2001	Year Ended December 31, 2002
Reported net income (loss)	$ (7,677)	$ 1,623	$ (3,918)	$ 2,002

Goodwill amortization	22	178	296	—
Adjusted net income (loss)	$ (7,655)	$ 1,801	$ (3,622)	$ 2,002

In June 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations.* This statement establishes standards for accounting for obligations associated with the retirement of tangible long-lived assets. This standard is required to be adopted by the Partnership beginning on January 1, 2003. The Partnership does not presently have any significant asset retirement obligations, and accordingly, the adoption of SFAS No. 143 is not expected to have a significant impact on our results of operations or financial condition.

In August 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets.* SFAS No. 144 addresses financial accounting and reporting for impairment or disposal of long-lived assets. This statement supersedes SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets to Be Disposed Of,* and the accounting and reporting provisions of APB Opinion No. 30, *Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions,* for the disposal of a segment of a business. This statement also amends APB No. 51, *Consolidated Financial Statements,* to eliminate the exception to consolidation for a subsidiary for which control is likely to be temporary. SFAS No. 144 is effective for fiscal years beginning after December 15, 2001. See the impact of the adoption of SFAS No. 144 at note 2(c).

In June 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities.* SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred rather than when the entity commits to an exit plan. This standard is effective for all exit or disposal activities which are initiated after December 31, 2002. The Partnership does not anticipate the adoption of SFAS 146 will have any impact on its financial position or results of operations.

SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure, an amendment of FASB Statement No. 123.* SFAS No. 148 amends SFAS No. 123 and provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also requires prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based compensation and the effect of the method used on reported results. SFAS No. 148 permits two additional transition methods for entities that adopt the fair value based method, these methods allow Companies to avoid the ramp-up effect arising from prospective application of the fair value based method. This Statement is effective for financial statements for fiscal years ending after December 15, 2002. The Partnership has complied with the disclosure provisions of the Statement in its financial statements.

In June 2002, the Emerging Issues Task Force (EITF) reached consensus on certain issues in EITF Issue No. 02-03, *Recognition and Reporting of Gains and Losses on Energy Trading Contracts.* Consensus was reached on two issues: 1) that gains and losses on energy trading contracts (whether realized or unrealized) should be shown net in the statement of operations, and 2) that entities should disclose the types of contracts that are accounted for as energy trading contracts along with a variety of other data regarding values, sensitivity to changes in estimates, maturity dates, and other factors. The Partnership early adopted this consensus in the second quarter of 2002 and all comparative financial statements were reclassified to report gains or losses on energy trading contracts net in the statements of operations. In October 2002, the EITF reached a consensus to rescind EITF 98-10. Accordingly, energy related contracts that are not accounted for pursuant to SFAS No. 133 should be accounted for as executory contracts and carried on an accrual basis, not fair value. The consensus should be applied prospectively to all new energy trading contracts entered into after October 25, 2002 and to all contracts that existed on October 25, 2002, in periods beginning after December 15, 2002. Changes to the accounting for existing contracts as a result of the rescission of EITF 98-10 will be reported as a cumulative effect of a change in accounting principles. The rescission of EITF 98-10 did not have any significant effect on the Partnership's financial position or results of operations.

In January 2003, the FASB issued FASB Interpretation (FIN) No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. FIN No. 45 requires an entity to recognize a liability for the obligations it has undertaken in issuing a guarantee. This liability would be recorded at the inception of a guarantee and would be measured at fair value. Certain guarantees are excluded from the measurement provisions of the Interpretation. The measurement provisions of this statement apply prospectively to guarantees issued or modified after December 31, 2002. The disclosure provisions of the statement apply to financial statements for periods

ending after December 15, 2002. The adoption of the statement is not expected to have a material effect on the Partnership's financial statements when adopted.

In January 2003, the FASB issued FASB Interpretation No. 46, *Consolidation of Variable Interest Entities, an interpretation of ARB No. 51.* FIN No. 46 requires an entity to consolidate a variable interest entity if it is designated as the primary beneficiary of that entity even if the entity does not have a majority of voting interests. A variable interest entity is generally defined as an entity where its equity is unable to finance its activities or where the owners of the entity lack the risk and rewards of ownership. The provisions of this statement apply at inception for any entity created after January 31, 2003. For an entity created before February 1, 2003, the provisions of this Interpretation must be applied at the beginning of the first interim or annual period beginning after June 15, 2003. The Partnership is not the primary beneficiary of any variable interest entities, and accordingly, the adoption of Fin No. 46 will not have an impact on its financial statements.

(3) Significant Asset Purchases

On August 16, 2000, CES entered into a purchase and sale agreement with Western Gas Resources, Inc. to acquire certain natural gas gathering and related facilities known as the Arkoma System for a total purchase price of $10,500,000, which was allocated entirely to transmission assets. CES recorded the net assets acquired based on relative fair values, and CES' results of operations include the results of the Arkoma System as of September 1, 2000.

On September 14, 2000, CES entered into a purchase and sale agreement with Tejas Hydrocarbons LLC to acquire all of the assets of GC Marketing Company (a Texas general partnership), for a total purchase price of $10,632,209, after closing adjustments. CES recorded the net assets acquired based on relative fair values and the CES' results of operations include the results of GC Marketing Company as of October 1, 2000.

The purchase price consisted of the following (in thousands):

Transmission assets	$ 10,716
Other property, plant, and equipment	131
Miscellaneous liabilities	(215)

	$ 10,632

On April 3, 2001, CES entered into a purchase and sale agreement with Tejas Energy NS, LLC to acquire all of the assets of Tejas Texas Pipeline GP, LLC, a Delaware limited liability company, and Tejas C Pipeline LP, LLC, a Delaware limited liability company, for a total purchase price of $30,003,120, after closing adjustments. CES recorded the net assets acquired based on relative fair values, and CES' results of operations include the results of operations of the acquired assets as of May 1, 2001.

The purchase price consisted of the following (in thousands):

Gas plant	$ 11,837
Gathering systems	10,192
Transmission assets	7,158
Other property, plant, and equipment	816
	$ 30,003

On October 11, 2001, CES entered into a purchase and sale agreement with various individuals to acquire the common stock of Millennium Gas Services, Inc. (Millennium) for a total of $2,124,000 after closing adjustments, which was allocated entirely to treating plants. CES' results of operations include the results of Millennium as of October 1, 2001.

On June 6, 2002, CES acquired 70 miles of then-inactive pipeline from Florida Gas Transmission Company for $1,500,000 in cash and a $800,000 note payable. On June 7, 2002, CES acquired the Pandale gathering system which is connected to two treating plants, one of which (the Will-O-Mills Plant) was half-owned by the Partnership, from Star Field Services for $2,156,000 in cash. The Partnership purchased the other one-half interest in the Will-O-Mills Plant on December 30, 2002 for $2,200,000 in cash.

On December 19, 2002, the Partnership acquired the Vanderbilt system, consisting of approximately 200 miles of gathering pipeline located near our Gulf Coast System from an indirect subsidiary of Devon Energy Corporation, for $12,000,000 cash.

(4) Investment in Limited Partnerships

The Partnership owns a 7.86% weighted average interest as the general partner in the five gathering systems of Crosstex Pipeline Company (CPC), a 20.31% interest as a limited partner in CPC, and a 50% interest in J.O.B. J.V. The Partnership accounts for its investments under the equity method, as it exercises significant influence in operating decisions as a general partner. Under this method, the Partnership records its equity in net earnings of the affiliated partnerships as income in other income (expense) in the consolidated statement of operations, and distributions received from them are recorded as a reduction in the Partnership's investment in the affiliated partnership.

(5) Long-Term Debt

In February 2000, the Predecessor and Union Bank of California, N.A. (UBOC) entered into a $22 million secured credit facility, which was amended in May 2000 for the creation of CES. In August 2000, the Partnership and UBOC amended the credit facilities to create a Revolver A of $22 million and a Revolver B of $12 million. Revolver A was available for general corporate purposes, including the acquisition and installation of property and equipment. Revolver B was available to finance letters of credit and certain working capital requirements. In December 2001, the credit

facilities were amended to increase the availability under Revolver A to $60 million and Revolver B to $15 million, thereby increasing the credit facilities to $75 million.

In connection with the Partnership's initial public offering, the Partnership amended the secured credit facility to provide a $67.5 million credit facility consisting of:

- a senior secured revolving acquisition facility in the aggregate principal amount of $47.5 million; and
- a senior secured revolving working capital and letter of credit facility in the aggregate principal amount of $20.0 million.

The acquisition facility will be used to finance the acquisition and development of gas gathering, treating, and processing facilities, as well as general partnership purposes. At December 31, 2002, $21.8 million was outstanding under the acquisition facility, leaving approximately $25.7 available for future borrowings. The acquisition facility will convert into a term loan on April 30, 2004, and we will be required to make eleven quarterly payments equal to 5.0% of outstanding borrowings. The first such payment will be due in July 2004. The term loan will mature in April 2007, at which time it will terminate and all outstanding amounts shall be due and payable. Prior to April 30, 2004, amounts borrowed and repaid under the acquisition credit facility may be reborrowed.

The working capital and letter of credit facility will be used for ongoing working capital needs, letters of credit, distributions and general partnership purposes, including future acquisitions and expansions. At December 31, 2002, $13.1 million of letters of credit were issued under the working capital and letter of credit facility, leaving approximately $6.9 million available for future issuances of letters of credit, or up to $5.0 million of cash borrowings. The aggregate amount of borrowings under the working capital and letter of credit facility is subject to a borrowing base requirement relating to the amount of our cash and eligible receivables (as defined in the credit agreement), and there is a $5.0 million sublimit for cash borrowings. This facility will mature in April 2004, at which time it will terminate and all outstanding amounts shall be due and payable. Amounts borrowed and repaid under the working capital and letter of credit facility may be reborrowed. We will be required to reduce all working capital borrowings to zero for a period of at least 15 consecutive days once a year.

Our obligations under the credit facility are secured by first priority liens on all of our material pipeline, gas gathering and processing assets, all material working capital assets and a pledge of all of our equity interests in certain of our subsidiaries. The credit agreement is guaranteed by certain of our subsidiaries. We may prepay all loans under the credit facility at any time without premium or penalty (other than customary LIBOR breakage costs.)

Indebtedness under the acquisition facility and the working capital and letter of credit facility bear interest at our option at the administrative agent's reference rate plus

0.125% to 1.375% or LIBOR plus 1.625% to 2.875%. The applicable margin varies quarterly based on our leverage ratio. The fees charged for letters of credit range from 1.50% to 2.00% per annum, plus a fronting fee of 0.125% per annum. The Partnership incurs quarterly commitment fees based on the unused amount of the credit facilities.

The credit agreement prohibits the Partnership from declaring distributions to unitholders if any event of default, as defined in the credit agreement, exists or would result from the declaration of distributions. In addition, the credit agreement limits the Partnership's ability to:

- incur indebtedness;
- grant or assume liens;
- make certain investments;
- sell, transfer, assign or convey assets, or engage in certain mergers or acquisitions;
- make distributions; or
- engage in transactions with affiliates.

The credit facility contains the following covenants requiring us to maintain:

- a maximum ratio of funded debt to consolidated EBITDA (each as defined in the credit facility), measured quarterly on a rolling four quarter basis, of 4.00 to 1 through June 30, 2003, declining to 3.75 to 1 beginning September 30, 2003, pro forma for any asset acquisitions;
- a minimum interest coverage ratio (as defined in the credit agreement), measured quarterly on a rolling four quarter basis equal to 3.50 to 1;
- minimum current ratio (as defined in the credit agreement), measured quarterly of 1 to l; and
- a minimum tangible net worth (as defined in the credit agreement) of $55 million.

The Partnership was in compliance with all debt covenants at December 31, 2002.

In June 2002, as part of the purchase price of Florida Gas Transmission Company (FGTC), the Partnership issued a note payable for $800,000 to FGTC that is payable in $50,000 increments starting June 2003 through June 2006 with a final payment of $600,000 due in June 2007. The note bears interest payable annually at LIBOR plus 1%.

As of December 31, 2001 and 2002 and March 31, 2003, long-term debt consisted of the following (in thousands):

	December 31		March 31,
	2001	2002	2003
Revolver A Facility, interest based on prime, interest rate at December 31, 2001 was 5.75%	$ 17,500	$ —	$ —
Revolver A Facility, based on LIBOR interest rate at December 31, 2001 was 4.67%	10,500	—	—
Revolver A Facility, based on LIBOR, interest rate at December 31, 2001 was 4.40%	32,000	—	—
Acquisition credit facility, interest based at prime plus 0.625%, interest rate at December 31, 2002 was 4.88%	—	1,750	—
Acquisition credit facility, interest based on LIBOR plus 2.125%. Interest rate at March 31, 2003 was 3.449% and at December 31, 2002 was 3.95%	—	20,000	20,000
Note payable to Florida Gas Transmission Company	—	800	800
	60,000	22,550	20,800
Less current portion	—	50	50
Debt classified as long-term	$ 60,000	$ 22,500	$ 20,750

Maturities for the long-term debt as of December 31, 2002 are as follows (in thousands):

2003	$ 50
2004	2,225
2005	4,400
2006	4,400
2007	11,475
Thereafter	—

In October 2002, the Partnership entered into an interest rate swap covering a principal amount of $20 million for a period of two years. The Partnership is subject to interest rate risk on its acquisition credit facility. The interest rate swap reduces this risk by fixing the LIBOR rate, prior to credit margin, at 2.29%, on $20 million of related debt outstanding over the term of the swap agreement. The Partnership has accounted for this swap as a cash flow hedge of the variable interest payments related to the $20 million of the acquisition credit facility outstanding. Accordingly, unrealized gains or losses relating to the swap which are recorded in other comprehensive income will be reclassified from other comprehensive income to interest expense over the period hedged.

(6) Partners' Capital

(a) Initial Public Offering

On December 17, 2002, the Partnership completed its initial public offering of 2,300,000 common units representing limited partner interests at a price of $20.00 per common unit. Total proceeds from the sale of the 2,300,000 units were $46.0 million, before offering costs and underwriting commissions. Concurrent with the closing of the initial public offering, the Partnership entered into a $67.5 million credit facility with a syndicate of banks led by UBOC, that provides for a $47.5 million acquisition credit facility and a $20 million working capital facility (see note 5). On December 17, 2002, the Partnership had borrowings of $20 million under the acquisition credit facility.

A summary of the proceeds received from the offering and the use of those proceeds is as follows (in thousands):

Proceeds received:		
Sale of common units	$	46,000
Use of proceeds:		
Underwriters' fees	$	3,220
Professional fees and other offering costs		2,590
Repayment of debt		33,000
Distribution to Crosstex Holdings		2,500
Working capital		4,690
Total use of proceeds	$	46,000

The Crosstex Energy, L.P. partnership agreement contains specific provisions for the allocation of net earnings and losses to the partners for purposes of maintaining the partner capital accounts.

(b) Limitation of Issuance of Additional Common Units

During the subordination period, the Partnership may issue up to 1,316,500 additional common units or an equivalent number of securities ranking on a parity with the common units without obtaining unitholder approval. The Partnership may also issue an unlimited number of common units during the subordination period for acquisitions, capital improvements or debt repayments that increase cash flow from operations per unit on a pro forma basis.

(c) Subordination Period

The subordination period will end once the Partnership meets the financial tests in the partnership agreement, but it generally cannot end before December 31, 2007. When the subordination period ends, each remaining subordinated unit will convert into one common unit and the common units will no longer be entitled to arrearages.

(d) Early Conversion of Subordinated Units

If the Partnership meets the applicable financial tests in the partnership agreement for any three consecutive four-quarter periods ending on or after December 31, 2005, 25% of the subordinated units will convert to common units. If the Partnership meets these tests for any three consecutive four-quarter periods ending on or after December 31, 2006, an additional 25% of the subordinated units will convert to common units. The early conversion of the second 25% of the subordinated units may not occur until at least one year after the early conversion of the first 25% of the subordinated units.

(e) Cash Distributions

In accordance with the 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 commencing with the quarter ending on March 31, 2003. 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. If cash distributions exceed $0.50 per unit in a quarter, the general partner will receive incentive distributions up to 50% of the cash distributed in excess of $0.50 per unit. To the extent there is sufficient available cash, the holders of common units are entitled to receive the minimum quarterly distribution of $0.50 per unit, plus arrearages, prior to any distribution of available cash to the holders of subordinated units. Subordinated units will not accrue any arrearages with respect to distributions for any quarter.

The Partnership paid its initial distribution on its common and subordinated units of $0.576 on May 15, 2003. The distribution consisted of $0.076 covering the period from the closing of the Partnership's IPO through December 31, 2002, and $0.50 covering the first quarter of 2003.

(7) Retirement Plans

The Partnership sponsors a single employer 401(k) plan for employees who become eligible upon the date of hire. The Partnership, as stated within the plan document, will make discretionary contributions at the end of the year. There were no contributions during the four months ended April 30, 2000 and the eight months ended December 31, 2000. Contributions for the years ended December 31, 2001 and 2002 totaled $116,000 and $198,000, respectively.

(8) Employee Incentive Plans

(a) Long-Term Incentive Plan

In December 2002, the Partnership's managing general partner adopted a long-term incentive plan for its employees, directors, and affiliates who perform services for the

Partnership. The plan currently permits the grant of awards covering an aggregate of 700,000 common units, 233,000 of which may be awarded in the form of restricted units and 467,000 of which may be awarded in the form of unit

options. The plan is administered by the compensation committee of the managing general partner's board of directors.

(b) Restricted Units

A restricted unit is a "phantom" unit that entitles the grantee to receive a common unit upon the vesting of the phantom unit, or in the discretion of the compensation committee, cash equivalent to the value of a common unit. In addition, the restricted units will become exercisable upon a change of control of the Partnership, its general partner, or managing general partner.

The restricted units are intended to serve as a means of incentive compensation for performance and not primarily as an opportunity to participate in the equity appreciation of the common units. Therefore, plan participants will not pay any consideration for the common units they receive and the Partnership will receive no remuneration for the units.

As of December 31, 2002, there were no restricted units issued under the long-term incentive plan.

(c) Unit Options

Unit options will have an exercise price that, in the discretion of the compensation committee, may be less than, equal to or more than the fair market value of the units on the date of grant. In general, unit options granted will become exercisable over a period determined by the compensation committee. In addition, unit options will become exercisable upon a change in control of the Partnership, or its general partner, or managing general partner.

A summary of the unit option activity for the period December 17, 2002 through December 31, 2002 is provided below:

	December 31, 2002		
	Number of Units		Weighted Average Exercise Price
Outstanding, beginning of period	—		—
Granted	175,000	$	20.00
Exercised	—		—
Forfeited	—		—
Outstanding, end of period	175,000	$	20.00
Options, exercisable at end of period	—		—
Weighted average fair value of options granted		$	1.15

All options outstanding have a remaining contractual life of 10 years at December 31, 2002.

The Partnership accounts for option grants in accordance with APB No. 25, *Accounting for Stock Issued to Employees* and follows the disclosure only provision of SFAS No. 123, *Accounting for Stock-based Compensation*.

During the period ended March 31, 2003, the Partnership granted an additional 140,000 unit options with an exercise price of $20.

(d) Crosstex Holdings' Option Plan

Crosstex Holdings has one stock-based compensation plan, the 2000 Stock Option Plan. Crosstex Holdings applies the provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25), and the related interpretations in accounting for the plan. In accordance with APB No. 25, compensation is recorded to the extent the fair value of the stock exceeds the exercise price of the option at the measurement date. Compensation expense of $0, $0, and $41,000 was recognized in 2000, 2001, and 2002, respectively.

A summary of the status of the 2000 Stock Option Plan as of December 31, 2001 and 2002, is presented in the table below:

	December 31, 2001			December 31, 2002		
	Shares		Weighted Average Exercise Price	Shares		Weighted Average Exercise Price
Outstanding, beginning of period	228,000	$	10.00	340,500	$	10.32
Granted	130,500		10.93	166,250		11.89
Exercised	—		—	—		—
Forfeited	18,000		12.00	6,500		12.00

Outstanding, end of period	340,500	10.32	500,250	10.77
Options, exercisable at period end	76,000	10.00	288,503	10.38
Weighted average fair value of options granted		2.85		N/A
Fair value of $10 options granted		N/A		3.17
Fair value of $12 options granted		N/A		1.40
Fair value of $14 options granted		N/A		0.91

All options outstanding have an exercise price ranging from $10 to $14 at December 31, 2002.

Crosstex Holdings modified certain terms of certain outstanding options in the first quarter of 2003. These modifications resulted in variable award accounting for the modified options. Based on the March 31, 2003 unit value, total compensation expense was approximately $2.5 million which was recorded by the Partnership as non-cash stock based compensation expense in the first quarter of 2003. Compensation expense in future periods will be adjusted for changes in the unit market price and the remaining unvested portion.

(e) Earnings per unit and anti-dilutive computations

Basic earnings per unit was computed by dividing net income, by the weighted average number of limited partner units outstanding for the periods December 17, 2002 through December 31, 2002 and January 1, 2003 through March 31, 2003. The computation of diluted earnings per unit further assumes the dilutive effect of unit options.

The following are the share amounts used to compute the basic and diluted earnings per limited partner unit for the periods December 17, 2002 through December 31, 2002 and the quarter ended March 31, 2003 (in thousands, except per-unit amounts):

	December 17, 2002 Through December 31, 2002	Three Months Ended March 31, 2003
Basic earnings per unit:		
Weighted average limited partner units outstanding	7,300	7,300
Dilutive earnings per unit:		
Weighted average limited partner units outstanding	7,300	7,300
Dilutive effect of exercise of options outstanding	10	40
Dilutive units	7,310	7,340

All outstanding units were included in the computation of diluted earnings per unit.

(9) Fair Value of Financial Instruments

The estimated fair value of the Partnership's financial instruments has been determined by the Partnership using available market information and valuation methodologies. Considerable judgment is required to develop the estimates of fair value; thus, the estimates provided below are not necessarily

indicative of the amount the Partnership could realize upon the sale or refinancing of such financial instruments.

	2001		2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	$ 352	$ 352	$ 1,308	$ 1,308
Trade accounts receivable	58,222	58,222	104,802	104,802
Assets from energy risk management	3,478	3,478	3,102	3,102
Account receivable from Enron	2,467	2,467	—	—
Accounts payable and accrued gas purchases	56,092	56,092	110,793	110,793
Long-term debt	60,000	60,000	22,550	22,550
Liabilities from energy risk management	8,005	8,005	4,277	4,277

The carrying amounts of the Partnership's cash and cash equivalents, accounts receivable, and accounts payable approximate fair value due to the short-term maturities of these assets and liabilities.

The Partnership's long-term debt was comprised of borrowings under a revolving credit facility, which accrues interest under a floating interest rate structure. Accordingly, the carrying value approximates fair value for the amounts outstanding under the credit facility.

The fair value of derivative contracts included in assets or liabilities for risk management activities represents the amount at which the instruments could be exchanged in a current arms-length transaction.

(10) Risk Management and Financial Instruments

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.

Set forth below is the summarized notional amount and terms of all instruments held for price risk management purposes at December 31, 2001 and 2002 and March 31, 2003 (all quantities are expressed in MMBtus, and all prices are expressed in the Houston Ship Channel Inside FERC (HSC IF), Natural Gas Pipeline Inside FERC (NGPL IF), Texas Eastern South Texas Inside FERC (TET STx IF), Reliant East Inside FERC (Reliant E IF), Panhandle Eastern Pipeline (PEPL) or Texas Eastern East Texas Inside FERC (TET Etx IF) for natural gas). The remaining term of the contracts extend no later than April 2004, with no single contract longer than 16 months. The Partnership's counterparties to hedging contracts include Morgan Stanley, Tractebel, Williams and Sempra. As discussed in note 2, changes in the fair value of the Partnership's derivatives related to Producer Services gas marketing activities are recorded in earnings. 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.

December 31, 2001

Transaction Type	Total Volume	Pricing Terms	Remaining Term of Contracts	Fair Value
Cash flow hedge swaps	(360,000)	$2.905 vs. Reliant E IF to $3.1525 vs. Reliant E IF	January - December 2002	$ 122,880
Cash flow hedge swaps	720,000	$2.60 vs. HSC IF to $5.96 vs. HSC IF	January 2002	19,200
Marketing trading transaction swaps	(43,383)	$2.625 vs. HSC IF to $5.715 vs. HSC IF	January - December 2002	(1,649,247)
Marketing trading transaction swaps	(1,147,500)	$3.10 vs. TET Etx IF to $3.14 TET Etx IF	January 2003 - April 2004	(113,607)

December 31, 2002

Transaction Type	Total Volume	Pricing Terms	Remaining Term of Contracts	Fair Value
Cash flow hedge swaps	(500,000)	$3.285 vs. Reliant E IF to $4.01 vs. Reliant E IF	January 2003 - April 2004	$ (421,800)
Cash flow hedge swaps	(440,000)	$3.415 vs. HSC IF to $4.99 vs. HSC IF	January - September 2003	(573,320)
Marketing trading transaction swaps	(1,149,000)	$3.10 vs. TET Etx IF to $3.14 vs. TET Etx IF	January 2003 - April 2004	(1,593,421)
Marketing trading transaction swaps	(1,096,000)	$3.21 vs. HSC IF to $5.16 vs. HSC IF	January - October 2003	(441,277)
Marketing trading transaction swaps	(180,000)	$3.185 vs. Reliant E IF to $3.635 vs. Reliant E IF	January - May 2003	(219,330)

March 31, 2003

Transaction Type	Total Volume	Pricing Terms	Remaining Term of Contracts	Fair Value
Cash flow hedge swaps	(520,000)	$3.285 vs. Reliant E IF to $4.86 vs. Reliant E IF	April 2003 - March 2004	$ (665,860)
Cash flow hedge swaps	2,547,000	$3.415 vs. HSC IF to $6.10 vs. HSC IF	April 2003 - April 2004	(1,799,054)
Cash flow hedge swaps	(300,000)	$5.48 vs. NGPL IF to $5.51 vs. NGPL IF	April - August 2003	76,890
Cash flow hedge swaps	305,000	$5.39 vs. TET STx IF	June - September 2003	(51,788)
Marketing trading transaction swaps	(699,000)	$3.10 vs. TET Etx IF to $3.14 vs. TET Etx IF	April 2003 - April 2004	(1,461,566)
Marketing trading transaction swaps	(406,000)	$3.85 vs. HSC IF to $6.755 vs. HSC IF	April - October 2003	(1,422,558)
Marketing trading transaction swaps	(30,000)	$3.635 vs. Reliant E IF	April 2003	(50,205)

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.

Assets and liabilities related to Producer Services that are accounted for as energy trading contracts are included in assets and liabilities from risk management activities. Assets and liabilities related to Producer Services were as follows:

	December 31, 2001	December 31, 2002	March 31, 2003
	(In thousands)		
Assets from risk management activities:			
Current	$ 3,196	$ 2,947	$ 2,673
Long-term	117	155	48
Liabilities from risk management activities:			
Current	$ 7,541	$ 3,046	$ 2,869
Long-term	440	236	68

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			
	Less Than One Year	One to Two Years	Two to Three Years	Total Fair Value
December 31, 2001	$ (4,345)	$ (242)	$ (81)	$ (4,668)
December 31, 2002	(99)	(81)	—	(180)
March 31, 2003	(196)	(20)	—	(216)

The following reconciles the changes in fair value of energy trading contracts related to producer services activities from the beginning of each period to the end of the period.

	December 31, 2000	December 31, 2001	December 31, 2002
	(In thousands)		
Fair value of contracts at beginning of period	$ —	$ 47	$ (4,668)
Unrealized gains (losses)	47	(5,660)	4,488
Unrealized gains (losses) attributable to changes in valuation techniques and assumptions	—	—	—
Realized gains (losses) related to offsetting Enron contracts		—	(3,541)
Realized gains on settled contracts	1,206	1,946	1,756
Profit (loss) on energy trading contracts	1,253	(3,667)	(1,965)
Cash (received) paid on settled contracts	(1,206)	(1,946)	1,785
Purchase of financial contracts	—	945	—
Fair value of contracts at end of period	$ 47	$ (4,668)	$ (180)

Termination of Enron Positions

On December 2, 2001, Enron Corp. and certain subsidiaries, including Enron North America Corp. (Enron), each filed voluntary petitions for relief under Chapter 11 of Title 11 of the United States Bankruptcy Code. Enron failed to make timely payment of approximately $3.9 million for physical deliveries of gas in 2001. This amount remained outstanding as of December 31, 2002. Additionally, the Partnership had entered into natural gas hedging and physical delivery contracts with Enron. According to the terms of the contracts, Enron is liable to the Partnership for the mark-to-market value of all contracts outstanding on the date the Partnership exercised its termination right under the contracts, which totaled approximately $4.6 million and which was recorded as a receivable from Enron. The Partnership has accounted for these contracts as energy trading contracts whereby changes in fair value of the fixed price purchase and sales commitments are recognized in earnings.

The Partnership had offsets to the above amounts totaling approximately $0.3 million, resulting in a net amount of $8.2 million receivable from Enron at December 31, 2001. Due to the uncertainty of future collections, a charge and related allowance for 70% of the net receivable, or $5.7 million, was recorded at December 31, 2001. The 30% recovery rate was management's best estimate based on current market transactions. Due to the uncertainty of the timing of recovery of this receivable due to Enron's bankruptcy, the Partnership classified this receivable as long-term at December 31, 2001. No balance is reflected at December 31, 2002 as the receivable was transferred to Crosstex Holdings in conjunction with the initial public offering of the Partnership.

For the year ended December 31, 2001, the Partnership recorded a loss on energy trading contracts related to natural gas marketing of $5.7 million, substantially all of which related to estimated losses on claims from Enron. This loss was partially offset by gains of $1.9 million on energy trading contracts which physically settled during 2001.

The Partnership had fixed price sales commitments to Enron which offset fixed price purchase commitments from producers. Due to Enron's bankruptcy, the Partnership was exposed to future natural gas price movements related to the fixed price purchase commitments. The Partnership entered into new fixed price sales commitments with a new counterparty for a portion of the volume, and purchased or sold exchange-traded natural gas option contracts to mitigate the effects of future price declines. The change in fair value of these sales contracts and options is recorded in earnings as profit or loss on energy trading contracts.

Option contracts outstanding related to the fixed price purchase commitments at December 31, 2001 were as follows:

December 31, 2001

Transaction Type	Total Volume	Pricing Terms	Remaining Term of Contracts	Fair Value
Purchased puts	3,840,000	$2.50 vs. NYMEX Natural Gas to $2.70 vs. NYMEX Natural Gas	February - October 2002	$ 1,184,600

The Enron receivable was distributed to Crosstex Holdings prior to the initial public offering of Crosstex Energy, L.P.

(11) Transactions with Related Parties

General and Administrative Expense Cap

The Partnership has a $6.0 million annual ($1.5 million quarterly) general and administrative cap for the twelve month period ending in December 2003, per the partnership agreement. Crosstex Energy Holdings Inc. bears the cost of any excess general and administrative expenses. During the quarter ended March 31, 2003, the Partnership had excess expenses of approximately $0.5 million.

Camden Resources, Inc.

The Partnership treats gas for, and purchases gas from, Camden Resources, Inc. (Camden). Camden is an affiliate of the Partnership by way of equity investments made by Yorktown in Camden. During the eight months ended December 31, 2000 and the years ended December 31, 2001 and 2002, the Partnership purchased natural gas from Camden in the amount of approximately $2,645,000,

$17,300,000, and $10,076,000, respectively, and received approximately $53,000, $737,000, and $399,000 in treating fees from Camden. During the quarters ended March 31, 2002 and 2003, the Partnership purchased natural gas from Camden in the amount of approximately $1,000,000 and $2,700,000, respectively, and received approximately $61,250 and $47,580 in treating fees from Camden.

Subsequent to April 30, 2000, the Partnership had related-party transactions with Crosstex Pipeline Company (CPC), and prior to that date, the Partnership had related-party transactions with Crosstex Energy, Inc. (CEI), CPC, Vantex Energy Services (VES), Texas Energy Transfer Company (TETC), and Energy Transfer Company (ETC), all of which are summarized below:

- During the four months ended April 30, 2000 the Partnership paid management fees of $13,000, to CEI for their services in managing and supervising the operation of the Partnership.

- During the four months ended April 30, 2000, the Partnership bought natural gas from CPC in the amount of $1,426,000, and paid for transportation of $7,000 to CPC.

- The Partnership also reimbursed ETC for costs incurred on behalf of the Partnership of $13,000 in the four months ended April 30, 2000.

- The Partnership sold natural gas to TETC during the four months ended April 30, 2000, in the amount of $234,000, and bought natural gas from TETC in the amount of $54,000.

- During the eight months ended December 31, 2000, the Partnership received a management fee from CPC in the amount of approximately $81,000.

- During the eight months ended December 31, 2000, the Partnership bought natural gas from CPC in the amount of approximately $4.6 million and paid for transportation of approximately $22,000 to CPC.

- During the eight months ended December 31, 2000, the Partnership received distributions from CPC in the amount of approximately $232,000.

- During the years ended December 31, 2001 and 2002, the Partnership bought natural gas from CPC in the amount of approximately $6,500,000 and $3,400,000 and paid for transportation of approximately $31,000 and $27,500, respectively, to CPC.

- During the years ended December 31, 2001 and 2002, the Partnership received a management fee from CPC in the amount of approximately $125,000 and $125,000, respectively.

- During the years ended December 31, 2001 and 2002, the Partnership received distributions from CPC in the amount of approximately $152,000 and $89,982, respectively.

- During the quarters ended March 31, 2002 and 2003, the Partnership bought natural gas from CPC in the amount of approximately $0.6 million and $1.2 million and paid for transportation of approximately $4,952 and $13,809, respectively, to CPC.

- During the quarters ended March 31, 2002 and 2003, the Partnership received a management fee from CPC in the amount of approximately $31,362 each quarter.

- During the quarters ended March 31, 2003 and 2002, the Partnership received distributions from CPC in the amount of approximately $45,201 and $51,734, respectively.

(12) Commitments and Contingencies

(a) Leases

Leased office space and equipment have remaining noncancelable lease terms in excess of one year. The following table summarizes our remaining noncancelable future payments under operating leases as of December 31, 2002:

2003	$	841,942
2004		751,288
2005		567,558
2006		71,971
2007		—
Thereafter		—

Operating lease rental expense in the four months ended April 30, 2000, the eight months ended December 31, 2000 and the years ended December 31, 2001 and 2002, was approximately $200,000, $608,000, $1,200,000 and $951,000, respectively.

Each member of senior management of the Partnership is a party to an employment contact with the general partner. The employment agreements provide each member of senior management 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.

The Partnership is involved in various other 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.

The Partnership has an agreement with a consulting firm which helped facilitate certain acquisitions for the Partnership. In addition to the regular fee received for their services, the consulting firm also entered into an agreement with the Partnership by which they would receive a 10% net profit interest from the acquired assets after the acquisitions have reached payout, which includes a 10% rate of return. The assets subject to the net profits interest generated approximately $3,224,000 in cash flow during 2001. In December 2002, the Partnership acquired the interest for $684,000. The acquisition of the net profits interest has been accounted for as a cost of the related acquired assets.

(13) 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 Gulf Coast System, the Corpus Christi System, the Gregory gathering system located around the Corpus Christi area, the Arkoma system in Okalahoma and various other small systems. Also included in the Midstream division are the Partnership's Producer Services operations (note 2(h)). The Treating division generates fees from its plants either through volume-based treating contracts or though fixed monthly payments. Included in the Treating division are four gathering systems that are connected to the treating plants.

The accounting polices of the operating segments are the same as those described in note 2 of the Notes to Consolidated Financial Statements. The Partnership evaluates the performance of its operating segments based on earnings before income taxes and accounting changes, and after an allocation of corporate expenses. Corporate expenses are allocated to the segments on a pro rata basis based on assets. Intersegment sales are at cost.

Summarized financial information concerning the Partnership's reportable segments is shown in the following table. There are no other significant noncash items.

	Midstream		Treating		Totals
			(In thousands)		
Four months ended April 30, 2000:					
Sales to external customers	$ 3,591	$	5,947	$	9,538
Intersegment sales	4,883		(4,883)		—
Interest expense	57		22		79
Depreciation and amortization	243		279		522
Segment profit (loss)	(8,132)		455		(7,677)
Segment assets	34,947		10,104		45,051
Capital expenditures	—		3,026		3,026
Eight months ended December 31, 2000:					
Sales to external customers	$ 88,008	$	17,392	$	105,400
Intersegment sales	13,127		(13,127)		—
Interest expense	477		53		530

Depreciation and amortization		1,433		828		2,261
Segment profit		1,302		321		1,623
Segment assets		181,297		19,971		201,268
Capital expenditures		2,519		2,148		4,667
Year ended December 31, 2001:						
Sales to external customers	$	362,673	$	24,353	$	387,026
Intersegment sales		10,633		(10,633)		—
Interest expense		1,840		413		2,253
Depreciation and amortization		4,534		1,567		6,101
Segment profit (loss)		(4,607)		689		(3,918)
Segment assets		137,303		31,073		168,376
Capital expenditures		6,484		16,201		22,685
Year ended December 31, 2002:						
Sales to external customers	$	437,676	$	14,817	$	452,493
Intersegment sales		4,073		(4,073)		—
Interest expense		2,327		390		2,717
Depreciation and amortization		5,738		2,007		7,745
Segment profit (loss)		3,271		(1,269)		2,002
Segment assets		199,056		33,382		232,438
Capital expenditures		11,154		3,391		14,545
Three months ended March 31, 2002:						
Sales to external customers	$	77,808	$	3,185	$	80,993
Intersegment sales		1,317		(1,317)		—
Interest expense		550		130		680
Depreciation and amortization		1,242		667		1,909
Segment profit (loss)		2,486		(2,738)		(252)
Segment assets		132,085		31,276		163,361
Capital expenditures		2,862		708		3,570
Three months ended March 31, 2003:						
Sales to external customers	$	245,315	$	5,255	$	250,570
Intersegment sales		1,504		(1,504)		—
Interest expense		401		9		410
Depreciation and amortization		1,820		615		2,435
Segment profit		398		434		832
Segment assets		313,059		9,496		322,555
Capital expenditures		2,691		1,923		4,614

(14) Quarterly Financial Data (Unaudited)

Summarized unaudited quarterly financial data is presented below.

		First		Second		Third		Fourth		Total
2001:(1)										
Revenues	$	81,725	$	123,942	$	83,913	$	97,446	$	387,026
Operating income(2)		2,901		3,254		4,906		5,702		16,763
Net income (loss)		1,719		144		784		(6,565)(3)		(3,918)
2002:(1)										
Revenues	$	80,993	$	126,480	$	114,611	$	130,409	$	452,493
Operating income(2)		4,681		5,468		6,182		5,945		22,276
Net income (loss)		(252)(4)		224		1,485		545(4)		2,002

(1) The Partnership stopped amortizing goodwill effective January 1, 2002 with the adoption of SFAS No. 142. See Note 2(n).

(2) Operating income is defined as revenues less purchased gas less operating expenses.

(3) Included in the 2001 fourth quarter results is a charge of $5.8 million related to Enron write-offs as discussed in footnote (10), and an impairment of $2.9 million related to the impairment of certain intangible assets associated with an asset no longer owned by the Partnership.

(4) Included in the 2002 first and fourth quarter results are impairment charges of $3.2 million and $1.0 million, respectively, related to the impairment of certain intangibles related to gas plants.

(15) Events Subsequent to Independent Auditor's Report (unaudited)

On May 2, 2003, the Partnership announced that it executed an agreement for the acquisition of a package of assets from Duke Energy Field Services, L.P. for $67.4 million. The assets to be acquired are:

- The AIM pipeline system (previously known as Mississippi Fuels) is a major gathering and transmission system that gathers wellhead production in south-central Mississippi and markets gas to industrial and power plant users covering 15 counties, the system consists of 638 miles of four to 20 inch pipeline.

- A 12.4 percent interest in the Seminole gas processing plant operated by Amerada Hess. Located in Gaines County, Texas, the Seminole Plant provides carbon dioxide separation, NGL extraction, and sulfur recovery services for several major oil companies. The facility has dedicated long-term reserves from the Seminole San Andres unit, with a stable dedicated utilization of the carbon dioxide made available for tertiary oil recovery. The plant is in the process of completing a capacity expansion from 150 MMcf/d to 210 MMcf/d.

- The Conroe gas plant and gathering system, which is a cryogenic gas processing plant with 10 miles of gathering pipelines located within the Conroe field unit in Montgomery County, Texas.

- The Black Warrior pipeline system, which consist of approximately 125 miles of four to 12 inch gathering systems in Alabama. The primary gas supply is from coalbed methane gas from the Black Warrior Basin.

- Two small systems, Aurora Centana and Cadeville in Louisiana.

The acquisition was financed through an expansion and amendment of the Partnership's existing credit facility. In addition, Crosstex closed on fixed-rate term debt with an institutional lender.

The acquisition closed on June 30, 2003.

In June 2003, Crosstex Energy Services, L.P. entered into a master shelf agreement with an institutional lender pursuant to which it issued $40.0 million of senior secured notes with a weighted-average interest rate of 6.93% and maturities of seven years. The senior secured notes are guaranteed by subsidiaries of Crosstex Energy Services, L.P. and the Partnership.

Independent Auditors' Report

To the Partners of
Crosstex Energy GP, L.P.:

We have audited the accompanying balance sheet of Crosstex Energy GP, L.P. (a Texas limited partnership, the General Partner) as of December 31, 2002. This financial statement is the responsibility of the General Partner's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position of Crosstex Energy GP, L.P. as of December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Dallas, Texas,
June 28, 2003

CROSSTEX ENERGY GP, L.P.

Balance Sheets

December 31, 2002 and March 31, 2003 (unaudited)

(in thousands)

	December 31, 2002	March 31, 2003
		Unaudited
Assets		
Cash	$ 1	$ 1
Total current assets	1	1
Investment in Crosstex Energy, L.P.	1,016	1,083

Total assets	$	1,017	$	1,084
Partners' Equity				
Partners' equity	$	1,017	$	1,084
Total partners' equity	$	1,017	$	1,084

See accompanying notes to balance sheet.

CROSSTEX ENERGY GP, L.P.

Notes to Balance Sheets

December 31, 2002 and March 31, 2003 (unaudited)

(1) Organization

(a) Organization

Crosstex Energy GP, L.P. (the "General Partner") is a Delaware limited partnership formed on July 12, 2002, to become the General Partner of Crosstex Energy, L.P. The General Partner is an indirect wholly owned subsidiary of Crosstex Energy Holdings Inc. The General Partner owns a 2% general partner interest in Crosstex Energy, L.P.

(2) Significant Accounting Policies

(a) Cash and Cash Equivalents

The General Partner considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

(b) Federal Income Taxes

No provision is made in the accounts of the General Partner for federal or state income taxes because such taxes are liabilities of the individual partners, and the amounts thereof depend upon their respective tax situations. The tax returns and amounts of allocable General Partner revenues and expenses are subject to examination by federal and state taxing authorities. If such examinations result in changes to allocable General Partner revenues and expenses, the tax liability of the Partners could be changed accordingly.

(c) 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 General Partner 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.

(3) Investment in Crosstex Energy, L.P.

At December 31, 2002 and March 31, 2003, the General Partner's 2% interest in Crosstex Energy, L.P. is the General Partner's only unconsolidated affiliate. The 2% interest is accounted for by the equity method. The following is condensed balance sheet data for Crosstex Energy, L.P. (in thousands):

		December 31, 2002		March 31, 2003
				Unaudited
Assets				
Current assets	$	110,998	$	198,843
Property and equipment, net		109,948		112,335
Assets from risk management activities		155		48
Intangible assets, net		5,340		5,132
Goodwill, net		4,873		4,873
Investment in limited partnerships		346		442
Other assets, net		778		882
Total assets	$	232,438	$	322,555
Liabilities and Partners' Equity				
Current liabilities	$	119,670	$	210,164
Long-term debt		22,500		20,750

Liabilities from risk management activities		271		225
Liability from interest rate swap		181		285
Partners' equity		89,816		91,131
Total liabilities and partners' equity	$	232,438	$	322,555

In the period ended December 31, 2002, Crosstex Energy, L.P. contributed $1,010,000 in equity to the General Partner upon their initial public offering on December 17, 2002. The net income allocated to the General Partner from December 17, 2002 through December 31, 2002 was $6,000 and net income and stock-based compensation allocated for the three months ended March 31, 2003 totaled $67,000.

INDEPENDENT AUDITORS' REPORT

Board of Directors
Duke Energy Field Services, LLC
Denver, Colorado

We have audited the accompanying Statement of Revenues and Direct Operating Expenses (the "Carve-Out Financial Statement") of the Assets, as defined in the purchase and sale agreement between Duke Energy Field Services, L.P. ("DEFS") and Crosstex Energy, L.P. ("Crosstex") dated April 29, 2003 (the "Agreement") for the year ended December 31, 2002. The Carve-Out Financial Statement is the responsibility of DEFS' management. Our responsibility is to express an opinion on the Carve-Out Financial Statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Carve-Out Financial Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Carve-Out Financial Statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the Carve-Out Financial Statement. We believe that our audit provides a reasonable basis for our opinion.

The accompanying Carve-Out Financial Statement was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission (for inclusion in Form S-1 of Crosstex) as described in Note 1 to the Carve-Out Financial Statement and is not intended to be a complete presentation of the Revenues and Direct Operating Expenses of the Assets, as defined in the Agreement.

In our opinion, such Carve-Out Financial Statement presents fairly, in all material respects, the Revenues and Direct Operating Expenses described in Note 1 to the Carve-Out Financial Statement for the year ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Denver, Colorado
June 30, 2003

CERTAIN MID-STREAM ASSETS

OF DUKE ENERGY FIELD SERVICES, L.P.

STATEMENT OF REVENUES AND DIRECT OPERATING EXPENSES

YEAR ENDED DECEMBER 31, 2002 AND THREE MONTHS ENDED

MARCH 31, 2003 AND MARCH 31, 2002

			Three Months Ended			
		Year Ended December 31, 2002		**March 31, 2003**		**March 31, 2002**
				Unaudited		**Unaudited**
REVENUES	$	137,255,152	$	57,449,042	$	25,344,107
GAS AND PETROLEUM PURCHASES		(120,966,588)		(53,942,615)		(21,829,509)
Gross margin		16,288,564		3,506,427		3,514,598
DIRECT OPERATING EXPENSES:						
Operating costs		(5,281,663)		(1,345,885)		(1,105,963)

Impairment	(6,899,998)	—	—
Depreciation	(4,277,105)	(962,023)	(991,142)
Total direct operating expenses	(16,458,766)	(2,307,908)	(2,097,105)
(EXCESS OF DIRECT OPERATING EXPENSES OVER REVENUES) EXCESS OF REVENUES OVER DIRECT OPERATING EXPENSES	$ (170,202)	$ 1,198,519	$ 1,417,493

See notes to Carve-Out Financial Statement.

CERTAIN MID-STREAM ASSETS OF

DUKE ENERGY FIELD SERVICES, L.P.

NOTES TO STATEMENT OF REVENUES AND DIRECT OPERATING EXPENSES

YEAR ENDED DECEMBER 31, 2002 AND

THE THREE MONTHS ENDED MARCH 31, 2003 (UNAUDITED) AND MARCH 31, 2002 (UNAUDITED)

1. BASIS OF PRESENTATION

In April 2003, Crosstex Energy Services, L.P. ("Crosstex") signed an agreement to acquire from Duke Energy Field Services, L.P. ("DEFS") certain mid-stream assets (the "assets"), as defined in the Purchase and Sale Agreement between DEFS and Crosstex dated April 29, 2003 ("the Agreement") for approximately $67.4 million. The acquired assets include a gas processing plant, two pipelines and two gathering systems. The acquired assets also include a 12.42% undivided interest in a gas processing plant, the revenues and expenses of which are reported on a proportionate gross basis. The acquisition closed on June 30, 2003.

The Statement of Revenues and Direct Operating Expenses associated with the assets was derived from DEFS accounting records. Certain expense items not directly associated with the assets, such as interest, income taxes, corporate overhead and hedging activities, were not recorded in the accounting records of the assets. Any allocation of such costs would be arbitrary and would not be indicative of what such costs actually would have been had the asset been operated as a stand-alone entity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates—Conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the Statement of Revenues and Direct Operating Expenses. Although these estimates are based on management's best available knowledge of current and expected future events, actual results could be different from those estimates.

Revenue Recognition—Revenues are recognized on sales of natural gas and petroleum products in the period of delivery and transportation revenues in the period the services are provided. For gas processing services, cash or commodities are received as payment depending on the type of contract, at the time the processing occurs. Under "percentage-of-proceeds" contracts, fees are paid in the form of a percentage of the recovered natural gas liquids, which are sold into the market. Under "processing fee" contracts, processing fees are paid in the form of cash.

Depreciation—Depreciation is computed using the straight-line method over the estimated useful life of the individual assets.

Gas Imbalance Accounting—Quantities of natural gas over-delivered or under-delivered related to imbalance agreements with producers or pipelines are recorded monthly using then current index prices or the weighted average prices of natural gas at the plant or system. These balances are settled with cash or deliveries of natural gas.

Impairment of Long-Lived Assets—The recoverability of long-lived assets is reviewed when circumstances indicate that the carrying amount of the asset may not be recoverable, in accordance with Statement of Financial Accounting Standards No. 144, "*Accounting for the Impairment or Disposal of Long-Lived Assets*." The carrying value of a long-lived asset is considered impaired when the anticipated undiscounted cash flow from use of such asset is separately identifiable and is less than its carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value of the long-lived asset. Fair value is determined primarily using the anticipated

cash flows discounted at a rate commensurate with the risk involved. For the year ended December 31, 2002, an impairment charge of approximately $6.9 million was recorded.

New Accounting Pronouncement—In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard ("SFAS") No. 143, "*Accounting for Asset Retirement Obligations*," which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or normal use of the asset. SFAS No. 143 requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred, if a reasonable estimate of fair value can be made. The fair value of the liability is added to the carrying amount of the associated asset. This additional carrying amount is then depreciated over the life of the asset. The liability is increased due to the passage of time based on the time value of money until the obligation is settled. DEFS adopted the provisions of SFAS No. 143 as of January 1, 2003, which did not have a material effect on the Statement of Revenues and Direct Operating Expenses.

3. RELATED PARTY TRANSACTIONS

Revenues include sales, primarily residue gas, totaling approximately $8.1 million, $4.3 million, and $1.1 million for the year ended December 31, 2002, and the three months ended March 31, 2003 and March 31, 2002, respectively, to Duke Energy Trading and Marketing, L.L.C. ("DETM"), an affiliate of DEFS. Gas and petroleum purchases include purchases from DETM of approximately $0.7 million for the year ended December 31, 2002 and were insignificant for the three months ended March 31, 2003 and

2002.

APPENDIX A

Glossary of Terms

adjusted operating surplus: For any period, operating surplus generated during that period is adjusted to:

(a) decrease operating surplus by:

(1) any net increase in working capital borrowings with respect to that period; and

(2) any net reduction in cash reserves for operating expenditures with respect to that period not relating to an operating expenditure made during that period; and

(b) increase operating surplus by:

(1) any net decrease in working capital borrowings with respect to that period; and

(2) any net increase in cash reserves for operating expenditures with respect to that period required by any debt instrument for the repayment of principal, interest or premium.

Adjusted operating surplus does not include that portion of operating surplus included in clause (a) (1) or the definition of operating surplus.

available cash: For any quarter ending prior to liquidation:

(a) the sum of

(1) all cash and cash equivalents of Crosstex Energy, L.P. and its subsidiaries on hand at the end of that quarter; and

(2) all additional cash and cash equivalents of Crosstex Energy, L.P. and its subsidiaries on hand on the date of determination of available cash for that quarter resulting from working capital borrowings made after the end of that quarter;

(b) less the amount of cash reserves that is necessary or appropriate in the reasonable discretion of the general partner to

(1) provide for the proper conduct of the business of Crosstex Energy, L.P. and its subsidiaries (including reserves for future capital expenditures and for future credit needs of Crosstex Energy, L.P. and its subsidiaries) after that quarter;

(2) comply with applicable law or any debt instrument or other agreement or obligation to which Crosstex Energy, L.P. or any of its subsidiaries is a party or its assets are subject; and

(3) provide funds for minimum quarterly distributions and cumulative common unit arrearages for any one or more of the next four quarters;

provided, however, that the general partner may not establish cash reserves for distributions to the subordinated units unless the general partner has determined that, in its judgment, the establishment of reserves will not prevent Crosstex Energy, L.P. from distributing the minimum quarterly distribution on all common units and any cumulative common unit arrearages thereon for the next four quarters; and

provided, further, that disbursements made by Crosstex Energy, L.P. or any of its subsidiaries or cash reserves established, increased or reduced after the end of that quarter but on or before the date of determination of available cash for that quarter shall be deemed to have been made, established, increased or reduced, for purposes of determining available cash, within that quarter if the general partner so determines.

btu: British Thermal Units.

capital account: The capital account maintained for a partner under the partnership agreement. The capital account of a partner for a common unit, a subordinated unit, or any other partnership interest will be the amount which that capital account would be if that common unit, subordinated unit, incentive distribution right or other partnership interest were the only interest in Crosstex Energy, L.P. held by a partner.

capital surplus: All available cash distributed by us from any source will be treated as distributed from operating surplus until the sum of all available cash distributed since the closing of the initial public offering equals the operating surplus as of the end of the quarter before that distribution. Any excess available cash will be deemed to be capital surplus.

closing price: The last sale price on a day, regular way, or in case no sale takes place on that day, the average of the closing bid and asked prices on that day, regular way. In either case, as reported in the principal consolidated transaction reporting system for securities listed or admitted to trading on the principal national securities exchange on which the units of that class are listed or admitted to trading. If the units of that class are not listed or admitted to trading on any national securities exchange, the last quoted price on that day. If no quoted price exists, the average of the high bid and low asked prices on that day in the over-the-counter market, as reported by the Nasdaq Stock Market or any other system then in use. If on any day the units of that class are not quoted by any organization of that type, the average of the closing bid and asked prices on that day as furnished by a professional market maker making a market in the units of the class selected by the general partner. If on that day no market maker is making a market in the units of that class, the fair value of the units on that day as determined reasonably and in good faith by the general partner.

common unit arrearage: The amount by which the minimum quarterly distribution for a quarter during the subordination period exceeds the distribution of available cash from operating surplus actually made for that quarter on a common unit, cumulative for that quarter and all prior quarters during the subordination period.

current market price: For any class of units listed or admitted to trading on any national securities exchange as of any date, the average of the daily closing prices for the 20 consecutive trading days immediately prior to that date.

gpm: Gallons per minute.

incentive distribution right: A non-voting limited partner partnership interest issued to the general partner in connection with the formation of the partnership. The partnership interest will confer upon its holder only the rights and obligations specifically provided in the partnership agreement for incentive distribution rights.

incentive distributions: The distributions of available cash from operating surplus initially made to the general partner that are in excess of the general partner's aggregate 2% general partner interest.

interim capital transactions: The following transactions if they occur prior to liquidation:

(a) borrowings, refinancings or refundings of indebtedness and sales of debt securities (other than for working capital borrowings and other than for items purchased on open account in the ordinary course of business) by Crosstex Energy, L.P. or any of its subsidiaries;

(b) sales of equity interests by Crosstex Energy, L.P. or any of its subsidiaries;

(c) sales or other voluntary or involuntary dispositions of any assets of Crosstex Energy, L.P. or any of its subsidiaries (other than sales or other dispositions of inventory, accounts receivable

and other assets in the ordinary course of business, and sales or other dispositions of assets as a part of normal retirements or replacements).

MMBtu: One million British Thermal Units.

Mcf: One thousand cubic feet of natural gas.

Mcf/d: One thousand cubic feet per day.

Mmcf: One million cubic feet of natural gas.

MMBtu/d: One million British Thermal Units per day.

Mmcf/d: One million cubic feet per day.

NGLs: Natural gas liquids which consist primarily of ethane, propane, isobutane, normal butane and natural gas.

operating expenditures: All expenditures of Crosstex Energy, L.P. and our subsidiaries, including, but not limited to, taxes, reimbursements of the general partner, repayment of working capital borrowings, debt service payments and capital expenditures, subject to the following:

(a) Payments (including prepayments) of principal of and premium on indebtedness, other than working capital borrowings will not constitute operating expenditures.

(b) Operating expenditures will not include:

(1) capital expenditures made for acquisitions or for capital improvements;

(2) payment of transaction expenses relating to interim capital transactions; or

(3) distributions to partners.

operating surplus: For any period prior to liquidation, on a cumulative basis and without duplication:

(a) the sum of

(1) $8.9 million plus all the cash of Crosstex Energy, L.P. and its subsidiaries on hand as of the closing date of our initial public offering;

(2) all cash receipts of Crosstex Energy, L.P. and our subsidiaries for the period beginning on the closing date of our initial public offering and ending with the last day of that period, other than cash receipts from interim capital transactions; and

(3) all cash receipts of Crosstex Energy, L.P. and our subsidiaries after the end of that period but on or before the date of determination of operating surplus for the period resulting from working capital borrowings; less

(b) the sum of:

(1) operating expenditures for the period beginning on the closing date of our initial public offering and ending with the last day of that period; and

(2) the amount of cash reserves that is necessary or advisable in the reasonable discretion of the general partner to provide funds for future operating expenditures; provided however, that disbursements made (including contributions to a member of Crosstex Energy, L.P. and our subsidiaries or disbursements on behalf of a member of Crosstex Energy, L.P.

and our subsidiaries) or cash reserves established, increased or reduced after the end of that period but on or before the date of determination of available cash for that period shall be deemed to have been made, established, increased or reduced for purposes of determining operating surplus, within that period if the general partner so determines.

subordination period: The subordination period will generally extend from the closing of the initial public offering until the first to occur of:

(a) the first day of any quarter on or after December 31, 2007 for which:

(1) distributions of available cash from operating surplus on each of the outstanding common units and subordinated units equaled or exceeded the sum of the minimum quarterly distribution on all of the outstanding common units and subordinated units for each of the three consecutive non-overlapping four-quarter periods immediately preceding that date;

(2) the adjusted operating surplus generated during each of the three consecutive, non-overlapping four-quarter periods immediately preceding that date equaled or exceeded the sum of the minimum quarterly distribution on all of the common units and subordinated units that were outstanding during those periods on a fully-diluted basis, and the related distribution on the general partner interests in Crosstex Energy, L.P.; and

(3) there are no outstanding cumulative common units arrearages.

(b) the date on which the general partner is removed as general partner of Crosstex Energy, L.P. upon the requisite vote by the limited partners under circumstances where cause does not exist and units held by the general partner and its affiliates are not voted in favor of the removal.

throughput: The volume of gas transported or passing through a pipeline or other facility.

units: refers to both common units and subordinated units, but not the general partner interest.

working capital borrowings: Borrowings exclusively for working capital purposes made pursuant to a credit facility or other arrangement requiring all borrowings thereunder to be reduced to a relatively small amount each year for an economically meaningful period of time.

You may rely on the information contained in this prospectus. We have not authorized anyone to provide information different from that contained in this prospectus. Neither the delivery of this prospectus nor sale of common units means that information contained in this prospectus is correct after the date of this prospectus. This prospectus is not an offer to sell or solicitation of an offer to buy these common units in any circumstances under which the offer or solicitation is unlawful.

TABLE OF CONTENTS

1,500,000 Common Units

Crosstex Energy, L.P.
Representing
Limited Partner Interests

PROSPECTUS

A.G. Edwards & Sons, Inc.
RBC Capital Markets
Raymond James

, 2003

PART II
INFORMATION NOT REQUIRED IN THE PROSPECTUS

Item 13. Other Expenses of Issuance And Distribution.

Set forth below are the expenses (other than underwriting discounts and commissions) expected to be incurred in connection with the issuance and distribution of the securities registered hereby. With the exception of the Securities and Exchange Commission registration fee and the NASD filing fee, the amounts set forth below are estimates.

SEC Registration Fee	$	4,713
NASD Filing Fee		6,326
Nasdaq Stock Market Listing Fee		17,250
Printing and Engraving Expenses		250,000
Fees and Expenses of Legal Counsel		125,000
Accounting Fees and Expenses		350,000
Transfer Agent and Registrar Fees		5,000
Miscellaneous		241,711
Total	$	1,000,000

Item 14. Indemnification of Directors And Officers.

The section of the Prospectus entitled "The Partnership Agreement—Indemnification" discloses that we will generally indemnify officers, directors and affiliates of the general partner to the fullest extent permitted by the law against all losses, claims, damages or similar events and is incorporated herein by this reference. Reference is made to Section 7 of the Underwriting Agreement filed as an Exhibit to the Registration Statement in which we have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, and to contribute to payments that may be required to be made in respect of these liabilities. Subject to any terms, conditions or restrictions set forth in the Partnership Agreement, Section 17-108 of the Delaware Revised Uniform Limited Partnership Act empowers a Delaware limited partnership to indemnify and hold harmless any partner or other persons from and against all claims and demands whatsoever.

Item 15. Recent Sales of Unregistered Securities.

Crosstex Energy, L.P. issued to Crosstex Energy GP, L.P. a 2% general partner interest in the partnership in exchange for a capital contribution in the amount of $20 and to Crosstex Energy Holdings Inc. a 98% limited partner interest in the partnership in exchange for a capital contribution in the amount of $980 in connection with the formation of the partnership in July 2002 in an offering exempt from registration under Section 4(2) of the Securities Act of 1933. On December 17, 2002 and in offerings exempt from registration under Section 4(2) of the Securities Act of 1933, as amended, the Partnership (i) converted the existing limited partner interest in the Partnership owned by Crosstex Energy Holdings Inc. into 333,000 common units and 4,667,000 subordinated units in connection with the contribution of the interests of our subsidiaries which hold the Partnership's operating assets and (ii) converted a portion of the existing interest in the Partnership owned by Crosstex Energy GP, L.P. into a portion of its 2% general partner interest and the incentive distribution rights in the Partnership. There have been no other sales of unregistered securities within the past three years.

Item 16. Exhibits.

(a) The following documents are filed as exhibits to this registration statement:

Exhibit

1.1*	—	Form of Underwriting Agreement
3.1	—	Certificate of Limited Partnership of Crosstex Energy, L.P. (incorporated by reference to Exhibit 3.1 to Registration Statement, file No. 333-97779).
3.2	—	Amended and Restated Agreement of Limited Partnership of Crosstex Energy, L.P. dated as of December 17, 2002 (incorporated by reference to Exhibit 3.2 to Annual Report on Form 10-K, file No. 000-50067).
3.3	—	Certificate of Limited Partnership of Crosstex Energy Services, L.P. (incorporated by reference to Exhibit 3.3 to Registration Statement, file No. 333-97779).
3.4	—	Amended and Restated Agreement of Limited Partnership of Crosstex Energy Services, L.P. dated as of December 17, 2002 (incorporated by reference to Exhibit 3.4 to Annual Report on Form 10-K, file No. 000-50067).
3.5	—	Certificate of Limited Partnership of Crosstex Energy GP, L.P. (incorporated by reference to Exhibit 3.5 to Registration Statement, file No. 333-97779).
3.6	—	Agreement of Limited Partnership of Crosstex Energy GP, L.P. dated as of July 12, 2002 (incorporated by reference to Exhibit 3.6 to Registration Statement, file No. 333-97779).
3.7	—	Certificate of Formation of Crosstex Energy GP, LLC (incorporated by reference to Exhibit 3.7 to Registration Statement, file No. 333-97779).
3.8*	—	Amended and Restated Limited Liability Company Agreement of Crosstex Energy GP, LLC dated as of December 17, 2002.
4.1	—	Specimen Unit Certificate for the common units (incorporated by reference to Exhibit 4.1 to Registration Statement, file No. 333-97779).
5.1*	—	Opinion of Thompson & Knight L.L.P. as to the legality of the securities being registered.
8.1*	—	Opinion of Thompson & Knight L.L.P. relating to tax matters.
10.1	—	Second Amended and Restated Credit Agreement dated as of November 26, 2002, among Crosstex Energy Services, L.P., Union Bank of California, N.A. and certain other parties (incorporated by reference to Exhibit 10.1 to Annual Report on Form 10-K, file No. 000-50067).
10.2*	—	First Amendment to Second Amended and Restated Credit Agreement dated as of June 3, 2003, among Crosstex Energy Services, L.P., Union Bank of California, N.A. and certain other parties.
10.3*	—	$50,000,000 Senior Secured Notes Master Shelf Agreement as of June 3, 2003.
10.4	—	First Contribution, Conveyance and Assumption Agreement dated November 27, 2002, among Crosstex Energy, L.P. and certain other parties (incorporated by reference to Exhibit 10.2 to Annual Report on Form 10-K, file No. 000-50067).
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10.7	—	Form of Employment Agreement (incorporated by reference to Exhibit 10.6 to Annual Report on Form 10-K, file No. 000-50067).

10.8	—	Gas Sales Agreement, dated March 1, 2001 among Tejas Gas Marketing, LLC, Corpus Christi Gas Marketing, L.P. and Corpus Christi Gas Processing, L.P., as amended by the Amendment to Gas Sales Agreement, dated October 1, 2001, among Tejas Gas Marketing, LLC and Crosstex CCNG Marketing, L.P. (incorporated by reference to Exhibit 10.6 to Registration Statement, file No. 333-97779).
10.9	—	Crosstex Energy GP, LLC Long-Term Incentive Plan dated July 12, 2002 (incorporated by reference to Exhibit 10.4 to Annual Report on Form 10-K, file No. 000-50067).
10.10*	—	Seminole Gas Processing Plant Gaines County, Texas Joint Operating Agreement dated January 1, 1993.
10.11*	—	Purchase and Sale Agreement between Duke Energy Field Services, LP and Crosstex Energy Services, L.P. dated April 29, 2003.
21.1*	—	List of Subsidiaries
23.1*	—	Consent of KPMG LLP
23.2*	—	Consent of Deloitte & Touche LLP
23.3*	—	Consent of Thompson & Knight L.L.P. (contained in Exhibit 5.1)
23.4*	—	Consent of Thompson & Knight L.L.P. (contained in Exhibit 8.1)
24.1*	—	Powers of attorney (included on the signature page hereof)

* Filed herewith.

Item 17. Undertakings.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the Registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) For the purposes of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

The undersigned registrant hereby undertakes to send to each holder of common units, at least on an annual basis, a detailed statement of any transactions with the general partner or its affiliates, and of the fees, commissions, compensation and other benefits paid, or accrued to the general partner or its affiliates for the fiscal year completed, showing the amount paid or accrued to each recipient and the services performed.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Dallas, the State of Texas, on July 10, 2003.

CROSSTEX 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

Name: William W. Davis
Title: Senior Vice President and Chief Financial Officer

POWER OF ATTORNEY

Each person whose signature appears below hereby appoints Barry E. Davis and William W. Davis, and each of them, each of whom may act without the joinder of the other, as his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this registration statement and any registration statement of the type contemplated by Rule 462(b) under the Securities Act of 1933, as amended, and to file the same, with all exhibit thereto and all other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents full power and authority to do and perform each and every act and thing appropriate or necessary to be done, as fully and for all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them or their substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/ BARRY E. DAVIS Barry E. Davis	President, Chief Executive Officer and Director (Principal Executive Officer)	July 10, 2003
/s/ WILLIAM W. DAVIS William W. Davis	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	July 10, 2003
/s/ C. ROLAND HADEN C. Roland Haden	Director	July 10, 2003

Signature	Title	Date
/s/ BRYAN H. LAWRENCE Bryan H. Lawrence	Director	July 10, 2003
/s/ SHELDON B. LUBAR Sheldon B. Lubar	Director	July 10, 2003
/s/ ROBERT F. MURCHISON Robert F. Murchison	Director	July 10, 2003
/s/ STEPHEN A. WELLS Stephen A. Wells	Director	July 10, 2003

INDEX TO EXHIBITS

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* Filed herewith.

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 1.1

CROSSTEX ENERGY, L.P.

1,500,000 Common Units
Representing Limited Partner Interests

UNDERWRITING AGREEMENT

, 2003

A.G. Edwards & Sons, Inc.
RBC Dain Rauscher Inc.
Raymond James & Associates, Inc.
c/o A.G. Edwards & Sons, Inc.
One North Jefferson Avenue
St. Louis, Missouri 63103

The undersigned, Crosstex Energy, L.P., a Delaware limited partnership (the "**Partnership**"), Crosstex Energy Services, L.P., a Delaware limited partnership (the "**Operating Partnership**"), Crosstex Energy GP, L.P., a Delaware limited partnership (the "**General Partner**"), Crosstex Energy GP, LLC, a Delaware limited liability company ("**GP LLC**"), Crosstex Energy Holdings Inc., a Delaware corporation ("**Holdings**") and Crosstex Energy Services GP, LLC, a Delaware limited liability company ("**Services**") hereby address you as the "**Underwriters**" and hereby confirm their agreement with the several Underwriters as set forth below. The Partnership, the Operating Partnership, the General Partner, GP LLC, Holdings and Services are collectively referred to herein as the "**Crosstex Parties**."

The Partnership operates its business through Services and the Operating Partnership. Each of Services and the Operating Partnership operates its business through itself and the Operating Subs (as hereinafter defined). The General Partner serves as the general partner of the Partnership. GP LLC serves as the general partner of the General Partner. Services serves as the general partner of each of the Operating Partnership, Crosstex Gulf Coast Transmission, Ltd., a Texas limited partnership ("**Gulf Coast Transmission**"), Crosstex Gulf Coast Marketing, Ltd., a Texas limited partnership ("**Gulf Coast Marketing**"), Crosstex CCNG Gathering Ltd., a Texas limited partnership ("**CCNG Gathering**"), Crosstex CCNG Marketing Ltd., a Texas limited partnership ("**CCNG Marketing**"), Crosstex CCNG Transmission Ltd., a Texas limited partnership ("**CCNG Transmission**"), and Crosstex CCNG Processing Ltd., a Texas limited partnership ("**CCNG Processing**"). Crosstex Acquisition Management GP, LLC, a Delaware limited liability company ("**Management GP**"), serves as the general partner of each of Crosstex Alabama Gathering System, L.P., a Delaware limited partnership ("**Alabama Gathering**"), Crosstex Mississippi Industrial Gas Sales, L.P., a Delaware limited partnership**("Mississippi Industrial"**), Crosstex Mississippi Pipeline, L.P., a Delaware limited partnership ("**Mississippi Pipeline**"), Crosstex Seminole Gas, L.P., a Delaware limited partnership ("**Seminole Gas**"), and Crosstex Acquisition Management, L.P., a Delaware limited partnership ("**Acquisition Management**"). Crosstex Pipeline, LLC, a Texas limited liability company ("**Pipeline LLC**"), serves as the general partner of Crosstex Pipeline Partners, Ltd., a Texas limited partnership ("**Pipeline LP**").

Gulf Coast Transmission, Gulf Coast Marketing, CCNG Gathering, CCNG Marketing, CCNG Transmission, CCNG Processing, Pipeline LLC, Management GP, Alabama Gathering, Mississippi Industrial, Mississippi Pipeline, Seminole Gas, Acquisition Management, Pipeline LP, Crosstex Treating Services GP, LLC, a Delaware limited liability company ("**Crosstex Treating GP**") and Crosstex Treating Services, LP, a Delaware limited partnership ("**Crosstex Treating LP**") are collectively referred to herein as the "**Operating Subs**." The Partnership, the Operating Partnership, Services and the

Operating Subs are collectively referred to herein as the "**Partnership Entities**." The Crosstex Parties and the Operating Subs are collectively referred to herein as the "**Crosstex Entities**."

1. **Description of Common Units**. The Partnership proposes to issue and sell to the Underwriters 1,500,000 common units (the "**Firm Units**") representing limited partner interests in the Partnership (the "**Common Units**"). Solely for the purpose of covering over-allotments in the sale of the Firm Units, the Partnership further proposes to grant to the Underwriters the right to purchase up to an additional 225,000 Common Units (the "**Option Units**"), as provided in Section 3 of this Agreement. The Firm Units and the Option Units are herein sometimes referred to as the "**Units**" and are more fully described in the Prospectus hereinafter defined.

2. **Purchase, Sale and Delivery of Firm Units**. On the basis of the representations, warranties and agreements herein contained, but subject to the terms and conditions herein set forth, the Partnership agrees to sell to the Underwriters, and each such Underwriter agrees, severally and not jointly, (a) to purchase from the Partnership, at a purchase price of $ per unit, the number of Firm Units set forth opposite the name of such Underwriter in Schedule I hereto and (b) to purchase from the Partnership any additional number of Option Units which such Underwriter may become obligated to purchase pursuant to Section 3 hereof.

Delivery of the Firm Units will be in book-entry form through the facilities of The Depository Trust Company, New York, New York ("**DTC**"). Delivery of the documents required by Section 6 hereof with respect to the Units shall be made at or prior to 11:00 a.m. on , 2003 at Thompson & Knight L.L.P., 1700 Pacific Avenue, Suite 3300, Dallas, Texas 75201 or at such other place as may be agreed upon between you and the Partnership (the "**Place of Closing**"), or at such other time and date not later than five full business days thereafter as you and the Partnership may agree, such time and date of payment and delivery being herein called the "**Closing Date**."

The Partnership will cause its transfer agent to deposit as original issue the Firm Units pursuant to the Full Fast Delivery Program of the DTC.

It is understood that an Underwriter, individually, may (but shall not be obligated to) make payment on behalf of the other Underwriters whose funds shall not have been received prior to the Closing Date for Units to be purchased by such Underwriter. Any such payment by an Underwriter shall not relieve the other Underwriters of any of their obligations hereunder.

It is understood that the Underwriters propose to offer the Units to the public upon the terms and conditions set forth in the Registration Statement hereinafter defined.

3. **Purchase, Sale and Delivery of the Option Units**. The Partnership hereby grants an option to the Underwriters to purchase from the Partnership up to 225,000 Option Units, on the same terms and conditions as the Firm Units; *provided, however*, that such option may be exercised only for the purpose of covering any over-allotments that may be made by the Underwriters in the sale of the Firm Units. No Option Units shall be sold or delivered unless the Firm Units previously have been, or simultaneously are, sold and delivered.

The option is exercisable by you at any time, and from time to time, before the expiration of 30 days from the date of the Prospectus (or, if such 30th day shall be a

Saturday or Sunday or a holiday, on the next day thereunder when The Nasdaq National Market is open for trading), for the purchase of all or part of the Option Units covered thereby, by notice given by you to the Partnership in the manner provided in Section 12 hereof, setting forth the number of Option Units as to which the Underwriters are exercising the option, and the date of delivery of said Option Units, which date shall not be more than five business days after such notice unless otherwise agreed to by the parties. You may terminate the option at any time, as to any unexercised portion thereof, by giving written notice to the Partnership to such effect.

You shall make such allocation of the Option Units among the Underwriters as may be required to eliminate purchases of fractional Units.

Delivery of the Option Units will be in book-entry form through the facilities of DTC. Delivery of the documents required by Section 6 hereof with respect to the Units shall be made at the Place of Closing at or prior to 11:00 a.m. on the date designated in the notice given by you as provided above, or at such other time and date as you and the Partnership may agree (which may be the same as the Closing Date), such time and date of payment and delivery being herein called the "**Option Closing Date**." On the Option Closing Date, the Partnership shall provide the Underwriters such representations, warranties, agreements, opinions, letters, certificates and covenants with respect to the Option Units as are required to be delivered on the Closing Date with respect to the Firm Units.

The Partnership will cause its transfer agent to deposit as original issue the Option Units pursuant to the Full Fast Delivery Program of the DTC.

4. **Representations, Warranties and Agreements of the Crosstex Parties**. The Crosstex Parties jointly and severally represent and warrant to and agree with each Underwriter that:

(a) *Definitions.* A registration statement (Registration No. 333-) on Form S-1 with respect to the Units, including a preliminary prospectus, and such amendments to such registration statement as may have been required to the date of this Agreement, has been prepared by the Partnership pursuant to and in conformity with the requirements of the Securities Act of 1933, as amended (the "**1933 Act**"), and the rules and regulations thereunder (the "**1933 Act Rules and Regulations**") of the Securities and Exchange Commission (the "**SEC**") and has been filed and declared effective by the SEC under the 1933 Act. Copies of such registration statement, including any amendments thereto, each related preliminary prospectus contained therein, and the exhibits, financial statements and schedules thereto have heretofore been delivered by the Partnership to you. A final prospectus containing information permitted to be omitted at the time of effectiveness by Rule 430A of the 1933 Act Rules and Regulations will be filed promptly by the Partnership with the SEC in accordance with Rule 424(b) of the 1933 Act Rules and Regulations. The term "**Registration Statement**" as used herein means the registration statement as amended at the time it became effective under the 1933 Act (the "**Effective Date"**), including financial statements and all exhibits and, if applicable, the information deemed to be included by Rule 430A of the 1933 Act Rules and Regulations. If it is contemplated, at the time this Agreement is executed, that a post-effective amendment to such registration statement will be filed and must be declared effective before the offering of Units may commence, the term "**Registration Statement**" as used herein means the registration statement as amended by said post-effective amendment. If an abbreviated registration statement is prepared and filed with the SEC in accordance with Rule 462(b) or Rule 462(d) under the 1933 Act (an "**Abbreviated Registration Statement**"), the term "**Registration Statement**" as used in this Agreement includes the Abbreviated Registration Statement. The term "**Prospectus"** as used herein means the prospectus as first filed with the SEC pursuant to Rule 424(b) of the 1933 Act Rules and Regulations. The term "**Preliminary Prospectus"** as used herein shall mean the preliminary prospectus, dated , 2003, relating to the Units as such preliminary prospectus shall have been amended from time to time prior to the date of the Prospectus. For purposes of this Agreement, the words "amend," "amendment," "amended," "supplement" or "supplemented" with respect to the Registration Statement or the Prospectus shall mean amendments or supplements to the Registration Statement or the Prospectus, as the case may be.

(b) *No Stop Order; No Material Misstatements or Omissions.* Neither the SEC nor any state or other jurisdiction or other regulatory body has issued, and neither is, to the knowledge of the Crosstex Parties, threatening to issue, any stop order under the 1933 Act or other order suspending the effectiveness of the Registration Statement (as amended or supplemented) or preventing or suspending the use of the Preliminary Prospectus or the Prospectus or suspending the qualification or registration

of the Units for offering or sale in any jurisdiction nor instituted or, to the knowledge of the Crosstex Parties, threatened to institute proceedings for any such purpose. The Registration Statement, in the form in which it became effective and also in such form as it may be when any post-effective amendment thereto becomes effective, and the Prospectus comply or will comply, as the case may be, in all material respects with the requirements of the 1933 Act and the 1933 Act Rules and Regulations. Neither the Registration Statement nor any amendment thereto, as of the applicable effective date, contains or will contain, as the case may be, any untrue statement of a material fact or omits or will omit to state any material fact required to be stated therein or necessary to make the statements therein, not misleading, and neither the Preliminary Prospectus, the Prospectus nor any supplement thereto contains or will contain, as the case may be, any untrue statement of a material fact or omits or will omit to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; *provided, however*, that the Partnership makes no representation or warranty as to information contained in or omitted from the Registration Statement, the Preliminary Prospectus or the Prospectus, or any such amendment or supplement, in reliance upon, and in conformity with, written information furnished to the Partnership relating to the Underwriters by or on behalf of the Underwriters expressly for use in the preparation thereof (as provided in Section 13 hereof). Each of the statements made by the Partnership in such documents within the coverage of Rule 175(b) of the 1933 Act Rules and Regulations, including (but not limited to) any forecasts of results of operations and significant changes in financial position or statements with respect to future available cash or future cash distributions of the Partnership or the anticipated ratio of taxable income to distributions was made or will be made with a reasonable basis and in good faith.

(c) *Formation and Due Qualification of the Partnership.* The Partnership has been duly formed and is validly existing in good standing as a limited partnership under the Delaware Revised Uniform Limited Partnership Act ("**Delaware LP Act**") with full partnership power and authority to own or lease its properties and to conduct its business in all material respects as described in the Registration Statement and the Prospectus. The Partnership is duly registered or qualified as a foreign limited partnership for the transaction of business under the laws of each jurisdiction in which the character of the business conducted by it or the nature or location of the properties owned or leased by it makes such registration or qualification necessary, except where the failure so to register or qualify would not (i) have a material adverse effect on the business, prospects, financial condition or results of operations of the Partnership Entities, taken as a whole ("**Material Adverse Effect**"), or (ii) subject the limited partners of the Partnership to any material liability or disability.

(d) *Formation and Due Qualification of the General Partner.* The General Partner has been duly formed and is validly existing in good standing as a limited partnership under the Delaware LP Act with full partnership power and authority to own or lease its properties, to conduct its business and to act as a general partner of the Partnership, in each case in all material respects as described in the Registration Statement and the Prospectus. The General Partner is duly registered or qualified as a foreign limited partnership for the transaction of business under the laws of each jurisdiction in which the character of the business conducted by it or the nature or location of the properties owned or leased by it makes such registration or qualification necessary, except where the failure so to register or qualify would not (i) have a Material Adverse Effect or (ii) subject the limited partners of the Partnership to any material liability or disability.

(e) *Formation and Due Qualification of GP LLC, Services, Crosstex Treating GP and Management LP.* Each of GP LLC, Services, Crosstex Treating GP and Management GP has been duly formed and is validly existing in good standing as a limited liability company under the Delaware Limited Liability Act (the "**Delaware LLC Act**") with full limited liability company power and authority to own or lease its properties and to conduct its business, in each case in all material respects as described in the Registration Statement and the Prospectus. GP LLC has all necessary limited liability company power and authority to act as general partner of the General Partner. Services has all necessary limited liability company power and authority to act as general partner of each of the Operating Partnership, Gulf Coast Transmission, Gulf Coast Marketing, CCNG Gathering, CCNG Marketing, CCNG Transmission and CCNG Processing. Crosstex Treating GP has all the necessary limited liability company power to act as the general partner of Crosstex Treating LP. Management GP has all the necessary limited liability company power to act as the general partner of each of Alabama Gathering, Mississippi Industrial, Mississippi Pipeline, Seminole Gas and Acquisition Management. Each of GP LLC, Services, Crosstex Treating GP and Management GP is duly registered or qualified as a foreign limited liability company for the transaction of business under the laws of each jurisdiction in which the character of the business conducted by it or the nature or location of the properties owned or leased by it makes such registration or qualification necessary, except where the failure so to register or qualify would not (i) have a Material Adverse Effect or (ii) subject the limited partners of the Partnership to any material liability or disability.

(f) *Formation and Due Qualification of the Operating Partnership, Crosstex Treating LP, Alabama Gathering, Mississippi Industrial, Mississippi Pipeline, Seminole Gas and Acquisition Management*. Each of the Operating Partnership, Crosstex Treating LP, Alabama Gathering, Mississippi Industrial, Mississippi Pipeline, Seminole Gas and Acquisition Management has been duly formed and is validly existing in good standing as a limited partnership under the Delaware LP Act with full partnership power and authority to own or lease its properties and to conduct its business, in each case in all material respects as described in the Registration Statement and the Prospectus. Each of the Operating Partnership, Crosstex Treating LP, Alabama Gathering, Mississippi Industrial, Mississippi Pipeline, Seminole Gas and Acquisition Management is duly registered or qualified as a foreign limited partnership for the transaction of business under the laws of each jurisdiction in which the character of the business conducted by it or the nature or location of the properties owned or leased by it makes such registration or qualification necessary, except where the failure to register or qualify would not (i) have a Material Adverse Effect or (ii) subject the limited partners of the Partnership to any material liability or disability.

(g) *Formation and Due Qualification of Gulf Coast Transmission, Gulf Coast Marketing, CCNG Gathering, CCNG Marketing, CCNG Transmission, CCNG Processing and Pipeline LP*. Each of Gulf Coast Transmission, Gulf Coast Marketing, CCNG Gathering, CCNG Marketing, CCNG Transmission, CCNG Processing and Pipeline LP has been duly formed and is validly existing in good standing as a limited partnership under the Texas Revised Limited Partnership Act (the "**Texas LP Act**") with full partnership power and authority to own or lease its properties and to conduct its business, in each case in all material respects as described in the Registration Statement and the Prospectus. Each of Gulf Coast Transmission, Gulf Coast Marketing, CCNG Gathering, CCNG Marketing, CCNG Transmission, CCNG Processing and Pipeline LP is duly registered or qualified as a foreign limited partnership for the transaction of business under the laws of each jurisdiction in which the character of the business conducted by it or the nature or location of the properties owned or leased by it makes such registration or qualification necessary, except where the failure so to register or qualify would not (i) have a Material Adverse Effect or (ii) subject the limited partners of the Partnership to any material liability or disability.

(h) *Formation and Due Qualification of Pipeline LLC*. Pipeline LLC has been duly formed and is validly existing in good standing as a limited liability company under the Texas Limited Liability Company Act (the "**Texas LLC Act**") with full limited liability company power and authority to own or lease its properties, to conduct its business and to act as general partner of Pipeline LP, in each case in all material respects as described in the Registration Statement and the Prospectus. Pipeline LLC is duly registered or qualified as a foreign limited liability company for the transaction of business under the laws of each jurisdiction in which the character of the business conducted by it or the nature or location of the properties owned or leased by it makes such registration or qualification necessary,

except where the failure so to register or qualify would not (i) have a Material Adverse Effect or (ii) subject the limited partners of the Partnership to any material liability or disability.

(i) *Formation and Due Qualification of Holdings*. Holdings has been duly incorporated and is validly existing in good standing under the Delaware General Corporation Law ("**DGCL**") with full corporate power and authority to own or lease its properties and to conduct its business, in all material respects as described in the Registration Statement and the Prospectus. Holdings is duly registered or qualified as a foreign corporation for the transaction of business under the laws of each jurisdiction in which the character of the business conducted by it or the nature or location of the properties owned or leased by it makes such registration or qualification necessary, except where the failure so to register or qualify would not (i) have a Material Adverse Effect or (ii) subject the limited partners of the Partnership to any material liability or disability.

(j) *Ownership of the General Partner Interest in the Partnership*. The General Partner is the sole general partner of the Partnership with a 2% general partner interest in the Partnership; such general partner interest has been duly authorized and validly issued in accordance with the Partnership Agreement; and the General Partner owns its general partner interest free and clear of all liens, encumbrances (except restrictions on transferability contained in Section 4.6 of the Partnership Agreement or as described in the Prospectus), security interests, equities, charges or claims.

(k) *Capitalization*. The issued and outstanding limited partner interests of the Partnership consist of 2,633,000 Common Units, 4,667,000 subordinated units representing subordinated limited partnership interests in the Partnership ("**Subordinated Units**") and the incentive distribution rights, as defined in the Amended and Restated Agreement of Limited Partnership of the Partnership (as the same has been and may be amended or restated at or prior to the Closing Date, the "**Partnership Agreement**") (the "**Incentive Distribution Rights**"). All outstanding Common Units, Subordinated Units and Incentive Distribution Rights and the limited partner interests represented thereby have been duly authorized and validly issued in accordance with the Partnership Agreement and are fully paid (to the extent required under the Partnership Agreement) and nonassessable (except as such nonassessability may be affected by Sections 17-303 and 17-607 of the Delaware LP Act or as otherwise described in the Prospectus under the caption "The Partnership Agreement—Limited Liability").

(l) *Ownership of the Sponsor Units and the Incentive Distribution Rights*. Holdings owns 333,000 Common Units and 4,667,000 Subordinated Units (all such Common and Subordinated Units being collectively referred to herein as the "**Sponsor Units**") and the General Partner owns all of the Incentive Distribution Rights; and Holdings owns its Sponsor Units and the General Partner owns the Incentive Distribution Rights free and clear of all liens, encumbrances (except with respect to the Incentive Distribution Rights, restrictions on transferability contained in Section 4.7 of the Partnership Agreement or as described in the Prospectus), equities security interests, charges or claims.

(m) *Valid Issuance of the Units*. At the Closing Date or the Option Closing Date, as the case may be, the Firm Units or the Option Units to be sold by the Partnership and the limited partner interests represented thereby, will be duly authorized by the Partnership Agreement and, when issued and delivered to the Underwriters against payment therefor in accordance with the terms hereof, will be validly issued, fully paid (to the extent required under the Partnership Agreement) and nonassessable (except as such nonassessability may be affected by Sections 17-303 and 17-607 of the Delaware LP Act or as otherwise described in the Prospectus under the caption "The Partnership Agreement—Limited Liability").

(n) *Ownership of the Partnership Interests in the Operating Partnership*. Services is the sole general partner of the Operating Partnership with a .001% general partner interest in the Operating Partnership; such general partner interest has been duly authorized and validly issued in accordance with the partnership agreement of the Operating Partnership (as the same may be amended and restated at or prior to the Closing Date, the "**Operating Partnership Agreement**"); Services owns such general partner interest free and clear of all liens, encumbrances (except restrictions on transferability contained in Article IV of the Operating Partnership Agreement or as described in the Prospectus), security interests, equities, charges or claims, except for such liens, encumbrances, security interests, equities, charges and claims arising under (i) the bank credit facility entered into among the Operating Partnership and Union Bank of California, N.A., as administrative agent, Fleet National Bank, as syndication agent, and the other lenders named therein (as amended, the "**Bank Credit Facility**") and (ii) the Master Shelf Agreement, dated June 3, 2003, among the Operating Partnership, Prudential Investment Management, Inc. and the purchasers from time to time of the notes issued thereunder, and the Series A Notes and Series B Notes issued thereunder (collectively, the "**Note Agreements**" and, together with the Bank Credit Facility, the "**Debt Agreements**"); the Partnership is the sole limited partner of the Operating Partnership with a 99.999% limited partner interest in the Operating Partnership; such limited partner interest has been duly authorized and validly issued in accordance with the Operating Partnership Agreement and will be fully paid (to the extent required under the Operating Partnership Agreement) and nonassessable (except as such nonassessability may be affected by Sections 17-303 and 17-607 of the Delaware LP Act); and the Partnership owns such limited partner interest free and clear of all liens, encumbrances (except restrictions on transferability contained in Article IV of the Operating Partnership Agreement or as described in the Prospectus), security interests, equities, charges or claims, except for such liens, encumbrances, security interests, equities, charges and claims arising under the Debt Agreements.

(o) *Ownership of Services.* The Partnership owns 100% of the issued and outstanding membership interests in Services; such membership interests have been duly authorized and validly issued in accordance with the limited liability company agreement of Services (as the same may be amended or restated at or prior to the Closing Date, the "**Services LLC Agreement**") and are fully paid (to the extent required under the Services LLC Agreement) and nonassessable (except as such nonassessability may be affected by Section 18-607 of the Delaware LLC Act); and the Partnership owns such membership interest free and clear of all liens, encumbrances (except restrictions on transferability as described in the Prospectus or as otherwise contained in the Services LLC Agreement), security interests, equities, charges or claims, except for such liens, encumbrances, security interests, equities, charges and claims arising under the Debt Agreements.

(p) *Ownership of the Partnership Interests in Gulf Coast Transmission, Gulf Coast Marketing, CCNG Gathering, CCNG Marketing, CCNG Transmission and CCNG Processing.* Services is the sole general partner of each of Gulf Coast Transmission, Gulf Coast Marketing, CCNG Gathering, CCNG Marketing, CCNG Transmission and CCNG Processing with a .001% general partner interest in each of Gulf Coast Transmission, Gulf Coast Marketing, CCNG Gathering, CCNG Marketing, CCNG Transmission and CCNG Processing; each such general partner interest has been duly authorized and validly issued in accordance with the partnership agreements of Gulf Coast Transmission, Gulf Coast Marketing, CCNG Gathering, CCNG Marketing, CCNG Transmission and CCNG Processing (as the same may be amended or restated at or prior to the Closing Date, the "**Texas Operating Subs Partnership Agreements**"); Services owns each such general partner interest free and clear of all liens, encumbrances (except restrictions on transferability as described in the Prospectus or as otherwise contained in the Texas Operating Subs Partnership Agreements), security interests, equities, charges or claims, except for such liens, encumbrances, security interests, equities, charges and claims arising under the Debt Agreements; the Operating Partnership is the sole limited partner of each of Gulf Coast Transmission, Gulf Coast Marketing, CCNG Gathering, CCNG Marketing, CCNG Transmission and CCNG Processing with a 99.999% limited partner interest in each of Gulf Coast Transmission, Gulf Coast Marketing, CCNG Gathering, CCNG Marketing, CCNG Transmission and CCNG Processing; each such limited partner interest has been duly authorized and validly issued in accordance with the Texas Operating Subs Partnership Agreements and will be fully paid (to the extent required under the Texas Operating Subs Partnership Agreements) and nonassessable (except as such nonassessability may be affected by Sections 3.03, 5.02 and 6.07 of the Texas LP Act); and the Operating Partnership owns

each such limited partner interest free and clear of all liens, encumbrances (except restrictions on transferability as described in the Prospectus or as otherwise contained in the Texas Operating Subs Partnership Agreements), security interests, equities, charges or claims, except for such liens, encumbrances, security interests, equities, charges and claims arising under the Debt Agreements.

(q) *Ownership of Pipeline LLC, Crosstex Treating GP and Management GP.* The Operating Partnership owns 100% of the issued and outstanding membership interests in each of Pipeline LLC, Crosstex Treating GP and Management GP; such membership interests have been duly authorized and validly issued in accordance with the limited liability company agreement of Pipeline LLC, Crosstex Treating GP and Management GP (as the same may be amended or restated at or prior to the Closing Date, the "**Pipeline LLC Agreement,**" the "**Crosstex Treating GP LLC Agreement**" and the "**Management GP LLC Agreement**," respectively) and will be fully paid (to the extent required under the Pipeline LLC Agreement, the Crosstex Treating GP LLC Agreement or the Management GP LLC Agreement) and nonassessable (except as such nonassessibility may be affected, in the case of Pipeline LLC, by Article 5.09 of the Texas LLC Act or, in the case of Crosstex Treating GP or of Management GP, by Section 18-607 of the Delaware LLC Act); and the Operating Partnership owns such membership interest free and clear of all liens, encumbrances (except restrictions on transferability as described in the Prospectus or as otherwise contained in the Pipeline LLC Agreement, the Crosstex Treating GP LLC Agreement or the Management GP LLC Agreement), security interests, equities, charges or claims, except for such liens, encumbrances, security interests, equities, charges and claims arising under the Debt Agreements.

(r) *Ownership of the Partnership Interests in Alabama Gathering, Mississippi Industrial, Mississippi Pipeline, Seminole Gas and Acquisition Management.* Management GP is the sole general partner of each of Alabama Gathering, Mississippi Industrial, Mississippi Pipeline, Seminole Gas and Acquisition Management with a ..001% general partner interest in each of Alabama Gathering, Mississippi Industrial, Mississippi Pipeline, Seminole Gas and Acquisition Management; each such general partner interest has been duly authorized and validly issued in accordance with the partnership agreements of Alabama Gathering, Mississippi Industrial, Mississippi Pipeline, Seminole Gas and Acquisition Management (as the same may be amended or restated at or prior to the Closing Date, the "**Delaware Operating Subs Partnership Agreements**" and, together with the Texas Operating Subs Partnership Agreements, the "**Operating Subs Partnership Agreements**"); and Management GP owns each such general partner interest free and clear of all liens, encumbrances (except restrictions on transferability as described in the Prospectus or as otherwise contained in the Delaware Operating Subs Partnership Agreements), security interests, equities, charges or claims, except for such liens, encumbrances, security interests, equities, charges and claims arising under the Debt Agreements; and the Operating Partnership is the sole limited partner of each of Alabama Gathering, Mississippi Industrial, Mississippi Pipeline, Seminole Gas and Acquisition Management with a 99.999% limited partner interest in each of Alabama Gathering, Mississippi Industrial, Mississippi Pipeline, Seminole Gas and Acquisition Management; each such limited partner interest has been duly authorized and validly issued in accordance with the Delaware Operating Subs Partnership Agreements and will be fully paid (to the extent required under the Delaware Operating Subs Partnership Agreements) and nonassessable (except as such nonassessability may be affected by Sections 17-303 and 17-607 of the Delaware LP Act); and the Operating Partnership owns each such limited partner interest free and clear of all liens, encumbrances (except restrictions on transferability as described in the Prospectus or as otherwise contained in the Delaware Operating Subs Partnership Agreements), security interests, equities, charges or claims, except for such liens, encumbrances, security interests, equities, charges and claims arising under the Debt Agreements.

(s) *Ownership of Crosstex Treating LP.* Crosstex Treating GP is the sole general partner of Crosstex Treating LP with a .001% general partner interest in Crosstex Treating LP; such general partner interest has been duly authorized and validly issued in accordance with the partnership agreement of

Crosstex Treating LP (as the same may be amended and restated at or prior to the Closing Date, the "**Crosstex Treating Partnership Agreement**"); Crosstex Treating GP owns such general partner interest free and clear of all liens, encumbrances (except restrictions on transferability as described in the Prospectus or as otherwise contained in the Crosstex Treating Partnership Agreement), security interests, equities, charges or claims, except for such liens, encumbrances, security interests, equities, charges and claims arising under the Debt Agreements; the Operating Partnership is the sole limited partner of Crosstex Treating LP with a 99.999% limited partner interest in Crosstex Treating LP; such limited partner interest has been duly authorized and validly issued in accordance with the Crosstex Treating Partnership Agreement and is be fully paid (to the extent required under the Crosstex Treating Partnership Agreement) and nonassessable (except as such nonassessability may be affected by Sections 17-303 and 17-607 of the Delaware LP Act); and the Operating Partnership owns such limited partner interest free and clear of all liens, encumbrances (except restrictions on transferability as described in the Prospectus or as otherwise contained in the Crosstex Treating Partnership Agreement), security interests, equities, charges or claims, except for such liens, encumbrances, security interests, equities, charges and claims arising under the Debt Agreements.

(t) *Ownership of Pipeline LP.* Pipeline LLC is a general partner of Pipeline LP with an approximate 1% general partner interest in Pipeline LP; such general partner interest has been duly authorized and validly issued in accordance with the partnership agreement of Pipeline LP (as the same may be amended and restated at or prior to the Closing Date, the "**Pipeline Partnership Agreement**"); Pipeline LLC owns such general partner interest free and clear of all liens, encumbrances (except restrictions on transferability as described in the Prospectus or as otherwise contained in the Pipeline Partnership Agreement), security interests, equities, charges or claims, except for such liens, encumbrances, security interests, equities, charges and claims arising under the Debt Agreements; the Operating Partnership is a limited partner of Pipeline LP with an approximate 21% limited partner interest in Pipeline LP; such limited partner interest has been duly authorized and validly issued in accordance with the Pipeline Partnership Agreement and will be fully paid (to the extent required under the Pipeline Partnership Agreement) and nonassessable (except as such nonassessability may be affected by Sections 3.03, 5.02 and 6.07 of the Texas LP Act); and the Operating Partnership owns such limited partner interest free and clear of all liens, encumbrances (except restrictions on transferability as described in the Prospectus or as otherwise contained in the Pipeline Partnership Agreement), security interests, equities, charges or claims, except for such liens, encumbrances, security interests, equities, charges and claims arising under the Debt Agreements.

(u) *Ownership of the General Partner.* GP LLC is the sole general partner of the General Partner with a .001% general partner interest in the General Partner; such general partner interest has been duly authorized and validly issued in accordance with the partnership agreement of the General Partner (as the same may be amended and restated at or prior to the Closing Date, the "**General Partner Partnership Agreement**"); GP LLC owns such general partner interest free and clear of all liens, encumbrances (except restrictions on transferability as described in the Prospectus or as otherwise contained in the General Partner Partnership Agreement), security interests, equities, charges or claims; Holdings is the sole limited partner of the General Partner with a 99.999% limited partner interest in the General Partner; such limited partner interest has been duly authorized and validly issued in accordance with the General Partner Partnership Agreement and is fully paid (to the extent required under the General Partner Partnership Agreement) and nonassessable (except as such nonassessability may be affected by Sections 17-303 and 17-607 of the Delaware LP Act); and Holdings owns such limited partner interest free and clear of all liens, encumbrances (except restrictions on transferability as described in the Prospectus or as otherwise contained in the General Partner Partnership Agreement), security interests, equities, charges or claims.

(v) *Ownership of GP LLC.* Holdings owns 100% of the issued and outstanding membership interests in GP LLC; such membership interests have been duly authorized and validly issued in

accordance with the limited liability company agreement of GP LLC (as the same may be amended or restated at or prior to the Closing Date, the "**GP LLC Agreement**") and are fully paid (to the extent required under the GP LLC Agreement) and nonassessable (except as such nonassessability may be affected by Section 18-607 of the Delaware LLC Act); and Holdings owns its membership interests free and clear of all liens, encumbrances (except restrictions on transferability as described in the Prospectus or as otherwise contained in the GP LLC Agreement), security interests, equities, charges or claims.

(w) *No Other Subsidiaries.* Other than the Partnership's ownership of its limited partner interest in the Operating Partnership and its membership interest in Services, and the Operating Partnership's ownership of its limited partner interests and membership interest in each of the Operating Subs, neither the Partnership nor the Operating Partnership own, and at the Closing Date and the Option Closing Date neither will own, directly or indirectly, any equity or long-term debt securities of any corporation, partnership, limited liability company, joint venture, association or other entity. Other than the General Partner's ownership of its general partner interest in the Partnership, the General Partner does not own, and at the Closing Date and the Option Closing Date will not own, directly or indirectly, any equity or long-term debt securities of any corporation, partnership, limited liability company, joint venture, association or other entity.

(x) *No Preemptive Rights, Registration Rights or Options.* Except as described in the Prospectus or, in the case of transfer restrictions, as set forth in the agreement of limited partnership, limited liability company agreement or other organizational documents of the Partnership Entities, there are no preemptive rights or other rights to subscribe for or to purchase, nor any restriction upon the voting or transfer of, any partnership or membership interests of any of the Partnership Entities, in each case pursuant to the agreement or certificate of limited partnership, limited liability company agreement, certificate of formation or other organizational documents of any of the Partnership Entities, or any other agreement or instrument to which any of such entities is a party or by which any one of them may be bound. Neither the filing of the Registration Statement nor the offering or sale of the Units as contemplated by this Agreement gives rise to any rights for or relating to the registration of any Units or other securities of the Partnership other than as have been waived. Except as described in the Prospectus, there are no outstanding options or warrants to purchase any partnership or membership interests in any of the Partnership Entities.

(y) *Authority and Authorization.* The Partnership has all requisite power and authority to issue, sell and deliver the Units to be sold by it, in accordance with and upon the terms and conditions set forth in this Agreement, the Partnership Agreement, the Registration Statement and the Prospectus. At the Closing Date and the Option Closing Date, all corporate, partnership and limited liability company action, as the case may be, required to be taken by the Crosstex Entities or any of their stockholders, members or partners for the authorization, issuance, sale and delivery of the Units and the consummation of the transactions contemplated by this Agreement shall have been validly taken.

(z) *Enforceability of the Underwriting Agreement.* This Agreement has been duly authorized, validly executed and delivered by each of the Crosstex Parties and constitutes the valid and legally binding agreement of each of the Crosstex Parties, enforceable against each of them in accordance with its terms; provided that the enforceability thereof may be limited by bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); provided, further, that the indemnity, contribution and exoneration provisions hereunder may be limited by applicable laws and public policy.

(aa) *Enforceability of Other Agreements.* At or before the Closing Date:

(1) The Partnership Agreement has been duly authorized, executed and delivered by the General Partner and is a valid and legally binding agreement of the General Partner, enforceable against the General Partner in accordance with its terms;

(2) The Operating Partnership Agreement has been duly authorized, executed and delivered by the Partnership and Services and is a valid and legally binding agreement of the Partnership and Services, enforceable against the Partnership and Services in accordance with its terms;

(3) The General Partner Partnership Agreement has been duly authorized, executed and delivered by GP LLC and Holdings and is a valid and legally binding agreement of GP LLC and Holdings, enforceable against GP LLC and Holdings in accordance with its terms;

(4) The GP LLC Agreement has been duly authorized, executed and delivered by Holdings and is a valid and legally binding agreement of Holdings, enforceable against Holdings in accordance with its terms;

(5) The Services LLC Agreement has been duly authorized, executed and delivered by the Partnership and is a valid and legally binding agreement of the

Partnership, enforceable against the Partnership in accordance with its terms;

(6) Each of the Pipeline LLC Agreement, the Crosstex Treating GP LLC Agreement and the Management GP LLC Agreement has been duly authorized, executed and delivered by the Operating Partnership and is a valid and legally binding agreement of the Operating Partnership, enforceable against the Operating Partnership in accordance with its terms;

(7) The Pipeline Partnership Agreement has been duly authorized, executed and delivered by Pipeline LLC and the Operating Partnership and is a valid and binding agreement of Pipeline LLC and the Operating Partnership, enforceable against Pipeline LLC and the Operating Partnership in accordance with its terms;

(8) Each of the Texas Operating Subs Partnership Agreements has been duly authorized, executed and delivered by Services and the Operating Partnership and is a valid and binding agreement of each of Services and the Operating Partnership, enforceable against Services and the Operating Partnership in accordance with its terms;

(9) Each of the Delaware Operating Subs Partnership Agreements has been duly authorized, executed and delivered by Management GP and the Operating Partnership, enforceable against Management GP and the Operating Partnership in accordance with its terms;

(10) The Crosstex Treating Partnership Agreement has been duly authorized, executed and delivered by Crosstex Treating GP and the Operating Partnership and is a valid and binding agreement of each of Crosstex Treating GP and the Operating Partnership, enforceable against Crosstex Treating GP and the Operating Partnership in accordance with its terms;

(11) The Purchase and Sale Agreement, dated April 29, 2003, between the Operating Partnership and Duke Energy Field Services, LP, and each of the various bills of sale, assignments, conveyances, contribution agreements and related documents delivered in connection therewith have been duly authorized, executed and delivered by the parties thereto and are valid and binding agreements of the parties thereto, enforceable against such parties in accordance with their respective terms;

(12) The Bank Credit Facility has been duly authorized, executed and delivered by the Operating Partnership and is a valid and legally binding agreement of the Operating Partnership enforceable against it in accordance with its terms; and

(13) Each of the Note Agreements has been duly authorized, executed and delivered by the Operating Partnership and are a valid and legally binding agreements of the Operating Partnership, enforceable against the Operating Partnership in accordance with their terms;

provided that, with respect to each agreement described in this Section 4(aa), the enforceability thereof may be limited by bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar

laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law); and, provided further, that the indemnity, contribution and exoneration provisions contained in any of such agreements may be limited by applicable laws and public policy. The Partnership Agreement, Operating Partnership Agreement, Services LLC Agreement, Operating Subs Partnership Agreements, Pipeline LLC Agreement, the Crosstex Treating GP LLC Agreement, Management GP LLC Agreement, Crosstex Treating Partnership Agreement, Pipeline Partnership Agreement, General Partner Partnership Agreement and GP LLC Agreement are herein collectively referred to as the "**Organizational Agreements**." The Organizational Agreements, the Bank Credit Facility and the Note Agreements are herein collectively referred to as the "**Operative Agreements**."

(bb) *No Conflicts*. None of the offering, issuance and sale by the Partnership of the Units, the execution, delivery and performance of this Agreement by the Crosstex Parties, or the consummation of the transactions contemplated hereby (i) conflicts or will conflict with or constitutes or will constitute a violation of the agreement of limited partnership, limited liability company agreement, certificate or articles of incorporation or bylaws or other organizational documents of any of the Crosstex Entities, (ii) conflicts or will conflict with or constitutes or will constitute a breach or violation of, or a default (or an event which, with notice or lapse of time or both, would constitute such a default) under any indenture, mortgage, deed of trust, loan agreement, lease or other agreement or instrument to which any of the Crosstex Entities is a party or by which any of them or any of their respective properties may be bound, (iii) violates or will violate any statute, law or regulation or any order, judgment, decree or injunction of any court or governmental agency or body directed to any of the Crosstex Entities or any of their properties in a proceeding to which any of them or their property is a party or (iv) results or will result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of any of the Crosstex Entities, which conflicts, breaches, violations or defaults, in the case of clauses (ii), (iii) or (iv), would, individually or in the aggregate, have a Material Adverse Effect or could materially impair the ability of any of the Crosstex Entities to perform their obligations under this Agreement or the Operative Agreements.

(cc) *No Consents*. No permit, consent, approval, authorization, order, registration, filing or qualification ("**consent**") of or with any court, governmental agency or body having jurisdiction over the Crosstex Entities or any of their respective properties is required in connection with the offering, issuance and sale by the Partnership of the Units, the execution, delivery and performance of this Agreement by the Crosstex Parties or the consummation by the Crosstex Parties of the transactions contemplated by this Agreement, except for such consents required under the 1933 Act, the Securities Exchange Act of 1934, as amended (the "**1934 Act**") and state securities or "Blue Sky" laws.

(dd) *No Default*. None of the Crosstex Entities is (i) in violation of its certificate or agreement of limited partnership, limited liability company agreement, certificate or articles of incorporation or bylaws or other organizational documents, (ii) in violation of any law, statute, ordinance, administrative or governmental rule or regulation applicable to it or of any order, judgment, decree or injunction of any court or governmental agency or body having jurisdiction over it or (iii) in breach, default (or an event which, with notice or lapse of time or both, would constitute such a default) or violation in the performance of any obligation, agreement or condition contained in any bond, debenture, note or any other evidence of indebtedness or in any agreement, indenture, lease or other instrument to which it is a party or by which it or any of its properties may be bound, which breach, default or violation in the case of clause (ii) or (iii) would, if continued, have a Material Adverse Effect or could materially impair the ability of any of the Crosstex Entities to perform their obligations under this Agreement or the Operative Agreements. To the knowledge of the Crosstex Entities, no third party to any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which any of the Crosstex Entities is a party or by which any of them is bound or to which any of their properties is subject, is in

default under any such agreement, which breach, default or violation would, if continued, have a Material Adverse Effect.

(ee) *Conformity of Securities to Descriptions in the Prospectus*. The Units to be issued by the Partnership, when issued and delivered in accordance with the terms of the Partnership Agreement against payment therefor as provided herein, and the Subordinated Units and the Incentive Distribution Rights, will conform in all material respects to the descriptions thereof contained in the Prospectus.

(ff) *Independent Public Accountants.* The accountants, KPMG LLP, who have certified or shall certify the audited financial statements included in the Registration Statement and the Prospectus (or any amendment or supplement thereto), are independent public accountants with respect to the Partnership and the General Partner as required by the 1933 Act.

(gg) *Financial Statements*. At **[March 31, 2003]**, the Partnership would have had, on the consolidated pro forma basis indicated in the Prospectus (and any amendment or supplement thereto), a capitalization as set forth therein. The historical financial statements (including the related notes and supporting schedules) included in the Registration Statement and the Prospectus (and any amendment or supplement thereto) present fairly in all material respects the financial position, results of operations and cash flows of the entities purported to be shown thereby on the basis stated therein at the respective dates or for the respective periods to which they apply and have been prepared in accordance with generally accepted accounting principles consistently applied throughout the periods involved, except to the extent disclosed therein. The summary historical and pro forma financial information set forth in the Registration Statement and the Prospectus (and any amendment or supplement thereto) under the caption "Summary Historical and Pro Forma Financial and Operating Data" and the selected historical and pro forma financial information set forth under the caption "Selected Historical and Pro Forma Financial and Operating Data" is accurately presented in all material respects and prepared on a basis consistent with the audited and unaudited historical consolidated financial statements and pro forma financial statements, as applicable, from which it has been derived. The pro forma financial statements of the Partnership included in the Registration Statement and the Prospectus (and any amendment or supplement thereto) have been prepared in all material respects in accordance with the applicable accounting requirements of Article 11 of Regulation S-X of the Commission; the assumptions used in the preparation of such pro forma financial statements are, in the opinion of the management of the General Partner, reasonable; and the pro forma adjustments reflected in such pro forma financial statements have been properly applied to the historical amounts in compilation of such pro forma financial statements.

(hh) *No Material Adverse Change*. None of the Crosstex Entities has sustained since the date of the latest audited financial statements included in the Registration Statement and the Prospectus any material loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, investigation, order or decree, otherwise than as set forth or contemplated in the Registration Statement and the Prospectus. Except as disclosed in the Registration Statement and the Prospectus (or any amendment or supplement thereto), subsequent to the respective dates as of which such information is given in the Registration Statement and the Prospectus (or any amendment or supplement thereto), (i) none of the Crosstex Entities has incurred any liability or obligation, indirect, direct or contingent, or entered into any transactions, not in the ordinary course of business, that, singly or in the aggregate, is material to the Partnership Entities, (ii) there has not been any material change in the capitalization or material increase in the short-term debt or long-term debt of the Crosstex Entities and (iii) there has not been any material adverse change, or any development involving or which may reasonably be expected to involve, singly or in the aggregate, a prospective material adverse change in or affecting the general affairs, business, prospects, properties, management, condition (financial or other), partners' capital, stockholders' equity, net worth or results of operations of the Partnership Entities.

(ii) *Legal Proceedings or Contracts to be Described or Filed*. There are no legal or governmental proceedings pending or, to the knowledge of the Crosstex Entities, threatened, against any of the Crosstex Entities, or to which any of the Crosstex Entities is a party, or to which any of their respective properties is subject, that are required to be described in the Registration Statement or the Prospectus but are not described as required, and there are no agreements, contracts, indentures, leases or other instruments that are required to be described in the Registration Statement or the Prospectus or to be filed as exhibits to the Registration Statement that are not described or filed as required by the 1933 Act.

(jj) *Title to Properties*. The Operating Partnership and the Operating Subs have good and indefeasible title to all real property and good title to all personal property described in the Prospectus as owned by the Operating Partnership and the Operating Subs, free and clear of all liens, claims, security interests, or other encumbrances, except (1) as described, and subject to limitations contained, in the Registration Statement or Prospectus or (2) such as do not materially interfere with the use of such properties taken as a whole as they have been used in the past and are proposed to be used in the future as described in the Registration Statement and the Prospectus, except, in each case, for such liens, security interests, claims and encumbrances arising under the Debt Agreements.

(kk) *Rights-of-Way*. Each of the Partnership Entities has such consents, easements, rights-of-way, permits or licenses from each person (collectively, "**rights-of-way**") as are necessary to conduct its business in the manner described, and subject to the limitations contained, in the Prospectus, except for (i) qualifications, reservations and encumbrances that would not have a Material Adverse Effect and (ii) such rights-of-way that, if not obtained, would not have, individually or in the aggregate, a Material Adverse Effect; other than as set forth, and subject to the limitations contained, in the Prospectus, each of the Partnership Entities has fulfilled and performed all its material obligations with respect to such rights-of-way and no event has occurred that allows, or after notice or lapse of time would allow, revocation or termination thereof or would result in any impairment of the rights of the holder of any such rights-of-way, except for such revocations, terminations and impairments that would not have a Material Adverse Effect; and, except as described in the Prospectus, none of such rights-of-way contains any restriction that is materially burdensome to the Partnership Entities, taken as a whole.

(ll) *Permits*. Each of the Partnership Entities has, or at the Closing Date will have, such permits, consents, licenses, franchises, certificates and authorizations of governmental or regulatory authorities ("**permits**") as are necessary to own its properties and to conduct its business in the manner described in the Prospectus, subject to such qualifications as may be set forth in the Registration Statement and the Prospectus and except for such permits that, if not obtained, would not, individually or in the aggregate, have a Material Adverse Effect; each of the Partnership Entities has fulfilled and performed all its material obligations with respect to such permits which are due to have been fulfilled and performed by such date in the manner described, and subject to the limitations contained, in the Prospectus and no event has occurred which allows, or after notice or lapse of time would allow, revocation or termination thereof or results in any impairment of the rights of the holder of any such permit, except for such revocations, terminations and impairments that would not, individually or in the aggregate, have a Material Adverse Effect.

(mm) *Books and Records*. The Partnership (i) makes and keeps books, records and accounts which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets and (ii) maintains systems of internal accounting controls sufficient to provide reasonable assurances that (A) transactions are executed in accordance with management's general or specific authorization; (B) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets; (C) access to assets is permitted only in accordance with management's general or specific authorization; and (D) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(nn) *Tax Returns*. Each of the Crosstex Entities has filed (or has obtained extensions with respect to) all material federal, state and foreign income and franchise tax returns required to be filed through the date hereof, which returns are complete and correct in all material respects, and has timely paid all taxes shown to be due, if any, pursuant to such returns, other than those (i) which are being contested in good faith and for which adequate reserves have been established in accordance with generally accepted accounting principles or (ii) which, if not paid, would not have a Material Adverse Effect.

(oo) *Investment Company/Public Utility Holding Company*. None of the Crosstex Entities is now, and after sale of the Units to be sold by the Partnership hereunder and application of the net proceeds from such sale as described in the Prospectus under the caption "Use of Proceeds" none of the Crosstex Entities will be, (i) an "investment company" within the meaning of the Investment Company Act of 1940, as amended, or (ii) a "public utility company," "holding company" or a "subsidiary company" of a "holding company" under the Public Utility Holding Company Act of 1935, as amended.

(pp) *Environmental Compliance*. Except as described in the Prospectus, the Crosstex Entities (i) are in compliance with any and all applicable federal, state and local laws and regulations relating to the protection of human health and safety and the environment or imposing liability or standards of conduct concerning any Hazardous Material (as hereinafter defined) ("**Environmental Laws**"), (ii) have received all permits required of them under applicable Environmental Laws to conduct their respective businesses,

(iii) are in compliance with all terms and conditions of any such permit and (iv) do not have any liability in connection with the release into the environment of any Hazardous Materials, except where such noncompliance with Environmental Laws, failure to receive required permits, failure to comply with the terms and conditions of such permits or liability in connection with such releases would not, individually or in the aggregate, have a Material Adverse Effect. The term "**Hazardous Material**" means (A) any "hazardous substance" as defined in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, (B) any "hazardous waste" as defined in the Resource Conservation and Recovery Act, as amended, (C) any petroleum or petroleum product, (D) any polychlorinated biphenyl and (E) any pollutant or contaminant or hazardous, dangerous or toxic chemical, material, waste or substance regulated under or within the meaning of any other Environmental Law.

(qq) *No Labor Dispute*. No material labor dispute with the employees of the Crosstex Entities exists or, to the knowledge of the Crosstex Parties, is imminent.

(rr) *Insurance*. The Crosstex Entities maintain insurance covering the properties, operations, personnel and businesses of the Partnership Entities against such losses and risks as are reasonably adequate to protect them and their businesses in a manner consistent with other businesses similarly situated. None of the Crosstex Entities has received notice from any insurer or agent of such insurer that substantial capital improvements or other expenditures will have to be made in order to continue such insurance. All such insurance is outstanding and duly in force on the date hereof and will be outstanding and duly in force on the Closing Date.

(ss) *Litigation*. Except as described in the Prospectus, there is (i) no action, suit or proceeding before or by any court, arbitrator or governmental agency, body or official, domestic or foreign, now pending or, to the knowledge of the Crosstex Entities, threatened, to which any of the Crosstex Entities is or may be a party or to which the business or property of any of the Crosstex Entities is or may be subject, (ii) no statute, rule, regulation or order that has been enacted, adopted or issued by any governmental agency or that has been formally proposed by any governmental agency and (iii) no injunction, restraining order or order of any nature issued by a federal or state court or foreign court of competent jurisdiction to which any of the Crosstex Entities is or may be subject, that, in the case of clauses (i), (ii) and (iii) above, is reasonably likely to (A) individually or in the aggregate have a Material Adverse Effect, (B) prevent or result in the suspension of the offering and issuance of the

Units, or (C) in any manner draw into question the validity of this Agreement or the Operative Agreements.

(tt) *No Distribution of Other Offering Materials*. None of the Crosstex Entities have distributed and, prior to the later to occur of (i) the Closing Date and (ii) completion of the distribution of the Units, will not distribute, any prospectus (as defined under the 1933 Act) in connection with the offering and sale of the Units other than the Registration Statement, the Preliminary Prospectus, the Prospectus or other materials, if any, permitted by the 1933 Act, including Rule 134 of the 1933 Act Rules and Regulations.

(uu) *Nasdaq Listing*. The Units have been approved for quotation on the Nasdaq National Market, subject only to official notice of issuance.

(vv) *Stabilization*. None of the Crosstex Entities (i) has taken, and none of such persons shall take, directly or indirectly, any action designed to cause or result in, or which has constituted or which might reasonably be expected to constitute, the stabilization or manipulation of the price of the Common Units to facilitate the sale or resale of the Common Units in violation of any law, rule or regulation or (ii) since the initial filing of the Registration Statement, except as contemplated by this Agreement, (A) has sold, bid for, purchased or paid anyone any compensation for soliciting purchases of the Common Units or (B) has paid or agreed to pay to any person any compensation for soliciting another to purchase any other securities of the Partnership.

Any certificate signed by any officer of any Crosstex Entity and delivered to you or to counsel for the Underwriters shall be deemed a representation and warranty by such Crosstex Entity to each Underwriter as to the matters covered thereby.

5. **Additional Covenants**. The Crosstex Parties covenant and agree with the several Underwriters that:

(a) The Partnership will timely transmit copies of the Prospectus, and any amendments or supplements thereto, to the SEC for filing pursuant to Rule 424(b) of the 1933 Act Rules and Regulations.

(b) The Partnership will deliver to each of the Underwriters, and to counsel for the Underwriters (i) a signed copy of the Registration Statement as originally filed, including copies of exhibits thereto, of any amendments and supplements to the Registration Statement and (ii) a signed copy of each consent and certificate included in, or filed as an exhibit to, the Registration Statement as so amended or supplemented; the Partnership will deliver to the Underwriters as soon as practicable after the date of this Agreement as many copies of the Prospectus as the Underwriters may reasonably request for the purposes contemplated by the 1933 Act; if there is a post-effective amendment to the Registration Statement that is not effective under the 1933 Act, the Partnership will use its best efforts to cause the post-effective amendment to the Registration Statement to become effective as promptly as possible, and it will notify you, promptly after it shall receive notice thereof, of the time when the post-effective amendment to the Registration Statement has become effective; the Partnership will promptly advise the Underwriters of any request of the SEC for amendment of the Registration Statement or for supplement to the Prospectus or for any additional information, and of the issuance by the SEC or any state or other jurisdiction or other regulatory body of any stop order under the 1933 Act or other order suspending the effectiveness of the Registration Statement (as amended or supplemented) or preventing or suspending the use of the Preliminary Prospectus or the Prospectus or suspending the qualification or registration of the Units for offering or sale in any jurisdiction, and of the institution or threat of any proceedings therefor, of which the Partnership shall have received notice or otherwise have knowledge prior to the completion of the distribution of the Units; and the Partnership will use its best efforts to prevent the issuance of any such stop order or other order and, if issued, to secure the prompt removal thereof.

(c) The Partnership will not file any amendment or supplement to the Registration Statement, the Prospectus (or any other prospectus relating to the Units filed pursuant to Rule 424(b) of the 1933 Act Rules and Regulations that differs from the Prospectus as filed pursuant to such Rule 424(b)), of which the Underwriters shall not previously have been advised or to which the Underwriters shall have reasonably objected in writing after being so advised unless the Partnership shall have determined based upon the advice of counsel that such amendment or supplement is required by law; and the Partnership will promptly notify you after it shall have received notice thereof of the time when any amendment to the Registration Statement becomes effective or when any supplement to the Prospectus has been filed.

(d) During the period when a prospectus relating to any of the Units is required to be delivered under the 1933 Act by any Underwriter or dealer, the Partnership will comply, at its own expense, with all requirements imposed by the 1933 Act and the 1933 Act Rules and Regulations, so far as necessary to permit the continuance of sales of or dealing in the Units during such period in accordance with the provisions hereof and as contemplated by the Prospectus.

(e) If, during the period when a prospectus relating to any of the Units is required to be delivered under the 1933 Act by any Underwriter or dealer, (i) any event relating to or affecting the Partnership or of which the Partnership shall be advised in writing by the Underwriters shall occur as a result of which, in the opinion of the Partnership or the counsel for the Underwriters, the Prospectus as then amended or supplemented would include any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading or (ii) it shall be necessary to amend or supplement the Registration Statement or the Prospectus to comply with the 1933 Act, the 1933 Act Rules and Regulations, the 1934 Act or the 1934 Act Rules and Regulations, the Partnership will forthwith at its expense prepare and file with the SEC, and furnish to the Underwriters a reasonable number of copies of, such amendment or supplement or other filing that will correct such statement or omission or effect such compliance.

(f) During the period when a prospectus relating to any of the Units is required to be delivered under the 1933 Act by any Underwriter or dealer, the Partnership will furnish such proper information as may be lawfully required and otherwise cooperate with you in qualifying the Units for offer and sale under the securities or blue sky laws of such jurisdictions as the Underwriters may reasonably designate and will file and make such statements or reports as are or may be reasonably necessary; *provided, however*, that the Partnership shall not be required to qualify as a foreign corporation or to qualify as a dealer in securities or to file a general consent to service of process under the laws of any jurisdiction.

(g) In accordance with Section 11(a) of the 1933 Act and Rule 158 of the 1933 Act Rules and Regulations, the Partnership will make generally available to its security holders, an earning statement (which need not be audited) in reasonable detail covering the 12-month period beginning not later than the first day of the month next succeeding the month in which occurred the effective date (within the meaning of Rule 158) of the Registration Statement as soon as practicable after the end of such period.

(h) The Partnership will furnish or make available to its security holders annual reports containing financial statements audited by independent public accountants and quarterly reports containing financial statements and financial information which may be unaudited. The Partnership will, for a period of two years from the Closing Date, furnish or make available to the Underwriters a copy of each annual report, quarterly report, current report and all other documents, reports and information furnished by the Partnership to holders of Units or filed with any securities exchange or market pursuant to the requirements of such exchange or market or with the SEC pursuant to the 1933 Act or the 1934 Act. The Partnership will deliver or make available to the Underwriters similar reports with respect to any significant subsidiaries, as that term is defined in the 1933 Act Rules and Regulations, which are not consolidated in the Partnership's financial statements. Any report, document or other

information required to be furnished under this paragraph (h) shall be furnished or made available as soon as practicable after such report, document or information becomes publicly available.

(i) The Partnership, the General Partner, GP LLC and Holdings will not, during the 90 days after the date of this prospectus, without the prior written consent of A.G. Edwards & Sons, Inc., directly or indirectly, offer for sale, contract to sell, sell, distribute, grant any option, right or warrant to purchase, pledge, hypothecate or otherwise dispose of any Common Units, any securities convertible into, or exercisable or exchangeable for, Common Units (other than the Subordinated Units) or any other rights to acquire such Common Units, other than (1) pursuant to employee benefit plans as in existence as of the date of the Prospectus, (2) to affiliates or (3) in connection with accretive acquisitions of assets or businesses pursuant to Section 5.7(b) or 5.7(c) of the Partnership Agreement in which such Common Units are issued as consideration; *provided, however,* that any recipient of Common Units will furnish to A.G. Edwards & Sons, Inc. a letter substantially similar to that required by Section 5(m) below with respect to the period between the date of any such issuance and the date 90 days after the date of the Prospectus.

(j) The Partnership will apply the proceeds from the sale of the Units as set forth in the description under "Use of Proceeds" in the Prospectus.

(k) The Partnership will promptly provide you with copies of all correspondence to and from, and all documents issued to and by, the SEC in connection with the registration of the Units under the 1933 Act.

(l) The Partnership will obtain approval for, and maintain the quotation of the Units on, The Nasdaq National Market.

(m) The Partnership will cause its directors and executive officers to furnish to you, on or prior to the date of this Agreement, a letter or letters, in form and substance satisfactory to counsel for the Underwriters, pursuant to which each such person shall agree not to directly or indirectly, offer for sale, contract to sell, sell, distribute, grant any option, right or warrant to purchase, pledge, hypothecate or otherwise dispose of any Common Units, or any securities convertible into, or exercisable or exchangeable for, Common Units (other than Subordinated Units) or any other rights to acquire such Common Units, during the 90 days after the date of the Prospectus, without the prior written consent of A.G. Edwards & Sons, Inc.

(n) If the Partnership elects to rely on Rule 462(b) under the 1933 Act, the Partnership shall both file an Abbreviated Registration Statement with the SEC in compliance with Rule 462(b) and pay the applicable fees in accordance with Rule 111 of the 1933 Act by the earlier of (i) 10:00 p.m., New York time, on the date of this Agreement, and (ii) the time that confirmations are given or sent, as specified by Rule 462(b)(2).

6. **Conditions of Underwriters' Obligations.** The several obligations of the Underwriters to purchase and pay for the Units, as provided herein, shall be subject to the accuracy, as of the date hereof and as of the Closing Date (and, if applicable, the Option Closing Date), of the representations and warranties of the Crosstex Parties contained herein, to the performance by the Crosstex Parties of their covenants and obligations hereunder, and to the following additional conditions:

(a) The Registration Statement and all post-effective amendments thereto shall have become effective not later than 5:30 p.m., New York time, on the date hereof, or, with your consent, at a later date and time, not later than 1:00 p.m., New York time, on the first business day following the date hereof, or at such later date and time as may be approved by the Underwriters; if the Partnership has elected to rely on Rule 462(b) under the 1933 Act, the Abbreviated Registration Statement shall have become effective not later than the earlier of (x) 10:00 p.m. New York time, on the date hereof, or (y) at such later date and time as may be approved by the Underwriters. All filings required by Rule 424 and Rule 430A of the 1933 Act Rules and Regulations shall have been made. No stop order

suspending the effectiveness of the Registration Statement, shall have been issued and no proceeding for that purpose shall have been initiated or, to the knowledge of the Partnership or any Underwriter, threatened or contemplated by the SEC, and any request of the SEC for additional information (to be included in the Registration Statement or the Prospectus or otherwise) shall have been complied with to the reasonable satisfaction of the Underwriters.

(b) No Underwriter shall have advised the Partnership on or prior to the Closing Date (and, if applicable, the Option Closing Date), that the Registration Statement or Prospectus or any amendment or supplement thereto contains an untrue statement of fact which, in the opinion of counsel to the Underwriters, is material, or omits to state a fact which, in the opinion of such counsel, is material and is required to be stated therein or is necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(c) On the Closing Date (and, if applicable, the Option Closing Date), you shall have received the opinion of Thompson & Knight L.L.P., counsel for the Partnership, addressed to you and dated the Closing Date (and, if applicable, the Option Closing Date), to the effect that:

(i) *Formation and Qualification of the Partnership.* The Partnership has been duly formed and is validly existing in good standing as a limited partnership under the Delaware LP Act with all necessary limited partnership power and authority to own or lease its properties and to conduct its business in all material respects as described in the Registration Statement and the Prospectus. The Partnership is duly registered or qualified as a foreign limited partnership for the transaction of business under the laws of the jurisdictions set forth on *Exhibit A* to this Agreement.

(ii) *Formation and Qualification of the General Partner and the Operating Partnership.* Each of the General Partner and the Operating Partnership has been duly formed and is validly existing in good standing as a limited partnership under the Delaware LP Act with all necessary limited partnership power and authority to own or lease its properties and to conduct its business in all material respects as described in the Registration Statement and the Prospectus. The General Partner has all necessary partnership power and authority to act as general partner of the Partnership. Each of the General Partner and the Operating Partnership is duly registered or qualified as a foreign limited partnership for the transaction or business under the laws of the jurisdictions set forth on *Exhibit A* to this Agreement.

(iii) *Formation and Qualification of Services.* Services has been duly formed and is validly existing in good standing as a limited liability company under the Delaware LLC Act with all necessary limited liability company power and authority to own or lease its properties, to conduct its business and to act as general partner of each of the Operating Partnership, Gulf Coast Transmission, Gulf Coast Marketing, CCNG Gathering, CCNG Marketing, CCNG Transmission and CCNG Processing, in each case in all material respects as described in the Registration Statement and the Prospectus. Services is duly registered or qualified as a foreign limited liability company for the transaction of business under the laws of the jurisdictions set forth on *Exhibit A* to this Agreement.

(iv) *Formation and Qualification of GP LLC and Crosstex Treating GP.* Each of GP LLC and Crosstex Treating GP has been duly formed and is validly existing in good standing as a limited liability company under the Delaware LLC Act with all necessary limited liability company power and authority to own or lease its properties, to conduct its business and, in the case of GP LLC, to act as general partner of the General Partner, and, in the case of Crosstex Treating GP, to act as general partner of Crosstex Treating LP, in each case in all material respects as described in the Registration Statement and the Prospectus. Each of GP LLC and Crosstex Treating GP is duly registered or qualified as a foreign limited liability company for the transaction of business under the laws of the jurisdictions set forth on *Exhibit A* to this Agreement.

(v) *Formation and Qualification of Management GP.* Management GP has been duly formed and is validly existing in good standing as a limited liability company under the Delaware LLC Act with all necessary limited liability company power and authority to own or lease its properties, to conduct its business and to act as general partner of each of Alabama Gathering, Mississippi Industrial, Mississippi Pipeline, Seminole Gas and Acquisition Management, in each case in all material respects as described in the Registration Statement and the Prospectus. Management GP is duly registered or qualified as a foreign limited liability company for the transaction of business under the laws of the jurisdictions set forth on *Exhibit A* to this Agreement.

(vi) *Formation and Qualification of Crosstex Treating LP.* Crosstex Treating LP has been duly formed and is validly existing in good standing as a limited partnership under the Delaware LP Act with all necessary limited partnership power and authority to own or lease its properties and to conduct its business, in each case in all material respects as described in the Registration Statement and the Prospectus. Crosstex Treating LP is duly registered or qualified as a foreign limited partnership for the transaction of business under the laws of the jurisdictions set forth on *Exhibit A* to this Agreement.

(vii) *Formation and Qualification of Holdings.* Holdings has been duly incorporated and is validly existing in good standing as a corporation under the DGCL with all necessary corporate power and authority to own or lease its properties and to conduct its business, in each case in all material respects as described in the Registration Statement and the Prospectus.

(viii) *Formation and Qualification of Pipeline LLC.* Pipeline LLC has been duly formed and is validly existing in good standing as a limited liability company under the Texas LLC Act with all necessary limited liability company power and authority to own or lease its properties, to conduct its business and to act as general partner of Pipeline LP, in each case in all material respects as described in the Registration Statement and the Prospectus. Pipeline LLC is duly registered or qualified as a foreign limited liability company for the transaction of business under the laws of the jurisdictions set forth on *Exhibit A* to this Agreement.

(ix) *Formation and Qualification of Gulf Coast Transmission, Gulf Coast Marketing, CCNG Gathering, CCNG Marketing, CCNG Transmission, CCNG Processing and Pipeline LP.* Each of Gulf Coast Transmission, Gulf Coast Marketing, CCNG Gathering, CCNG Marketing, CCNG Transmission, CCNG Processing and Pipeline LP has been duly formed and is validly existing in good standing as a limited partnership under the Texas LP Act with all necessary limited partnership power and authority to own or lease its properties and to conduct its business, in each case in all material respects as described in the Registration Statement and the Prospectus. Each of Gulf Coast Transmission, Gulf Coast Marketing, CCNG Gathering, CCNG Marketing, CCNG Transmission, CCNG Processing and Pipeline LP is duly registered or qualified as a foreign limited partnership for the transaction of business under the laws of the jurisdictions set forth on *Exhibit A* to this Agreement.

(x) *Formation and Qualification of Alabama Gathering, Mississippi Industrial, Mississippi Pipeline, Seminole Gas and Acquisition Management.* Each of Alabama Gathering, Mississippi Industrial, Mississippi Pipeline, Seminole Gas and Acquisition Management has been duly formed and is validly existing in good standing as a limited partnership under the Delaware LP Act with all necessary limited partnership power and authority to own or lease its properties and to conduct its business, in each case in all material respects as described in the Registration Statement and the Prospectus. Each of Alabama Gathering, Mississippi Industrial, Mississippi Pipeline, Seminole Gas and Acquisition Management is duly registered or qualified as a foreign limited partnership for the transaction of business under the laws of the jurisdictions set forth on *Exhibit A* to this Agreement.

(xi) *Ownership of the General Partner Interest in the Partnership.* The General Partner is the sole general partner of the Partnership with a 2% general partner interest in the Partnership; such

general partner interest has been duly authorized and validly issued in accordance with the Partnership Agreement; and the General Partner owns such general partner interest free and clear of all liens, encumbrances (except restrictions on transferability contained in Section 4.6 of the Partnership Agreement or as described in the Prospectus), security interests, charges or claims (i) in respect of which a financing statement under the Uniform Commercial Code of the State of Delaware naming the General Partner as a debtor is on file in the office of the Secretary of State of the State of Delaware or (ii) otherwise known to such counsel, without independent investigation, other than those created by or arising under the Delaware LP Act.

(xii) All outstanding Common Units and Subordinated Units and the Incentive Distribution Rights and the limited partner interests represented thereby have been duly authorized and validly issued in accordance with the Partnership Agreement, and are fully paid (to the extent required under the Partnership Agreement) and nonassessable (except as such nonassessability may be affected by Sections 17-303 and 17-607 of the Delaware LP Act or as otherwise described in the Prospectus under the caption "The Partnership Agreement—Limited Liability").

(xiii) *Ownership of the Sponsor Units and the Incentive Distribution Rights.* Holdings owns of record 333,000 Common Units and 4,667,000 Subordinated Units and the General Partner owns of record all of the Incentive Distribution Rights, in each case, free and clear of all liens, encumbrances, security interests, charges or claims (i) in respect of which a financing statement under the Uniform Commercial Code of the State of Delaware naming Holdings or the General Partner as a debtor is on file in the office of the Secretary of State of the State of Delaware or (ii) otherwise known to such counsel, without independent investigation, other than those created by or arising under the Delaware LP Act and, with respect to the Incentive Distribution Rights, restrictions or transferability contained in Section 4.7 of the Partnership Agreement or as described in the Prospectus.

(xiv) *Valid Issuance of the Units.* The Units to be issued and sold to the Underwriters by the Partnership pursuant to this Agreement and the limited partner interests represented thereby have been duly authorized by the Partnership Agreement and, when issued and delivered to the Underwriters against payment therefor in accordance with the terms hereof, will be validly issued, fully paid (to the extent required under the Partnership Agreement) and nonassessable (except as such nonassessability may be affected by Sections 17-303 and 17-607 of the Delaware LP Act or as otherwise described in the Prospectus under the caption "The Partnership Agreement—Limited Liability").

(xv) *Ownership of Services.* The Partnership owns of record a 100% membership interest in Services; such membership interest has been duly authorized and validly issued in accordance with the Services LLC Agreement and is fully paid (to the extent required under the Services LLC Agreement) and nonassessable (except as such nonassessibility may be affected by Section 18-607 of the Delaware LLC Act); and the Partnership owns such membership interest free and clear of all liens, encumbrances (except restrictions on transferability as described in the Prospectus or as otherwise contained in the Services LLC Agreement), security interests, charges or claims (i) in respect of which a financing statement under the Uniform Commercial Code of the State of Delaware naming the Partnership as a debtor is on file in the office of the Secretary of State of the State of Delaware or (ii) otherwise known to such counsel, without independent investigation, other than those created by or arising under the Delaware LLC Act and other than those arising under the Debt Agreements.

(xvi) *Ownership of the Partnership Interests in the Operating Partnership.* Services is the sole general partner of the Operating Partnership with a .001% general partner interest in the Operating Partnership; such general partner interest has been duly authorized and validly issued in accordance with the Operating Partnership Agreement, and Services owns such general partner

interest free and clear of all liens, encumbrances (except restrictions on transferability contained in Article IV of the Operating Partnership Agreement or as described in the Prospectus), security interests, charges or claims (i) in respect of which a financing statement under the Uniform Commercial Code of the State of Delaware naming Services as a debtor is on file in the office of the Secretary of State of the State of Delaware or (ii) otherwise known to such counsel, without independent investigation, other than those created by or arising under the Delaware LP Act and other than those arising under the Debt Agreements. The Partnership is the sole limited partner of the Operating Partnership with a 99.999% limited partner interest in the Operating Partnership; such limited partner interest has been duly authorized and validly issued in accordance with the Operating Partnership Agreement and is fully paid (to the extent required under the Operating Partnership Agreement) and nonassessable (except as such nonassessability may be affected by Sections 17-303 and 17-607 of the Delaware LP Act); and the Partnership owns such limited partner interest free and clear of all liens, encumbrances (except restrictions on transferability contained in Article IV of the Operating Partnership Agreement or as described in the Prospectus), security interests, charges or claims (i) in respect of which a financing statement under the Uniform Commercial Code of the State of Delaware naming the Partnership as a debtor is on file in the office of the Secretary of State of the State of Delaware or (ii) otherwise known to such counsel, without independent investigation, other than those created by or arising under the Delaware LP Act and other than those arising under the Debt Agreements.

(xvii) *Ownership of the Partnership Interests in Gulf Coast Transmission, Gulf Coast Marketing, CCNG Gathering, CCNG Marketing, CCNG Transmission and CCNG Processing.* Services is the sole general partner of each of Gulf Coast Transmission, Gulf Coast Marketing, CCNG Gathering, CCNG Marketing, CCNG Transmission and CCNG Processing with a .001% general partner interest in each of the Gulf Coast Transmission, Gulf Coast Marketing, CCNG Gathering, CCNG Marketing, CCNG Transmission and CCNG Processing; each such general partner interest has been duly authorized and validly issued in accordance with the Texas Operating Subs Partnership Agreements, and Services owns each such general partner interest free and clear of all liens, encumbrances (except restrictions on transferability as described in the Prospectus or as otherwise contained in the Texas Operating Subs Partnership Agreements), security interests, charges or claims (i) in respect of which a financing statement under the Uniform Commercial Code of the State of Texas naming Services as a debtor is on file in the office of the Secretary of State of the State of Texas or (ii) otherwise known to such counsel, without independent investigation, other than those created by or arising under the Texas LP Act and other than those arising under the Debt Agreements. The Operating Partnership is the sole limited partner of each of Gulf Coast Transmission, Gulf Coast Marketing, CCNG Gathering, CCNG Marketing, CCNG Transmission and CCNG Processing with a 99.999% limited partner interest in each of Gulf Coast Transmission, Gulf Coast Marketing, CCNG Gathering, CCNG Marketing, CCNG Transmission and CCNG Processing; each such limited partner interest has been duly authorized and validly issued in accordance with the Texas Operating Subs Partnership Agreement and is fully paid (to the extent required under the Texas Operating Subs Partnership Agreement) and nonassessable (except as such nonassessability may be affected by Sections 3.03, 5.02 and 6.07 of the Texas LP Act); and the Operating Partnership owns such limited partner interest free and clear of all liens, encumbrances (except restrictions on transferability as described in the Prospectus or as otherwise contained in the Texas Operating Subs Partnership Agreements), security interests, charges or claims (i) in respect of which a financing statement under the Uniform Commercial Code of the State of Texas naming the Partnership as a debtor is on file in the office of the Secretary of State of the State of Texas or (ii) otherwise known to such counsel, without independent investigation, other than those created by or arising under the Texas LP Act and other than those arising under the Debt Agreements.

(xviii) *Ownership of the Partnership Interests in Alabama Gathering, Mississippi Industrial, Mississippi Pipeline, Seminole Gas and Acquisition Management.* Management GP is the sole general partner of each of Alabama Gathering, Mississippi Industrial, Mississippi Pipeline, Seminole Gas and Acquisition Management with a ..001% general partner interest in each of Alabama Gathering, Mississippi Industrial, Mississippi Pipeline, Seminole Gas and Acquisition Management; each such general partner interest has been duly authorized and validly issued in accordance with the Delaware Operating Subs Partnership Agreements, and Management GP owns each such general partner interest free and clear of all liens, encumbrances (except restrictions on transferability as described in the Prospectus or as otherwise contained in the Delaware Operating Subs Partnership Agreements), security interests, equities, charges or claims (i) in respect of which a financing statement under the Uniform Commercial Code of the State of Delaware naming Management GP as a debtor is on file in the office of the Secretary of State of the State of Delaware or (ii) otherwise known to such counsel, without independent investigation, other than those created by or arising under the Delaware LP Act and other than those arising under the Debt Agreements. The Operating Partnership is the sole limited partner of each of Alabama Gathering, Mississippi Industrial, Mississippi Pipeline, Seminole Gas and Acquisition Management with a 99.999% limited partner interest in each of Alabama Gathering, Mississippi Industrial, Mississippi Pipeline, Seminole Gas and Acquisition Management; each such limited partner interest has been duly authorized and validly issued in accordance with the Delaware Operating Subs Partnership Agreements and will be fully paid (to the extent required under the Delaware Operating Subs Partnership Agreements) and nonassessable (except as such nonassessability may be affected by Sections 17-303 and 17-607 of the Delaware LP Act); and the Operating Partnership owns each such limited partner interest free and clear of all liens, encumbrances (except restrictions on transferability as described in the Prospectus or as otherwise contained in the Delaware Operating Subs Partnership Agreements), security interests, equities, charges or claims (i) in respect of which a financing statement under the Uniform Commercial Code of the State of Delaware naming Management GP as a debtor is on file in the office of the Secretary of State of the State of Delaware or (ii) otherwise known to such counsel, without independent investigation, other than those created by or arising under the Delaware LP Act and other than those arising under the Debt Agreements.

(xix) *Ownership of Pipeline LLC.* The Operating Partnership owns of record 100% of the issued and outstanding membership interest in Pipeline LLC; such membership interest has been duly authorized and validly issued in accordance with the Pipeline LLC Agreement and is fully paid (to the extent required by the Pipeline LLC Agreement) and nonassessable (except as such nonassessibility may be affected by Article 5.09 of the Texas LLC Act); and the Operating Partnership owns such membership interest free and clear of all liens, encumbrances (except restrictions on transferability as described in the Prospectus or as otherwise contained in the Pipeline LLC Agreement), security interests, charges or claims (i) in respect of which a financing statement under the Uniform Commercial Code of the State of Texas naming the Operating Partnership as a debtor is on file in the office of the Secretary of State of the State of Texas or (ii) otherwise known to such counsel, without independent investigation, other than those created by or arising under the Texas LLC Act.

(xx) *Ownership of Crosstex Treating GP and Management GP.* The Operating Partnership owns of record 100% of the issued and outstanding membership interest in each of Crosstex Treating GP and Management GP; such membership interest has been duly authorized and validly issued in accordance with the Crosstex Treating GP LLC Agreement and the Management GP LLC Agreement and is fully paid (to the extent required by the Crosstex Treating GP LLC Agreement or the Management GP LLC Agreement) and nonassessable (except as such nonassessibility may be affected by Section 18-607 of the Delaware LLC Act); and the Operating Partnership owns such membership interest free and clear of all liens, encumbrances (except restrictions on transferability

as described in the Prospectus or as otherwise contained in the Crosstex Treating GP LLC Agreement or the Management GP LLC Agreement), security interests, charges or claims (i) in respect of which a financing statement under the Uniform Commercial Code of the State of Delaware naming the Operating Partnership as a debtor is on file in the office of the Secretary of State of the State of Delaware or (ii) otherwise known to such counsel, without independent investigation, other than those created by, or arising under the Delaware LLC Act and other than those arising under the Debt Agreements.

(xxi) *Ownership of Crosstex Treating LP.* Crosstex Treating GP is the sole general partner of Crosstex Treating LP with a ..001% general partner interest in Crosstex Treating LP; such general partner interest has been duly authorized and validly issued in accordance with the Crosstex Treating Partnership Agreement, and Crosstex Treating GP owns such general partner interest free and clear of all liens, encumbrances (except restrictions on transferability as described in the Prospectus or as otherwise contained in the Crosstex Treating Partnership Agreement), security interest, charges or claims (i) in respect of which a financing statement under the Uniform Commercial Code of the State of Delaware naming Crosstex Treating GP as a debtor is on file in the office of the Secretary of State of the State of Delaware or (ii) otherwise known to such counsel, without independent investigation, other than those arising under the Delaware LP Act and other than those arising under the Debt Agreements. The Operating Partnership is the sole limited partner of Crosstex Treating LP with a 99.999% limited partner interest in Crosstex Treating LP; such limited partner interest has been duly authorized and validly issued in accordance with the Crosstex Treating Partnership Agreement and is fully paid (to the extent required under the Crosstex Treating Partnership Agreement) and nonassessable (except as such nonassessability may be affected by Sections 17-303 and 17-607 of the Delaware LP Act; and Crosstex Treating LP owns such limited partner interest free and clear of all liens, encumbrances (except restrictions on transferability as described in the Prospectus or as otherwise contained in the Crosstex Treating Partnership Agreement), security interests, charges or claims (i) in respect of which a financing statement under the Uniform Commercial Code of the State of Delaware naming Crosstex Treating GP as a debtor is on file in the office of the Secretary of State of the State of Delaware or (ii) otherwise known to such counsel, without independent investigation, other than those created by or arising under the Delaware LP Act and other than those arising under the Debt Agreements.

(xxii) *Ownership of Pipeline LP.* Pipeline LLC is a general partner of Pipeline LP with an approximate 1% general partner interest in Pipeline LP; such general partner interest has been duly authorized and validly issued in accordance with the Pipeline Partnership Agreement, and Pipeline LLC owns such general partner interest free and clear of all liens, encumbrances (except restrictions on transferability as described in the Prospectus or as otherwise contained in the Pipeline Partnership Agreement), security interests, charges or claims (i) in respect of which a financing statement under the Uniform Commercial Code of the State of Texas naming Pipeline LLC as a debtor is on file in the office of the Secretary of State of the State of Texas or (ii) otherwise known to such counsel, without independent investigation, other than those created by or arising under the Texas LP Act and other than those arising under the Debt Agreements. The Operating Partnership is a limited partner of Pipeline LP with an approximate 21% limited partner interest in Pipeline LP; such limited partner interest has been duly authorized and validly issued in accordance with the Pipeline Partnership Agreement and is fully paid (to the extent required under the Pipeline Partnership Agreement) and nonassessable (except as such nonassessability may be affected by Sections 3.03, 5.02 and 6.07 of the Texas LP Act); and the Operating Partnership owns such limited partner interest free and clear of all liens, encumbrances (except restrictions on transferability as described in the Prospectus or as otherwise contained in the Pipeline Partnership Agreement), security interests, charges or claims (i) in respect of which a financing statement under the Uniform Commercial Code of the State of Texas naming the

Operating Partnership as a debtor is on file in the office of the Secretary of State of the State of Texas or (ii) otherwise known to such counsel, without independent investigation, other than those created by or arising under the Texas LP Act and other than those arising under the Debt Agreements.

(xxiii) *Ownership of the General Partner.* GP LLC is the sole general partner of the General Partner with a .001% general partner interest in the General Partner; such general partner interest has been duly authorized and validly issued in accordance with the General Partner Partnership Agreement, and GP LLC owns such general partner interest free and clear of all liens, encumbrances (except restrictions on transferability as described in the Prospectus or as otherwise contained in the General Partner Partnership Agreement), security interests, charges or claims (i) in respect of which a financing statement under the Uniform Commercial Code of the State of Delaware naming GP LLC as a debtor is on file in the office of the Secretary of State of the State of Delaware or (ii) otherwise known to such counsel, without independent investigation, other than those created by or arising under the Delaware LP Act. Holdings is the sole limited partner of the General Partner with a 99.999% limited partner interest in the General Partner; such limited partner interest has been duly authorized and validly issued in accordance with the General Partner Partnership Agreement and is fully paid (to the extent required under the General Partner Partnership Agreement) and nonassessable (except as such nonassessability may be affected by Sections 17-303 and 17-607 of the Delaware LP Act); and Holdings owns such limited partner interest free and clear of all liens, encumbrances (except restrictions on transferability as described in the Prospectus or as otherwise contained in the General Partner Partnership Agreement), security interests, charges or claims (i) in respect of which a financing statement under the Uniform Commercial Code of the State of Delaware naming Holdings as a debtor is on file in the office of the Secretary of State of the State of Delaware or (ii) otherwise known to such counsel, without independent investigation, other than those created by or arising under the Delaware LP Act.

(xxiv) *Ownership of GP LLC.* Holdings owns of record 100% of the issued and outstanding membership interests of GP LLC; such membership interests have been duly authorized and validly issued and are fully paid (to the extent required under the GP LLC Agreement) and nonassessable (except as such nonassessability may be affected by Section 18-607 of the Delaware LLC Act); and Holdings owns such membership interests free and clear of all liens, encumbrances (except restrictions on transferability as described in the Prospectus or as otherwise contained in the GP LLC Agreement), security interests, charges or claims (i) in respect of which a financing statement under the Uniform Commercial Code of the State of Delaware naming Holdings as a debtor is on file in the office of the Secretary of State of the State of Delaware or (ii) otherwise known to such counsel, without independent investigation, other than those created by or arising under the Delaware LLC Act.

(xxv) *No Preemptive Rights, Registration Rights or Options.* Except as described in the Prospectus or, in the case of transfer restrictions, as set forth in the GP LLC Agreement, Services LLC Agreement, Pipeline LLC Agreement, Crosstex Treating GP LLC Agreement, Management GP LLC Agreement, Crosstex Treating Partnership Agreement, General Partner Partnership Agreement, Article IV of the Operating Partnership Agreement, Operating Subs Partnership Agreements or the Pipeline Partnership Agreement, there are no preemptive rights or other rights to subscribe for or to purchase, nor any restrictions upon the voting or transfer of (i) any membership interests of GP LLC, Services, Pipeline LLC, Crosstex Treating GP or Management GP or (ii) any partnership interests of the Partnership, General Partner, Operating Partnership, Gulf Coast Transmission, Gulf Coast Marketing, CCNG Gathering, CCNG Marketing, CCNG Transmission, CCNG Processing, Alabama Gathering, Mississippi Industrial, Mississippi Pipeline, Seminole Gas, Acquisition Management, Crosstex Treating LP or Pipeline LP pursuant to the GP

LLC Agreement, Services LLC Agreement, Pipeline LLC Agreement, Management GP LLC Agreement, Crosstex Treating GP LLC Agreement, Crosstex Treating Partnership Agreement, General Partner Partnership Agreement, the Operating Subs Partnership Agreements or the Pipeline Partnership Agreement, respectively, or any other agreement or instrument filed as an exhibit to the Registration Statement. To the knowledge of such counsel, neither the filing of the Registration Statement nor the offering or sale of the Units as contemplated by this Agreement gives rise to any rights for or relating to the registration of any Units or other securities of the Partnership or any of its subsidiaries, other than as have been waived. To such counsel's knowledge, except as described in the Prospectus, there are no outstanding options or warrants to purchase (A) any Common Units or Subordinated Units, Incentive Distribution Rights or other partnership interests in the Partnership, (B) any membership interests of GP LLC or Services, (C) any partnership interests in the General Partner or the Operating Partnership or (D) any partnership interests or membership interests, as applicable, in the Operating Subs.

(xxvi) *Enforceability of Other Agreements.* Each of the Operative Agreements to which any of the Crosstex Entities is a party has been duly authorized and validly executed and delivered by such entity, as applicable. Assuming due authorization, execution and delivery by each party thereto (other than the Crosstex Entities), each of the Operating Agreements constitutes a valid and legally binding obligation of the Crosstex Entities that are parties thereto, enforceable against each such entity in accordance with its respective terms, subject to (i) applicable bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws relating to or affecting creditors' rights generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law) and (ii) public policy, applicable law relating to the fiduciary duties and indemnification and an implied covenant of good faith and fair dealing.

(xxvii) *Authority and Authorization.* The Partnership has all requisite power and authority to issue, sell and deliver the Units to be sold by it, in accordance with and upon the terms and conditions set forth in this Agreement, the Partnership Agreement, the Registration Statement and the Prospectus.

(xxviii) *Due Authorization, Execution and Delivery of this Agreement.* This Agreement has been duly authorized, executed and delivered by each of the Crosstex Parties.

(xxix) *No Conflicts.* None of the offering, issuance and sale by the Partnership of the Units, the execution, delivery and performance of this Agreement by the Crosstex Parties or the consummation of the transactions contemplated hereby (i) constitutes or will constitute a violation of the agreement of limited partnership, limited liability company agreement, certificate or articles of incorporation or bylaws by any of the Crosstex Entities, (ii) constitutes or will constitute a breach or violation of, or a default under (or an event that, with notice or lapse of time or both, would constitute such a default) (A) any Operative Agreement, (B) any agreement filed as an exhibit to the Registration Statement or (C) any credit agreement or other material agreement to which the Crosstex Entities are parties thereto or by which any of their properties may be bound which have been identified in a certificate addressed to such counsel as being material to the Crosstex Entities, taken as a whole, (iii) violates or will violate (a) the Delaware LP Act, the Delaware LLC Act, the DGCL, the laws of the State of Texas or federal law or (b) any order, judgment, decree or injunction of any court or government agency or body known to such counsel directed to the Crosstex Entities or any of their properties in a proceeding to which any of them or their properties is a party, or (iv) results or will result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of any of the Crosstex Entities, which conflicts, breaches, violations, defaults or liens, in the cases of clauses (ii), (iii) or (iv), would, individually or in the aggregate, have a material adverse effect on the business, financial condition or results of operations of the Partnership Entities taken as a whole.

(xxx) *No Consents.* No permit, consent, approval, authorization, order, registration, filing or qualification ("**consent**") under the Delaware LP Act, the Delaware LLC Act, the DGCL, federal law or the laws of the State of Texas is required for the (i) offering, issuance and sale by the Partnership of the Units, (ii) the execution, delivery and performance of this Agreement by the Crosstex Parties or (iii) the consummation by the Crosstex Parties of the transactions contemplated by this Agreement, except (i) for such consents required under the 1933 Act, the 1934 Act and state securities or "Blue Sky" laws, as to which such counsel need not express any opinion or (ii) for such consents which have been obtained or made.

(xxxi) *Accuracy of Statements.* The statements in the Registration Statement and Prospectus under the captions "Cash Distribution Policy," "Management's Discussion and Analysis of Financial Condition and Results of Operations—Description of Indebtedness," "Certain Relationships and Related Transactions" "Conflicts of Interest and Fiduciary Responsibilities," "Description of the Common Units," and "The Partnership Agreement," insofar as they constitute descriptions of agreements or refer to statements of law or legal conclusions, fairly describe, in all material respects, the portion of the agreements and the portions of the statutes and regulations addressed thereby; and the Common Units, the Subordinated Units and the Incentive Distributions Rights conform in all material respects to the descriptions thereof contained in the Registration Statement and the Prospectus under the captions "Prospectus Summary—The Offering," "Cash Distribution Policy," "Description of the Common Units" and "The Partnership Agreement."

(xxxii) *Tax Opinion.* The opinion of Thompson & Knight L.L.P. that is filed as Exhibit 8.1 to the Registration Statement is confirmed and the Underwriters may rely upon such opinion as if it were addressed to them.

(xxxiii) *Effectiveness of Registration Statement.* The Registration Statement was declared effective under the 1933 Act on   , 2003; to the knowledge of such counsel, no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or threatened by the Commission; and any required filing of the Prospectus pursuant to Rule 424(b) has been made in the manner and within the time period required by such Rule.

(xxxiv) *Compliance as to Form.* The Registration Statement and the Prospectus (except for the financial statements and the notes and the schedules thereto, and the other financial, statistical and accounting data included in the Registration Statement or the Prospectus, as to which such counsel need not express any opinion) comply as to form in all material respects with the requirements of the 1933 Act and the 1933 Act Rules and Regulations.

(xxxv) *Legal Proceedings or Contracts to be Described or Filed.* To the knowledge of such counsel, (i) there are no legal or governmental proceedings pending or threatened against any of the Crosstex Entities or to which any of the Crosstex Entities is a party or to which any of their respective properties is subject that are required to be described in the Prospectus but are not so described as required and (ii) there are no agreements, contracts, indentures, leases or other instruments that are required to be described in the Registration Statement or the Prospectus or to be filed as exhibits to the Registration Statement that are not described or filed as required by the 1933 Act.

(xxxvi) *Investment Company.* None of the Crosstex Parties is an "investment company" as such term is defined in the Investment Company Act of 1940, as amended.

(xxxvii) *Public Utility Holding Company.* None of the Partnership, the General Partner or the Operating Partnership is, or solely as a result of the Transactions will be, a "public utility company" or a "holding company" within the meaning of the Public Utility Holding Company Act of 1935, as amended.

In addition, such counsel shall state that they have participated in conferences with officers and other representatives of the Crosstex Entities, the independent public accountants of the Partnership and the Underwriters, at which the contents of the Registration Statement and the Prospectus and related matters were discussed, and although such counsel has not independently verified, is not passing on, and is not assuming any responsibility for the accuracy, completeness or fairness of the statements contained in, the Registration Statement and the Prospectus (except to the extent specified in the foregoing opinion), based on the foregoing, no information has come to such counsel's attention that causes such counsel to believe that the Registration Statement (other than (i) the financial statements included therein, including the notes and schedules thereto and the auditors' reports thereon, (ii) the other financial and statistical data included therein as to which such counsel need not comment), as of its effective date contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading, or that the Prospectus (other than (i) the financial statements included therein, including the notes and schedules thereto and the auditors' reports thereon, (ii) the other financial and statistical data included therein as to which such counsel need not comment), as of its issue date and the Closing Date contained or contains an untrue statement of a material fact or omitted or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading.

In rendering such opinion, such counsel may (A) rely in respect of matters of fact upon certificates of officers and employees of the Crosstex Entities and upon information obtained from public officials, (B) assume that all documents submitted to them as originals are authentic, that all copies submitted to them conform to the originals thereof, and that the signatures on all documents examined by them are genuine, (C) state that their opinion is limited to federal laws, the Delaware LP Act, the Delaware LLC Act, the DGCL and the laws of the State of Texas, (D) with respect to the opinions expressed in paragraphs (i), (ii), (iii), (iv), (v), (vi), (viii), (ix) and (x) above as to the due qualification or registration as a foreign limited partnership, corporation or limited liability company, as the case may be, of each of the Crosstex Entities, state that such opinions are based upon certificates of foreign qualification or registration provided by the Secretary of State of the states listed on Exhibit A hereto (each of which shall be dated as of a date not more than fourteen days prior to the Closing Date and shall be provided to you) and (E) state that they express no opinion with respect to state or local taxes or tax statutes to which any of the limited partners of the Partnership or any of the other Crosstex Entities may be subject.

(d) You shall have received on the Closing Date (and, if applicable, the Option Closing Date), from Baker Botts L.L.P., counsel to the Underwriters, such opinion or opinions, dated the Closing Date (and, if applicable, the Option Closing Date) with respect to such matters as you may reasonably require; and the Partnership shall have furnished to such counsel such documents as they reasonably request for the purposes of enabling them to review or pass on the matters referred to in this Section 6 and in order to evidence the accuracy, completeness and satisfaction of the representations, warranties and conditions herein contained.

(e) You shall have received at or prior to the Closing Date from Baker Botts L.L.P. a memorandum or memoranda, in form and substance satisfactory to you, with respect to the qualification for offering and sale by the Underwriters of the Units under state securities or Blue Sky laws of such jurisdictions as the Underwriters may have designated to the Partnership.

(f) On the date of this Agreement and on the Closing Date (and, if applicable, the Option Closing Date), you shall have received from KPMG LLP, a letter or letters, dated the date of this Agreement and the Closing Date (and, if applicable, the Option Closing Date), respectively, in form and substance satisfactory to you, confirming that they are independent public accountants with respect to the Partnership and the General Partner within the meaning of the 1933 Act and 1933 Act Rules and Regulations, and stating to the effect set forth in Schedule II hereto.

(g) On the date of this Agreement and on the Closing Date (and, if applicable, the Option Closing Date), you shall have received from Deloitte & Touche, LLP, a letter or letters, dated the date of this Agreement and the Closing Date (and, if applicable, the Option Closing Date), respectively, in form and substance satisfactory to you, containing statements and information of the type ordinarily included in accountants' "comfort letters" to underwriters with respect to the financial statements and financial information related to the acquisition from Duke Energy Field Services, LP contained in the Registration Statement and the Prospectus.

(h) Except as set forth in the Registration Statement and the Prospectus, (i) none of the Partnership Entities shall have sustained since the date of the latest audited financial statements included in the Registration Statement and in the Prospectus any loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor dispute or court or governmental action, order or decree; and (ii) subsequent to the respective dates as of which such information is given in the Registration Statement and the Prospectus (or any amendment or supplement thereto), none of the Crosstex Entities shall have incurred any liability or obligation, direct or contingent, or entered into any transactions, and there shall not have been any change in the capital stock or long-term debt of the Partnership Entities or any change, or any development involving or which might reasonably be expected to involve a prospective change in the condition (financial or other), net worth, business, affairs, management, prospects, results of operations or cash flow of the Partnership or its subsidiaries, the effect of which, in any such case described in clause (i) or (ii), is in your judgment so material or adverse as to make it impracticable or inadvisable to proceed with the public offering or the delivery of the Units being delivered on such Closing Date (and, if applicable, the Option Closing Date) on the terms and in the manner contemplated in the Prospectus.

(i) There shall not have occurred any of the following: (i) a suspension or material limitation in trading in securities generally on the Nasdaq National Market or the establishing on such exchanges or market by the SEC or by such exchanges or markets of minimum or maximum prices which are not in force and effect on the date hereof; (ii) a suspension or material limitation in trading in the Partnership's securities on the Nasdaq National Market or the establishing on such market by the SEC or by such market of minimum or maximum prices which are not in force and effect on the date hereof; (iii) a general moratorium on commercial banking activities declared by either federal or any Missouri authorities; (iv) the outbreak or escalation of hostilities involving the United States or the declaration by the United States of a national emergency or war, which in your judgment makes it impracticable or inadvisable to proceed with the public offering or the delivery of the Units in the manner contemplated in the Prospectus; or (v) any calamity or crisis, change in national, international or world affairs, act of God, change in the international or domestic markets, or change in the existing financial, political or economic conditions in the United States or elsewhere, the effect of which on the financial markets of the United States is such as to make it in your judgment impracticable or inadvisable to proceed with the public offering or the delivery of the Units in the manner contemplated in the Prospectus.

(j) You shall have received a certificate, dated the Closing Date (and, if applicable, the Option Closing Date) and signed by the chief executive officer and the chief financial officer of the General Partner, in their capacities as such, stating that:

(i) the condition set forth in Section 6(a) has been fully satisfied;

(ii) they have examined the Registration Statement and the Prospectus as amended or supplemented and nothing has come to their attention that would lead them to believe that either the Registration Statement or the Prospectus, or any amendment or supplement thereto as of their respective effective, issue or filing dates, contained, and the Prospectus as amended or supplemented and at such Closing Date, contains any untrue statement of a material fact, or omits

to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading;

(iii) since the Effective Date, there has occurred no event required to be set forth in an amendment or supplement to the Registration Statement or the Prospectus which has not been so set forth;

(iv) all representations and warranties made herein by the Crosstex Parties are true and correct at such Closing Date, with the same effect as if made on and as of such Closing Date, and all agreements herein to be performed or complied with by the Crosstex Parties on or prior to such Closing Date have been duly performed and complied with by the Crosstex Parties;

(v) each of the Crosstex Parties has performed all obligations required to be performed by it pursuant to this Agreement;

(vi) no stop order has been issued;

(vii) the Units shall have been approved for listing on the Nasdaq National Market; and

(viii) covering such other matters as you may reasonably request.

(k) The Crosstex Parties shall not have failed, refused, or been unable, at or prior to the Closing Date (and, if applicable, the Option Closing Date) to have performed any agreement on their part to be performed or any of the conditions herein contained and required to be performed or satisfied by them at or prior to such Closing Date.

(l) The Partnership shall have furnished to you at the Closing Date (and, if applicable, the Option Closing Date) such further information, opinions, certificates, letters and documents as you may have reasonably requested.

(m) The Nasdaq National Market shall have approved the Units for listing, subject only to official notice of issuance.

(n) You shall have received duly and validly executed letter agreements referred to in Section 5(m) hereof.

All such opinions, certificates, letters and documents will be in compliance with the provisions hereof only if they are satisfactory in form and substance to you and to Baker Botts L.L.P., counsel for the several Underwriters. The Partnership will furnish you with such signed and conformed copies of such opinions, certificates, letters and documents as you may request.

If any of the conditions specified above in this Section 6 shall not have been satisfied at or prior to the Closing Date (and, if applicable, the Option Closing Date) or waived by you in writing, this Agreement may be terminated by you on notice to the Partnership.

7. **Indemnification and Contribution**. (a) The Crosstex Parties, jointly and severally, will indemnify and hold harmless each Underwriter from and against any losses, damages or liabilities, joint or several, to which such Underwriter may become subject, under the 1933 Act or otherwise, insofar as such losses, damages or liabilities (or actions or claims in respect thereof) arise out of or are based upon (i) an untrue statement or alleged untrue statement of a material fact contained in the Registration Statement or any amendment or supplement thereto or the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading or (ii) any untrue statement or alleged untrue statement of a material fact contained in the Preliminary Prospectus or the Prospectus or in any amendment or supplement thereto, or arise out of or are based upon any omission or alleged omission to state therein a material fact necessary to make the statements therein, in light of the circumstances in which they were made, not misleading, and will reimburse each Underwriter for any legal or other expenses incurred by such

Underwriter in connection with investigating, preparing, pursuing or defending against or appearing as a third party witness in connection with any such loss, damage, liability or action or claim, including, without limitation, any investigation or proceeding by any governmental agency or body, commenced or threatened, including the reasonable fees and expenses of counsel to the indemnified party, as such expenses are incurred (including such losses, damages, liabilities or expenses to the extent of the aggregate amount paid in settlement of any such action or claim, provided that (subject to Section 7(c) hereof) any such settlement is effected with the written consent of the Partnership); *provided, however,* that the Crosstex Parties shall not be liable in any such case to the extent, but only to the extent, that any such loss, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in the Preliminary Prospectus, the Registration Statement, the Prospectus or any other prospectus relating to the Units, or any such amendment or supplement, in reliance upon and in conformity with written information relating to the Underwriters furnished to the Partnership by you or by any Underwriter through you, expressly for use in the preparation thereof (as provided in Section 13 hereof); *provided, further* that with respect to any Preliminary Prospectus, the foregoing indemnity in this Section 7(a) shall not inure to the benefit of any Underwriter from whom the person asserting any loss, claim, damage, liability, action or expense purchased Units, or any of its directors, officers or employees or any person controlling such Underwriter, if copies of the Prospectus were timely delivered to the Underwriter and a copy of the Prospectus (as then amended or supplemented if the Partnership shall have furnished any amendments or supplements thereto) was not sent or given by or on behalf of such Underwriter to such person, if required by law so to have been delivered, at or prior to the written confirmation of the sale of the Units to such person, and if the Prospectus (as so amended or supplemented) would have cured the defect giving rise to such loss, claim, damage, liability, action or expense.

(b) Each Underwriter, severally and not jointly, will indemnify and hold harmless the Crosstex Parties from and against any losses, damages or liabilities to which the Crosstex Parties may become subject, under the 1933 Act or otherwise, insofar as such losses, damages or liabilities (or actions or claims in respect thereof) arise out of or are based upon (i) an untrue statement or alleged untrue statement of a material fact contained in the Registration Statement or any amendment or supplement thereto, or arise out of are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or (ii) any untrue statement or alleged untrue statement of a material fact contained in the Preliminary Prospectus or the Prospectus or in any amendment or supplement thereto, or arise out of or are based upon any omission or alleged omission to state therein a material fact necessary to make the statements therein, in light of the circumstances in which they were made, not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in the Preliminary Prospectus, the Registration Statement, the Prospectus or any such amendment or supplement, in reliance upon and in conformity with written information relating to the Underwriters furnished to the Partnership by you or by any Underwriter through you, expressly for use in the preparation thereof (as provided in Section 13 hereof), and will reimburse the Crosstex Parties for any legal or other expenses incurred by the Crosstex Parties in connection with investigating or defending any such action or claim as such expenses are incurred (including such losses, damages, liabilities or expenses to the extent of the aggregate amount paid in settlement of any such action or claim, provided that (subject to Section 7(c) hereof) any such settlement is effected with the written consent of the Underwriters).

(c) Promptly after receipt by an indemnified party under Section 7(a) or 7(b) hereof of notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against an indemnifying party under Section 7(a) or 7(b) hereof, notify each such indemnifying party in writing of the commencement thereof, but the failure so to notify such indemnifying party shall not relieve such indemnifying party from any liability except to the extent that it has been prejudiced in any material respect by such failure or from any liability that it may have to any such indemnified party

otherwise than under Section 7(a) or 7(b) hereof. In case any such action shall be brought against any such indemnified party and it shall notify each indemnifying party of the commencement thereof, each such indemnifying party shall be entitled to participate therein and, to the extent that it shall wish, jointly with any other indemnifying party under Section 7(a) or 7(b) hereof similarly notified, to assume the defense thereof, with counsel satisfactory to such indemnified party (who shall not, except with the consent of such indemnified party, be counsel to such indemnifying party), and, after notice from such indemnifying party to such indemnified party of its election so to assume the defense thereof, such indemnifying party shall not be liable to such indemnified party under Section 7(a) or 7(b) hereof for any legal expenses of other counsel or any other expenses, in each case subsequently incurred by such indemnified party, in connection with the defense thereof other than reasonable costs of investigation. The indemnified party shall have the right to employ its own counsel in any such action, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless (i) the employment of counsel by such indemnified party at the expense of the indemnifying party has been authorized by the indemnifying party, (ii) the indemnified party shall have been advised by such counsel that there may be a conflict of interest between the indemnifying party and the indemnified party in the conduct of the defense, or certain aspects of the defense, of such action (in which case the indemnifying party shall not have the right to direct the defense of such action with respect to those matters or aspects of the defense on which a conflict exists or may exist on behalf of the indemnified party) or (iii) the indemnifying party shall not in fact have employed counsel reasonably satisfactory to such indemnified party to assume the defense of such action, in any of which events such fees and expenses to the extent applicable shall be borne, and shall be paid as incurred, by the indemnifying party. If at any time such indemnified party shall have requested such indemnifying party under Section 7(a) or 7(b) hereof to reimburse such indemnified party for fees and expenses of counsel, such indemnifying party agrees that it shall be liable for any settlement of the nature contemplated by Section 7(a) or 7(b) hereof effected without its written consent if (i) such settlement is entered into more than 60 days after receipt by such indemnifying party of such request for reimbursement, (ii) such indemnifying party shall have received notice of the terms of such settlement at least 45 days prior to such settlement being entered into and (iii) such indemnifying party shall not have reimbursed such indemnified party in accordance with such request for reimbursement prior to the date of such settlement. No such indemnifying party shall, without the written consent of such indemnified party, effect the settlement or compromise of, or consent to the entry of any judgment with respect to, any pending or threatened action or claim in respect of which indemnification or contribution may be sought hereunder (whether or not such indemnified party is an actual or potential party to such action or claim) unless such settlement, compromise or judgment (A) includes an unconditional release of such indemnified party from all liability arising out of such action or claim and (B) does not include a statement as to or an admission of fault, culpability or a failure to act, by or on behalf of any such indemnified party. In no event shall such indemnifying parties be liable for the fees and expenses of more than one counsel, including any local counsel, for all such indemnified parties in connection with any one action or separate but similar or related actions in the same jurisdiction arising out of the same general allegations or circumstances.

(d) If the indemnification provided for in this Section 7 is unavailable to or insufficient to indemnify or hold harmless an indemnified party under Section 7(a) or 7(b) hereof in respect of any losses, damages or liabilities (or actions or claims in respect thereof) referred to therein, then each indemnifying party under Section 7(a) or 7(b) hereof shall contribute to the amount paid or payable by such indemnified party as a result of such losses, damages or liabilities (or actions or claims in respect thereof) in such proportion as is appropriate to reflect the relative benefits received by the Crosstex Parties, on the one hand, and the Underwriters, on the other hand, from the offering of the Units. If, however, the allocation provided by the immediately preceding sentence is not permitted by applicable law or if the indemnified party failed to give the notice required under Section 7(c) hereof and such indemnifying party was prejudiced in a material respect by such failure, then each such indemnifying

party shall contribute to such amount paid or payable by such indemnified party in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault, as applicable, of the Crosstex Parties, on the one hand, and the Underwriters, on the other hand, in connection with the statements or omissions that resulted in such losses, damages or liabilities (or actions or claims in respect thereof), as well as any other relevant equitable considerations. The relative benefits received by, as applicable, the Crosstex Parties, on the one hand, and the Underwriters, on the other hand, shall be deemed to be in the same proportion as the total net proceeds from such offering (before deducting expenses) received by the Partnership bear to the total underwriting discounts and commissions received by the Underwriters. The relative fault, as applicable, of the Crosstex Parties, on the one hand, and the Underwriters, on the other hand, shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Crosstex Parties, on the one hand, or the Underwriters, on the other hand, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Crosstex Parties and the Underwriters agree that it would not be just and equitable if contribution pursuant to this Section 7(d) were determined by *pro rata* allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation that does not take account of the equitable considerations referred to above in this Section 7(d). The amount paid or payable by such an indemnified party as a result of the losses, damages or liabilities (or actions or claims in respect thereof) referred to above in this Section 7(d) shall be deemed to include any legal or other expenses incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 7(d), no Underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Units underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages that such Underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The obligations of the Underwriters in this Section 7(d) to contribute are several in proportion to their respective underwriting obligations with respect to the Units and not joint.

(e) The obligations of the Crosstex Parties under this Section 7 shall be in addition to any liability that the Crosstex Parties may otherwise have and shall extend, upon the same terms and conditions, to each officer, director, employee, agent or other representative and to each person, if any, who controls any Underwriter within the meaning of the 1933 Act; and the obligations of the Underwriters under this Section 7 shall be in addition to any liability that the respective Underwriters may otherwise have and shall extend, upon the same terms and conditions, to each officer and director of the Partnership and the General Partner who signed the Registration Statement and to each person, if any, who controls the Crosstex Parties within the meaning of the 1933 Act.

8. **Representations and Agreements to Survive Delivery**. The respective representations, warranties, agreements and statements of the Crosstex Parties and the Underwriters, as set forth in this Agreement or made by or on behalf of them, respectively, pursuant to this Agreement, shall remain operative and in full force and effect regardless of any investigation (or any statement as to the results thereof) made by or on behalf of any Underwriter or any controlling person of any Underwriter, the Crosstex Parties or any of its officers, directors or any controlling persons and shall survive delivery of and payment for the Units hereunder.

9. **Substitution of Underwriters**. (a) If any Underwriter shall default in its obligation to purchase the Units which it has agreed to purchase hereunder, you may in your

discretion arrange for you or another party or other parties to purchase such Units on the terms contained herein. If within thirty-six hours after such default by any Underwriter you do not arrange for the purchase of such Units, then

the Partnership shall be entitled to a further period of thirty-six hours within which to procure another party or parties reasonably satisfactory to you to purchase such Units on such terms. In the event that, within the respective prescribed periods, you notify the Partnership that you have so arranged for the purchase of such Units, or the Partnership notifies you that it has so arranged for the purchase of such Units, you or the Partnership shall have the right to postpone the Closing Date for a period of not more than seven days, in order to effect whatever changes may thereby be made necessary in the Registration Statement or the Prospectus, or in any other documents or arrangements, and the Partnership agrees to file promptly any amendments to the Registration Statement or the Prospectus which in your opinion may thereby be made necessary. The term "**Underwriter**" as used in this Agreement shall include any persons substituted under this Section 9 with like effect as if such person had originally been a party to this Agreement with respect to such Units.

(b) If, after giving effect to any arrangements for the purchase of the Units of a defaulting Underwriter or Underwriters made by you and the Partnership as provided in subsection (a) above, the aggregate number of Units which remains unpurchased does not exceed one-eleventh of the total Units to be sold on the Closing Date, then the Partnership shall have the right to require each non-defaulting Underwriter to purchase the Units which such Underwriter agreed to purchase hereunder and, in addition, to require each non-defaulting Underwriter to purchase its pro rata share (based on the number of Units which such Underwriter agreed to purchase hereunder) of the Units of such defaulting Underwriter or Underwriters for which such arrangements have not been made; but nothing herein shall relieve a defaulting Underwriter from liability for its default.

(c) If, after giving effect to any arrangements for the purchase of the Units of a defaulting Underwriter or Underwriters made by you and the Partnership as provided in subsection (a) above, the number of Units which remains unpurchased exceeds one-eleventh of the total Units to be sold on the Closing Date, or if the Partnership shall not exercise the right described in subsection (b) above to require the non-defaulting Underwriters to purchase Units of the defaulting Underwriter or Underwriters, then this Agreement (or, with respect to the Option Closing Date, the obligations of the Underwriters to purchase and of the Partnership to sell the Option Units) shall thereupon terminate, without liability on the part of any non-defaulting Underwriter or the Partnership except for the expenses to be borne by the Partnership and the Underwriters as provided in Section 11 hereof and the indemnity and contribution agreements in Section 7 hereof; but nothing herein shall relieve a defaulting Underwriter from liability for its default.

10. **Termination**. (a)This Agreement may be terminated by you at any time at or prior to the Closing Date by notice to the Partnership if any condition specified in Section 6 hereof shall not have been satisfied on or prior to the Closing Date. Any such termination shall be without liability of any party to any other party except as provided in Sections 7 and 11 hereof.

(b) This Agreement also may be terminated by you, by notice to the Partnership, as to any obligation of the Underwriters to purchase the Option Units, if any condition specified in Section 6 hereof shall not have been satisfied at or prior to the Option Closing Date or as provided in Section 9 of this Agreement.

If you terminate this Agreement as provided in Sections 10(a) or 10(b), you shall notify the Partnership by telephone or telegram, confirmed by letter.

11. **Costs and Expenses**. The Partnership will bear and pay the costs and expenses incident to the registration of the Units and public offering thereof, including, without limitation, (a) all expenses (including stock transfer taxes) incurred in connection with the delivery to the several Underwriters of the Units, the filing fees of the SEC, the fees and expenses of the Partnership's counsel and accountants and the fees and expenses of counsel for the Partnership, (b) the preparation, printing, filing, delivery and shipping of the Registration Statement, each Preliminary Prospectus, the Prospectus and any amendments or supplements thereto (except as otherwise expressly provided in Section 5(d)

hereof) and the printing, delivery and shipping of this Agreement and other underwriting documents, including the Agreement Among Underwriters, the Selected Dealer Agreement, Underwriters' Questionnaires and Powers of Attorney and Blue Sky Memoranda, and any instruments or documents related to any of the foregoing, (c) the furnishing of copies of such documents (except as otherwise expressly provided in Section 5(d) hereof) to the Underwriters, (d) the registration or qualification of the Units for offering and sale under the securities laws of the various states and other jurisdictions, including the fees and disbursements of counsel to the Underwriters relating to such registration or qualification and in connection with preparing any Blue Sky Memoranda or related analysis, (e) the filing fees of the NASD (if any) and fees and disbursements of counsel to the Underwriters relating to any review of the offering by the NASD, (f) all printing and engraving costs related to preparation of the certificates for the Units, including transfer agent and registrar fees, (g) all fees and expenses relating to the authorization of the Units for trading on the Nasdaq National Market (h) all travel expenses, including air fare and accommodation expenses, of representatives of the Partnership in connection with the offering of the Units, and (i) all of the other costs and expenses incident to the performance by the Partnership of the registration and offering of the Units; provided, that (except as otherwise provided in this Section 11) the Underwriters will bear and pay all of their own costs and expenses, including the fees and expenses of the Underwriters' counsel, the Underwriters' transportation expenses and any advertising costs and expenses incurred by the Underwriters incident to the public offering of the Units.

If this Agreement is terminated by you in accordance with the provisions of Section 10(a) (other than pursuant to Section 9 or 6(i)), the Partnership shall reimburse the Underwriters for all of their reasonable out-of-pocket expenses, including the reasonable fees and disbursements of counsel to the Underwriters.

12. **Notices**. All notices or communications hereunder, except as herein otherwise specifically provided, shall be in writing and if sent to the Underwriters shall be mailed, delivered, sent by facsimile transmission, or telegraphed and confirmed c/o A.G. Edwards & Sons, Inc. at One North Jefferson Avenue, St. Louis, Missouri 63103, Attention: Curtis H. Goot, Managing Director, Corporate Finance, facsimile number (314) 955-7387, with a copy to Doug Kelly, Attention: General Counsel, facsimile number (314) 955-5913, or if sent to the Partnership shall be mailed, delivered, sent by facsimile transmission, or telegraphed and confirmed to the Partnership at Crosstex Energy L.P., 2501 Cedar Springs, Suite 600, Dallas, Texas 75201, facsimile number (214) 953-9501. Notice to any Underwriter pursuant to Section 7 shall be mailed, delivered, sent by facsimile transmission, or telegraphed and confirmed to such Underwriter's address as it appears in the Underwriters' Questionnaire furnished in connection with the offering of the Units or as otherwise furnished to the Partnership.

13. **Information Furnished by Underwriters.** The statements set forth in the third, tenth, eleventh, twelfth, thirteenth, fourteenth, sixteenth and seventeenth, paragraphs and the third sentence of the seventh paragraph under the caption "Underwriting" in the Prospectus constitute the only information furnished by or on behalf of the Underwriters through you as such information is referred to in Section 4(a)(ii) and Section 7 hereof.

14. **Parties**. This Agreement shall inure to the benefit of and be binding upon the Underwriters, the Crosstex Parties and, to the extent provided in Sections 7 and 8, the officers and directors of the General Partner and each person who controls the Partnership or any Underwriter and their respective heirs, executors, administrators, successors and assigns. Nothing expressed or mentioned in this Agreement is intended or shall be construed to give any person, corporation or other entity any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision herein contained; this Agreement and all conditions and provisions hereof being intended to be and being for the sole and exclusive benefit of the parties hereto and their respective successors and assigns and said controlling persons and said officers and directors, and for the benefit of no other person, corporation

or other entity. No purchaser of any of the Units from any Underwriter shall be construed a successor or assign by reason merely of such purchase.

In all dealings hereunder, you shall act on behalf of each of the several Underwriters, and the parties hereto shall be entitled to act and rely upon any statement, request, notice or agreement on behalf of the Underwriters, made or given by you jointly or by A.G. Edwards & Sons, Inc. on behalf of you as the Underwriters, as if the same shall have been made or given in writing by the Underwriters.

15. **Counterparts**. This Agreement may be executed by any one or more of the parties hereto in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument.

16. **Pronouns**. Whenever a pronoun of any gender or number is used herein, it shall, where appropriate, be deemed to include any other gender and number.

17. **Time of Essence.** Time shall be of the essence of this Agreement.

18. **Applicable Law**. This Agreement shall be governed by, and construed in accordance with, the laws of the State of Missouri, without giving effect to the choice of law or conflict of laws principles thereof.

If the foregoing is in accordance with your understanding, please so indicate in the space provided below for that purpose, whereupon this letter shall constitute a binding agreement among the Crosstex Parties and the Underwriters.

CROSSTEX ENERGY, L.P.

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

By: Crosstex Energy GP, LLC,
its General Partner

By: ______________________

Name: ______________________

Title: ______________________

CROSSTEX ENERGY GP, L.P.

By: Crosstex Energy GP, LLC,
its General Partner

By: ______________________

Name: ______________________

Title: ______________________

CROSSTEX ENERGY GP, LLC

By: ______________________

Name: ______________________

Title: ______________________

CROSSTEX ENERGY HOLDINGS INC.

By: ______________________

Name: ______________________

Title: ______________________

CROSSTEX ENERGY SERVICES GP, LLC

By: ______________________

Name: ______________________

Title: ______________________

CROSSTEX ENERGY SERVICES, L.P.

By: Crosstex Energy Services GP, LLC,
its General Partner

By: ______________________

Name: ______________________

Title: ______________________

Accepted in St. Louis,
Missouri as of the date
first above written, on
behalf of ourselves and each
of the several Underwriters
named in Schedule I hereto.

A.G. Edwards & Sons, Inc.
RBC Dain Rauscher Inc.
Raymond James & Associates, Inc.

By: A.G. Edwards & Sons, Inc.

By: ______________________

Title: ______________________

SCHEDULE I

Name	Number of Units
A.G. Edwards & Sons, Inc.	
RBC Dain Rauscher Inc.	
Raymond James & Associates, Inc	
Total	1,500,000

SCHEDULE II

Pursuant to Section 6(f) of the Underwriting Agreement, KPMG LLP shall furnish letters to the Underwriters to the effect that:

(i) They are independent certified public accountants with respect to the General Partner and the Partnership within the meaning of the 1933 Act and the applicable Rules and Regulations thereunder.

(ii) In their opinion, the financial statements audited by them and included in the Prospectus or the Registration Statement comply as to form in all material respects with the applicable accounting requirements of the 1933 Act and the applicable Rules and Regulations with respect to registration statements on Form S-1.

(iii) On the basis of limited procedures, not constituting an audit in accordance with generally accepted auditing standards, consisting of a reading of the unaudited financial statements and other information referred to below, performing the procedures specified by the AICPA for a review of interim financial information as discussed in SAS No. 100, Interim Financial Information, on the latest available interim financial statements of the Partnership Entities, inspection of the minute books of the Partnership Entities since the date of the latest audited financial statements included in the Prospectus, inquiries of officials of the Partnership Entities responsible for financial and accounting matters and such other inquiries and procedures as may be specified in such letter, nothing came to their attention that caused them to believe that:

(A) any material modifications should be made to the unaudited statements of consolidated income, statements of consolidated financial position and statements of consolidated cash flows included in the Prospectus for them to be in conformity with generally accepted accounting principles, or the unaudited statements of consolidated income, statements of consolidated financial position and statements of consolidated cash flows included in the Prospectus do not comply as to form in all material respects with the applicable accounting requirements of the 1933 Act and the related published Rules and Regulations thereunder.

(B) any unaudited pro forma consolidated condensed financial statements included in the Prospectus do not comply as to form in all material respects with the applicable accounting requirements of the 1933 Act and the published rules and regulations thereunder or the pro forma adjustments have not been properly applied to the historical amounts in the compilation of those statements.

(C) as of a specified date not more than five days prior to the date of such letter, there have been any changes in the consolidated capital stock or any increase in the consolidated long-term debt of the Partnership Entities, or any decreases in consolidated working capital, net current assets or net assets, or any changes in any other items specified by the Underwriters, in each case as compared with amounts shown in the latest balance sheet included in the Prospectus, except in each case for changes, increases or decreases which the Prospectus discloses have occurred or may occur or which are described in such letter.

(D) for the period from the date of the latest financial statements included in the Prospectus to the specified date referred to in Clause (C) there were any decreases in consolidated net revenues or operating profit or the total or per share amounts of consolidated net income or any changes in any other items specified by the Underwriters, in each case as compared with the comparable period of the preceding year and with any other period of corresponding length specified by the Underwriters, except in each case for changes, decreases or increases which the Prospectus discloses have occurred or may occur or which are described in such letter.

(iv) In addition to the audit referred to in their report(s) included in the Prospectus and the limited procedures, inspection of minute books, inquiries and other procedures referred to in

paragraph (iii) above, they have carried out certain specified procedures, not constituting an audit in accordance with generally accepted auditing standards, with respect to certain amounts, percentages and financial information specified by the Underwriters, which are derived from the general accounting records of the Partnership Entities for the periods covered by their reports and any interim or other periods since the latest period covered by their reports, which appear in the Prospectus, or in Part II of, or in exhibits and schedules to, the Registration Statement specified by the Underwriters, and have compared certain of such amounts, percentages and financial information with the accounting records of the Partnership Entities and have found them to be in agreement.

EXHIBIT A

Crosstex Energy, L.P.
Texas

Crosstex Energy Services, L.P.
Texas
Louisiana
New Mexico
Oklahoma
Arkansas

Crosstex Energy Services GP, LLC
Texas
Louisiana
New Mexico
Oklahoma
Arkansas

Crosstex Energy GP, L.P.
Texas

Crosstex Energy GP, LLC
Texas

Crosstex Energy Holdings, Inc.
None

Crosstex Gulf Coast Transmission, Ltd.
None

Crosstex Acquisition Management GP, LLC
[To Come]

Crosstex Alabama Gathering System, L.P.
[To Come]

Crosstex Mississippi Pipeline, L.P.
[To Come]

Crosstex Gulf Coast Marketing, Ltd.
None

Crosstex CCNG Gathering Ltd.
None

Crosstex CCNG Marketing, Ltd.
None

Crosstex CCNG Transmission Ltd.
None

Crosstex CCNG Processing Ltd.
None

Crosstex Pipeline LLC
New Mexico
Oklahoma

Crosstex Pipeline Partners, Ltd.
New Mexico
Oklahoma

Crosstex Treating Services GP, LLC
Texas
Louisiana

Crosstex Treating Services, LP
Texas
Louisiana

Crosstex Acquisition Management, L.P.
[To Come]

Crosstex Mississippi Industrial Gas Sales, L.P.
[To Come]

Crosstex Seminole Gas, L.P.
[To Come]

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 3.8

AMENDED AND RESTATED

LIMITED LIABILITY COMPANY AGREEMENT

OF

CROSSTEX ENERGY GP, LLC

A Delaware Limited Liability Company

Dated as of December 17, 2002

TABLE OF CONTENTS

AMENDED AND RESTATED
LIMITED LIABILITY COMPANY AGREEMENT
OF
CROSSTEX ENERGY GP, LLC

THIS AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT of Crosstex Energy GP, LLC, a Delaware limited liability company (the *"Company"),* dated as of the 17th day of December, 2002, is adopted, executed and agreed to, for good and valuable consideration, by Crosstex Energy Holdings Inc., a Delaware corporation and the sole member of the Company (the *"Member" or "Holdings"*).

RECITALS:

WHEREAS, Holdings caused the Company to be formed as a limited liability company under the Delaware Limited Liability Company Act (the *"Act")* on July 12, 2002 *("Original Filing Date")* and a Certificate of Formation *("Delaware Certificate")* was filed with the Secretary of State of the State of Delaware on such date;

WHEREAS, Holdings, as the sole member, adopted, executed and agreed to enter into a Limited Liability Company Agreement (the *"Prior Agreement")* relating to the Company on July 12, 2002;

NOW, THEREFORE, in consideration of the covenants, conditions and agreements contained herein, the parties hereto hereby amend the Prior Agreement and, as so amended, restate it in its entirety as follows:

ARTICLE I
DEFINITIONS

Section 1.01. ***Definitions.***

(a) As used in this Agreement, the following terms have the respective meanings set forth below or set forth in the Sections referred to below:

"Act" has the meaning given such term in the Recitals.

"*Affiliate"* means, with respect to any Person, any other Person directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person. For the purposes of this definition, "control" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Agreement" means this Amended and Restated Limited Liability Company Agreement of Crosstex Energy GP, LLC.

"Applicable Law" means (a) any United States federal, state, local or foreign law, statute, rule, regulation, order, writ, injunction, judgment, decree or permit of any Governmental Authority and (b) any rule or listing requirement of any applicable national stock exchange or listing requirement of any national stock exchange or Securities and Exchange Commission recognized trading market on which securities issued by the MLP are listed or quoted.

"Board" has the meaning given such term in Section 5.01.

"Business Day" means any day other than a Saturday, a Sunday, or a day when banks in New York, New York are authorized or required by Applicable Law to be closed.

"Capital Contribution" means, with respect to any Member, the amount of money and the net agreed value of any property (other than money) contributed to the Company

by such Member. Any

reference in this Agreement to the Capital Contribution of a Member shall include a Capital Contribution of its predecessors in interest.

"Certified Public Accountants" means a firm of independent public accountants selected from time to time by the Board.

"Claim" means any and all judgments, claims, causes of action, demands, lawsuits, suits, proceedings, Governmental investigations or audits, losses, assessments, fines, penalties, administrative orders, obligations, costs, expenses, liabilities and damages (whether actual, consequential or punitive), including interest, penalties, reasonable attorneys' fees, disbursements and costs of investigations, deficiencies, levies, duties and imposts.

"Company" has the meaning given such term in the introductory paragraph of this Agreement.

"Day" means a calendar day; *provided, however*, that, if any period of Days referred to in this Agreement shall end on a Day that is not a Business Day, then the expiration of such period shall be automatically extended until the end of the next succeeding Business Day.

"Delaware Certificate" has the meaning given such term in the Recitals.

"Director" or *"Directors"* has the meaning given such term in Section 5.02.

"*GAAP*" means generally accepted accounting principles.

"Governmental Authority" or *"Governmental"* means any federal, state, local or foreign court or governmental or regulatory agency or authority or any arbitration board, tribunal or mediator having jurisdiction over the Company, its assets or the Member.

"GP LP" means Crosstex Energy GP, L.P., a Delaware limited partnership.

"Holdings" has the meaning given such term in the introductory paragraph of this Agreement.

"Indemnitee" means (a) any Person who is or was an Affiliate of the Company, (b) any Person who is or was a member, partner, officer, director, employee, agent or trustee of the Company or any Affiliate of the Company and (c) any Person who is or was serving at the request of the Company or any Affiliate of the Company as an officer, director, employee, member, partner, agent, fiduciary or trustee of another Person; *provided*, that a Person shall not be an Indemnitee by reason of providing, on a fee-for-services basis, trustee, fiduciary or custodial services.

"Member" means any Person executing this Agreement as of the date of this Agreement as a member of the Company or hereafter admitted to the Company as a member as provided in this Agreement, but such term does not include any Person who has ceased to be a member in the Company.

"Membership Interest" means all of the Member's rights and interests in the Company in the Member's capacity as a Member, all as provided in the Certificate, this Agreement and the Act, including, without limitation, the Member's interest in the capital, income, gain, deductions, losses and credits of the Company.

"MLP" means Crosstex Energy, L.P., a Delaware limited partnership.

"*Notices*" has the meaning given such term in Section 10.02.

"Original Filing Date" has the meaning given such term in the Recitals.

"Person" means any individual, firm, partnership, corporation, limited liability company, association, joint-stock company, unincorporated organization, joint venture, trust, court, governmental agency or any political subdivision thereof, or any other entity.

"Prior Agreement" has the meaning given such term in the Recitals.

"Proper Officer" or *"Proper Officers"* means those officers authorized by the Board to act on behalf of the Company.

"Term" has the meaning given such term in Section 2.06.

(b) Other terms defined herein have the meanings so given them.

Section 1.02. *Construction.*

Whenever the context requires, (a) the gender of all words used in this Agreement includes the masculine, feminine and neuter, (b) the singular forms of nouns, pronouns and verbs shall include the plural and vice versa, (c) all references to Articles and Sections refer to articles and sections in this Agreement, each of which is made a part for all purposes and (d) the term "include" or "includes" means includes, without limitation, and "including" means including, without limitation.

ARTICLE II
ORGANIZATION

Section 2.01. *Formation.*

Holdings formed the Company as a Delaware limited liability company by the filing of the Delaware Certificate, dated as of the Original Filing Date, with the Secretary of State of the State of Delaware pursuant to the Act.

Section 2.02. *Name.*

The name of the Company is "Crosstex Energy GP, LLC" and all Company business must be conducted in that name or such other names that comply with Applicable Law as the Board may select.

Section 2.03. ***Registered Office; Registered Agent; Principal Office.***

The name of the Company's registered agent for service of process is The Corporation Trust Company, and the address of the Company's registered office in the State of Delaware is 1209 Orange Street, Wilmington, Delaware 19801. The principal place of business of the Company shall be located at 2501 Cedar Springs, Suite 600, Dallas, Texas 75201. The Board may change the Company's registered agent or the location of the Company's registered office or principal place of business as the Board may from time to time determine.

Section 2.04. ***Purposes.***

(a) The Company may carry on any lawful business or activity permitted by the Act. The Company shall be authorized to engage in any and all lawful activities that, in the judgment of the Board, may be beneficial or desirable.

(b) Subject to the limitations expressly set forth in this Agreement, the Company shall have the power and authority to do any and all acts and things deemed necessary or desirable by the Board to further the Company's purposes and carry on its business, including, without limitation, the following:

(i) acting as the general partner of GP LP;

(ii) entering into any kind of activity and performing contracts of any kind necessary or desirable for the accomplishment of its business (including the business of GP LP and its subsidiaries);

(iii) acquiring any property, real or personal, in fee or under lease or license, or any rights therein or appurtenant thereto, necessary or desirable for the accomplishment of its business;

(iv) borrowing money and issuing evidences of indebtedness and securing any such indebtedness by mortgage or pledge of, or other lien on, the assets of the Company;

(v) entering into such instruments and agreements as the Board may deem necessary or desirable for the ownership, management, operation, leasing and sale of the Company's property; and

(vi) negotiating and concluding agreements for the sale, exchange or other disposition of all or substantially all of the properties of the Company, or for the refinancing of any loan or payment obtained by the Company.

The Member hereby specifically consents to and approves the execution and delivery by the Proper Officers on behalf of the Company of all loan agreements, guarantees, notes, security agreements or other documents or instruments, if any, as required by any lender providing funds to the Company, GP LP or its subsidiaries and ancillary documents contemplated thereby.

Section 2.05. ***Foreign Qualification.***

Prior to the Company's conducting business in any jurisdiction other than Delaware, the Proper Officers shall cause the Company to comply, to the extent procedures are available and those matters are reasonably within the control of such officers, with all requirements necessary to qualify the Company as a foreign limited liability company in that jurisdiction. At the request of the Proper Officers, the Member shall execute, acknowledge, swear to, and deliver all certificates and other instruments conforming with this Agreement that are necessary or appropriate to qualify, continue, and terminate the Company as a foreign limited liability company in all such jurisdictions in which the Company may conduct business.

Section 2.06. ***Term.***

The period of existence of the Company (the *"Term"*) commenced on the Original Filing Date and shall end at such time as a certificate of cancellation is filed with the Secretary of State of the State of Delaware following dissolution of the Company in accordance with Section 9.01.

ARTICLE III
OWNERSHIP INTEREST

Section 3.01. ***Interest.***

On July 12, 2002, Holdings formed the Company as a limited liability company pursuant to the provisions of the Act by virtue of the filing of the Delaware Certificate with the Secretary of State of the State of Delaware and became owner of the entire equity interest of the Company and as such the Membership Interest held by the Member is the only outstanding Membership Interest of the Company.

Section 3.02. ***Voting.***

Unless otherwise granted to the Board of Directors in the Delaware Certificate or this Agreement, the Member shall possess the entire voting interest in all matters relating to the Company, including, without limitation, matters relating to the amendment of this Agreement, any merger, consolidation or conversion of the Company, sale of all or substantially all of the assets of the Company and the termination, dissolution and liquidation of the Company.

Section 3.03. ***Distribution.***

Distributions by the Company of cash or other property shall be made to the Member at such time as the Board of Directors deems appropriate.

ARTICLE IV
CAPITAL CONTRIBUTIONS

Section 4.01. ***Initial Capital Contribution.***

In connection with the formation of the Company, Holdings made an initial Capital Contribution of $1,000.

ARTICLE V
MANAGEMENT

Section 5.01. ***Management by Board of Directors and Executive Officers.***

The business and affairs of the Company shall be fully vested in, and managed by, a Board of Directors (the"*Board*"), subject to the executive officers elected pursuant to Article VI hereof. The Directors and executive officers shall collectively constitute "managers" of the Company within the meaning of the Act. Except as otherwise specifically provided in this Agreement, the authority and functions of the Board, on the one hand, and the executive officers, on the other hand, shall be identical to the authority and functions of the board of directors and officers, respectively, of a corporation organized under the General Corporate Law of the State of Delaware. The executive officers shall be vested with such powers and duties as are set forth in Article VI hereof and as are specified by the Board. Accordingly, except as otherwise specifically provided in this Agreement, the business and affairs of the Company shall be managed under the direction of the Board, and the day-to-day activities of the Company shall be conducted on the Company's behalf by the executive officers who shall be agents of the Company.

In addition to the powers and authorities expressly conferred on the Board by this Agreement, the Board may exercise all such powers of the Company and do all such acts and things as are not restricted by the Act or Applicable Law.

Section 5.02. ***Number; Qualification; Tenure.***

The number of directors constituting the Board shall be one (the"*Director*"), unless otherwise fixed from time to time pursuant to a resolution adopted by the Director. The Director shall be elected or approved by the Member and shall serve as Director of the Company until his or her death or removal from office or until his or her successors are elected and qualified.

As at the date of this Agreement, the Directors of the Company are Barry E. Davis, Bryan H. Lawrence, Sheldon B. Lubar, Stephen A. Wells, Robert F. Murchison and C. Roland Haden.

Section 5.03. ***Regular Meetings.***

The Board shall meet at least quarterly. The Board may, by resolution, provide the time and place for the holding of additional regular meetings without other notice than such resolution.

Section 5.04. ***Notice.***

Written notice of all regular meetings of the Board must be given to all Directors at least 10 Days prior to the regular meeting of the Board and two Business Days prior to any special meeting of the Board. All notices and other communications to be given to Directors shall be sufficiently given for all purposes hereunder if in writing and delivered by hand, courier or overnight delivery service or three

days after being mailed by certified or registered mail, return receipt requested, with appropriate postage prepaid, or when received in the form of a telegram or facsimile, and shall be directed to the address or facsimile number as such Director shall designate by notice to the Company. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board need be specified in the notice of such meeting, except for amendments to this Agreement, as provided herein. A meeting may be held at any time without notice if all the Directors are present or if those not present waive notice of the meeting either before or after such meeting.

Section 5.05. ***Action by Consent of Board or Committee of Board.***

To the extent permitted by Applicable Law, the Board, or any committee of the Board, may act without a meeting so long as all Directors shall have executed a written consent with respect to any action taken in lieu of a meeting.

Section 5.06. ***Conference Telephone Meetings.***

Directors or members of any committee of the Board may participate in a meeting of the Board or such committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at such meeting.

Section 5.07. ***Quorum.***

A majority of all Directors, present in person or participating in accordance with Section 5.06, shall constitute a quorum for the transaction of business, but if at any meeting of the Board there shall be less than a quorum present, a majority of the Directors present may adjourn the meeting from time to time without further notice. Except as otherwise required by Applicable Law, all decision of the Board, or any committee of the Board, shall require the affirmative vote of a majority of all Directors of the Board, or of any committee of the Board, respectively. The Directors present at a duly organized meeting may continue to transact business until adjournment, notwithstanding the withdrawal of enough Directors to leave less than a quorum; however, only the acts of a majority of all Directors shall be acts of the Board.

Section 5.08. ***Vacancies; Increases in the Number of Directors.***

Unless otherwise provided in this Agreement, vacancies and newly created directorships resulting from any increase in the authorized number of Directors may be filled by a majority of the Directors then in office, although less than a quorum, or a sole remaining Director; and any Director so chosen shall hold office until the next annual election, or until his successor shall be duly elected and shall qualify, unless sooner displaced.

Section 5.09. ***Committees.***

(a) The Board may establish committees of the Board and may delegate certain of its responsibilities to such committees.

(b) A majority of any committee, present in person or participating in accordance with Section 5.06, shall constitute a quorum, for the transaction of business of such committee.

(c) A majority of any committee may determine its action and fix the time and place of its meetings unless the Board shall otherwise provide. Notice of such meetings shall be given to each member of the committee in the manner provided for in Section 5.04. The Board shall have power at any time to fill vacancies in, to change the membership of, or to dissolve any such committee. Nothing herein shall be deemed to prevent the Board from appointing one or more committees consisting in

whole or in part of persons who are not Directors; *provided, however*, that no such committee shall have or may exercise any authority of the Board.

Section 5.10. ***Removal.***

Any Director or the entire Board may be removed, with or without cause, by the Member.

ARTICLE VI
OFFICERS

Section 6.01. ***Elected Officers.***

The executive officers of the Company shall serve at the pleasure of the Board. Such officers shall have the authority and duties delegated to each of them, respectively, by the Board from time to time. The elected officers of the Company shall be a Chairman of the Board, a President, a Treasurer, a Secretary, and such other officers (including, without limitation, Executive Vice Presidents, Senior Vice Presidents and Vice Presidents) as the Board from time to time may deem proper. All officers elected by the Board shall each have such powers and duties as generally pertain to their respective offices, subject to the specific provisions of this Article VI. The Board or any committee thereof may from time to time elect, such other officers (including one or more Vice Presidents, Assistant Secretaries and Assistant Treasurers), as may be necessary or desirable for the conduct of the business of the Company. Such other officers and agents shall have such duties and shall hold their offices for such terms as shall be provided in this Agreement or as may, be prescribed by the Board or such committee, as the case may be.

Section 6.02. ***Election and Term of Office.***

The names and titles of the initial officers of the Company are set forth on Exhibit A hereto. Thereafter, the officers of the Company shall be elected annually by the Board at the regular meeting of the Board held after the annual meeting of the Member. If the election of officers shall not be held at such meeting, such election shall be held as soon thereafter as convenient. Each officer shall hold office until such person's successor shall have been duly elected and shall have qualified, or until such person's death or until he shall resign or be removed pursuant to Section 6.08.

Section 6.03. ***Chairman of the Board.***

The Chairman of the Board shall preside at all meetings of the Board of Directors. The Directors also may elect a Vice-Chairman to act in the place of the Chairman upon his absence or inability to act.

Section 6.04. ***President.***

The President shall be responsible for the general management of the affairs of the Company and shall perform all duties incidental to such person's office that may be required by law and all such other duties as are properly required of him by the Board. He shall make reports to the Board and the Member and shall see that all orders and resolutions of the Board and of any committee thereof are carried into effect. The President may sign, with the Secretary, an Assistant Secretary or any other Proper Officer of the Company thereunto duly authorized by the Board, any deeds, mortgages, bonds, contracts or other instruments that the Board has authorized to be executed, except in cases where the execution thereof shall be expressly delegated by the Board or by this Agreement to some other officer or agent of the Company, or shall be required by law to be otherwise executed. The President, if he is also a director, shall, in the absence of or because of the inability to act of the Chairman of the Board, perform all duties of the Chairman of the Board and preside at all meetings of the Board.

Section 6.05. ***Treasurer.***

(a) The Treasurer shall be responsible for financial reporting for the Company and shall perform all duties incidental to such person's office that may be required by law and all such other duties as are properly required of him by the Board. He shall make reports to the Board and shall see that all orders and resolutions of the Board and of any committee thereof relating to financial reporting are carried into effect.

(b) The Treasurer shall exercise general supervision over the receipt, custody and disbursement of corporate funds. The Treasurer shall cause the funds of the Company to be deposited in such banks as may be authorized by the Board, or in such banks as may be designated as depositories in the manner provided by resolution of the Board. The Treasurer shall, in general, perform all duties incident to the office of the Treasurer and shall have such further powers and duties and shall be subject to such directions as may be granted or imposed from time to time by the Board.

Section 6.06. ***Vice Presidents.***

Each Executive Vice President and Senior Vice President and any Vice President shall have such powers and shall perform such duties as shall be assigned to him or her by the Board.

Section 6.07. ***Secretary.***

(a) The Secretary shall keep or cause to be kept, in one or more books provided for that purpose, the minutes of all meetings of the Board, the committees of the Board and the Members. The Secretary shall (i) see that all notices are duly given in accordance with the provisions of this Agreement and as required by law; (ii) be custodian of the records and the seal of the Company and affix and attest the seal to all documents to be executed on behalf of the Company under its seal; (iii) see that the books, reports, statements, certificates and other documents and records required by law to be kept and filed are properly kept and filed; and (iv) in general, shall perform all the duties incident to the office of Secretary and such other duties as from time to time may be assigned to the Secretary by the Board.

(b) Assistant Secretaries shall have such of the authority and perform such of the duties of the Secretary as may be provided in this Agreement or assigned to them by the Board or the Secretary. Assistant Secretaries shall assist the Secretary in the performance of the duties assigned to the Secretary, and in assisting the Secretary, each Assistant Secretary shall for such purpose have the powers of the Secretary. During the Secretary's absence or inability, the Secretary's authority and duties shall be possessed by such Assistant Secretary or Assistant Secretaries as the Board may designate.

Section 6.08. ***Removal.***

Any officer elected, or agent appointed, by the Board may be removed by the affirmative vote of a majority of the Board whenever, in their judgment, the best interests of the Company would be served thereby. No elected officer shall have any contractual rights against the Company for compensation by virtue of such election beyond the date of the election of such person's successor, such person's death, such person's resignation or such person's removal, whichever event shall first occur, except as otherwise provided in an employment contract or under an employee deferred compensation plan.

Section 6.09. ***Vacancies.***

A newly created elected office and a vacancy in any elected office because of death, resignation or removal may be filled by the Board for the unexpired portion of the term at any meeting of the Board.

ARTICLE VII
INDEMNIFICATION OF DIRECTORS,
OFFICERS, EMPLOYEES AND AGENTS

Section 7.01. ***Indemnification.***

(a) To the fullest extent permitted by law but subject to the limitations expressly provided in this Agreement, all Indemnitees shall be indemnified and held harmless by the Company from and against any and all losses, claims, damages, liabilities, joint or several, expenses (including legal fees and expenses), judgments, fines, penalties, interest, settlements or other amounts arising from any and all claims, demands, actions, suits or proceedings, whether civil, criminal, administrative or investigative, in which any Indemnitee may be involved, or is threatened to be involved, as a party or otherwise, by reason of its status as an Indemnitee; *provided*, that in each case the Indemnitee acted in good faith and in a manner that such Indemnitee reasonably believed to be in, or not opposed to, the best interests of the Company and, with respect to any criminal proceeding, had no reasonable cause to believe its conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere, or its equivalent, shall not create a presumption that the Indemnitee acted in a manner contrary to that specified above. Any indemnification pursuant to this Section 7.01 shall be made only out of the assets of the Company.

(b) To the fullest extent permitted by law, expenses (including legal fees and expenses) incurred by an Indemnitee who is indemnified pursuant to Section 7.01 (a) in defending any claim, demand, action, suit or proceeding shall, from time to time, be advanced by the Company prior to the final disposition of such claim, demand, action, suit or proceeding upon receipt by the Company of any undertaking by or on behalf of the Indemnitee to repay such amount if it shall be determined that the Indemnitee is not entitled to be indemnified as authorized in this Section 7.01.

(c) The indemnification provided by this Section 7.01 shall be in addition to any other rights to which an Indemnitee may be entitled under any agreement, as a matter of law or otherwise, both as to actions in the Indemnitee's capacity as an Indemnitee and as to actions in any other capacity, and shall continue as to an Indemnitee who has ceased to serve in such capacity and shall inure to the benefit of the heirs, successors, assigns and administrators of the Indemnitee.

(d) The Company may purchase and maintain insurance on behalf of the Company, its Affiliates and such other Persons as the Company shall determine, against any liability that may be asserted against, or expense that may be incurred by, such Person in connection with the Company's activities or such Person's activities on behalf of the Company, regardless of whether the Company would have the power to indemnify such Person against such liability under the provisions of this Agreement.

(e) For purposes of this Section 7.01, the Company shall be deemed to have requested an Indemnitee to serve as fiduciary of an employee benefit plan whenever the performance by it of its duties to the Company also imposes duties on, or otherwise involves services by, it to the plan or participants or beneficiaries of the plan; excise taxes assessed on an Indemnitee with respect to an employee benefit plan pursuant to applicable law shall constitute "fines" within the meaning of Section 7.01(a); and action taken or omitted by the Indemnitee with respect to any employee benefit plan in the performance of its duties for a purpose reasonably believed by it to be in the interest of the participants and beneficiaries of the plan shall be deemed to be for a purpose that is in, or not opposed to, the best interests of the Company.

(f) An Indemnitee shall not be denied indemnification in whole or in part under this Section 7.01 because the Indemnitee had an interest in the transaction with respect to which the indemnification applies if the transaction was otherwise permitted by the terms of this Agreement.

(g) The provisions of this Section 7.01 are for the benefit of the Indemnitees, their heirs, successors, assigns and administrators and shall not be deemed to create any rights for the benefit of any other Persons.

(h) No amendment, modification or repeal of this Section 7.01 or any provision hereof shall in any manner terminate, reduce or impair the right of any past, present or future Indemnitee to be indemnified by the Company, nor the obligations of the Company to indemnify any such Indemnitee under and in accordance with the provisions of this Section 7.01 as in effect immediately prior to such amendment, modification or repeal with respect to claims arising from or relating to matters occurring, in whole or in part, prior to such amendment, modification or repeal, regardless of when such claims may arise or be asserted.

Section 7.02. ***Liability of Indemnitees.***

(a) Notwithstanding anything to the contrary set forth in this Agreement, no Indemnitee shall be liable for monetary damages to the Company or any other Persons who have acquired membership interests in the Company, for losses sustained or liabilities incurred as a result of any act or omission if such Indemnitee acted in good faith.

(b) To the extent that, at law or in equity, an Indemnitee has duties (including fiduciary duties) and liabilities relating thereto to the Company, such Indemnitee acting in connection with the Company's business or affairs shall not be liable to the Company or to any Member for its good faith reliance on the provisions of this Agreement. The provisions of this Agreement, to the extent that they restrict or otherwise modify the duties and liabilities of an Indemnitee otherwise existing at law or in equity, are agreed by the Member to replace such other duties and liabilities of such Indemnitee.

(c) Any amendment, modification or repeal of this Section 7.02 or any provision hereof shall be prospective only and shall not in any way affect the limitations on the liability to the Company, and the Company's directors, officers and employees under this Section 7.02 as in effect immediately prior to such amendment, modification or repeal with respect to claims arising from or relating to matters occurring, in whole or in part, prior to such amendment, modification or repeal, regardless of when such claims may arise or be asserted.

ARTICLE VIII
BOOKS, RECORDS, REPORTS, AND BANK ACCOUNTS

Section 8.01. ***Maintenance of Books.***

(a) The Board shall cause to be kept a record containing the minutes of the proceedings of the meetings of the Board and of the Member, appropriate registers and such books of records and accounts as may be necessary for the proper conduct of the business of the Company.

(b) The books of account of the Company shall be (i) maintained on the basis of a fiscal year that is the calendar year, (ii) maintained on an accrual basis in accordance with GAAP, consistently applied, and (iii) audited by the Certified *Public* Accountants at the end of each calendar year.

Section 8.02. ***Reports.***

With respect to each calendar year, the Board shall prepare, or cause to be prepared, and deliver, or cause to be delivered, to the Member:

(a) Within 120 Days after the end of such calendar year, a profit and loss statement and a statement of cash flows for such year and a balance sheet as of the end of such year, together with a report thereon of the Certified Public Accountants; and

(b) Such federal, state, local and foreign income tax returns and such other accounting, tax information and schedules as shall be necessary for the preparation *by* the Member on or before June 15, following the end of each calendar year of its income tax return with respect to such year.

Section 8.03. ***Bank Accounts.***

Funds of the Company shall be deposited in such banks or other depositories as shall be designated from time to time by the Board. All withdrawals from any such depository shall be made only as authorized by the Board and shall be made only by check, wire transfer, debit memorandum or other written instruction.

ARTICLE IX
DISSOLUTION AND TERMINATION

Section 9.01. ***Dissolution.***

(a) The Company shall be of perpetual duration; however, the Company may be dissolved upon:

(i) The direction of the Member to dissolve the Company; or

(ii) A decree of dissolution being entered with respect to the Company by a court of competent jurisdiction; or

(iii) A merger or consolidation under the Act where the Company is not the surviving entity in such merger or consolidation.

(b) No other event shall cause a dissolution of the Company.

Section 9.02. ***Effect of Dissolution.***

Except as otherwise provided in this Agreement, upon the dissolution of the Company, the Member shall take such actions as may be required pursuant to the Act and shall proceed to wind up, liquidate and terminate the business and affairs of the Company. In connection with such winding up, the Member shall have the authority to liquidate and reduce to cash (to the extent necessary or appropriate) the assets of the Company as promptly as is consistent with obtaining fair value therefor, to apply and distribute the proceeds of such liquidation and any remaining assets in accordance with the provisions of Section 9.03, and to do any and all acts and things authorized by, and in accordance with, the Act and other applicable laws for the purpose of winding up and liquidation.

Section 9.03. ***Application of Proceeds.***

Upon dissolution and liquidation of the Company, the assets of the Company shall be applied and distributed in the following order of priority:

(a) To the payment of debts and liabilities of the Company (including to the Member to the extent otherwise permitted by law) and the expenses of liquidation.

(b) Next, to the setting up of such reserves as the Person required or authorized by law to wind up the Company's affairs may reasonably deem necessary or appropriate for any disputed, contingent or unforeseen liabilities or obligations of the Company, *provided* that any such reserves shall be paid over by such Person to an escrow agent appointed by the Board of Directors, to be held by such agent or its successor for such period as such Person shall deem advisable for the purpose of applying such reserves to the payment of such liabilities or obligations and, at the expiration of such period, the balance of such reserves, if any, shall be distributed as hereinafter provided.

(c) The remainder to the Member.

ARTICLE X
GENERAL PROVISIONS

Section 10.01. ***Offset.***

Whenever the Company is to pay any sum to the Member, any amounts the Member owes the Company may be deducted from that sum before payment.

Section 10.02. ***Notices.***

All notices, demands, requests, consents, approvals or other communications (collectively, "*Notices*") required or permitted to be given hereunder or that are given with respect to this Agreement shall be in writing and shall be personally served, delivered by reputable air courier service with charges prepaid, or transmitted by hand delivery, telegram, telex or facsimile, addressed as set forth below, or to such other address as such party shall have specified most recently by written notice. Notice shall be deemed given on the date of service or transmission if personally served or transmitted by telegram, telex or facsimile. Notice otherwise sent as provided herein shall be deemed given upon delivery of such notice:

To the Company:

Crosstex Energy GP, LLC
2501 Cedar Springs
Suite 600
Dallas, Texas 75201
Telephone: (214) 953-9500
Fax: (214) 953-9501

To the Member:

Crosstex Energy Holdings Inc.
2501 Cedar Springs
Suite 600
Dallas, Texas 75201
Telephone: (214) 953-9500
Fax: (214) 953-9501

Section 10.03. ***Entire Agreement; Superseding Effect.***

This Agreement constitutes the entire agreement of the Member relating to the Company and the transactions contemplated hereby, and supersedes all provisions and concepts contained in all prior contracts or agreements between the Member or any of its Affiliates with respect to the Company, whether oral or written.

Section 10.04. ***Amendment or Restatement.***

This Agreement or the Delaware Certificate may be amended or restated only by a written instrument executed (or, in the case of the Delaware Certificate, approved) by the Member.

Section 10.05. ***Binding Effect.***

This Agreement is binding on and shall inure to the benefit of the Member and its respective successors and permitted assigns.

Section 10.06. ***Governing Law; Severability.***

THIS AGREEMENT IS GOVERNED BY AND SHALL BE CONSTRUED IN ACCORDANCE WITH THE LAW OF THE STATE OF DELAWARE, EXCLUDING ANY CONFLICT-OF-LAWS RULE OR PRINCIPLE THAT MIGHT REFER THE GOVERNANCE OR THE CONSTRUCTION OF THIS AGREEMENT BY THE LAW OF ANOTHER JURISDICTION. In the event of a direct conflict between the provisions of this Agreement and any mandatory, non-waivable provision of the Act, such provision of the Act shall control. If any provision of the Act provides that it may be varied or superseded in a limited liability company agreement (or otherwise by agreement of the members or managers of a limited liability company), such provision shall be deemed superseded and waived in its entirety if this Agreement contains a provision addressing the same issue or subject matter.

Section 10.07. ***Further Assurances.***

In connection with this Agreement and the transactions contemplated hereby, the Member shall execute and deliver any additional documents and instruments and perform any additional acts that may be necessary or appropriate to effectuate and perform the provisions of this Agreement and those transactions.

Section 10.08. ***Counterparts.***

This Agreement may be executed in any number of counterparts with the same effect as if all signing parties had signed the same document. All counterparts shall be construed together and constitute the same instrument.

Section 10.09. ***Jurisdiction.***

Any and all Claims arising out of, in connection with or in relation to (i) the interpretation, performance or breach of this Agreement, or (ii) any relationship before, at the time of entering into, during the term of, or upon or after expiration or termination of this Agreement, between the parties hereto, shall be brought in any court of competent jurisdiction in the State of Delaware. Each party hereto unconditionally and irrevocably consents to the jurisdiction of any such court over any Claims and waives any objection that such party may have to the laying of venue of any Claims in any such court.

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date first set forth above.

MEMBER:

CROSSTEX ENERGY HOLDINGS INC.

By: /s/ BRYAN H. LAWRENCE

Name: Bryan H. Lawrence
Title: Chairman

Signature Page to the Amended and Restated Limited Liability Company Agreement of Crosstex Energy GP, LLC

EXHIBIT A

Barry E. Davis	President and Chief Executive Officer
James R. Wales	Executive Vice President—Midstream Division
A. Chris Aulds	Executive Vice President—Treating Division
Jack M. Lafield	Senior Vice President—Business Development
William W. Davis	Senior Vice President, Chief Financial Officer, Treasurer and Secretary
Michael P. Scott	Vice President—Engineering and Operations
Julie A. Nichols	Assistant Secretary
Joseph F. Ragusa	Assistant Treasurer

QuickLinks

Exhibit 5.1

[THOMPSON & KNIGHT LLP LETTERHEAD]

July 9, 2003

Crosstex Energy, L.P.
2501 Cedar Springs, Suite 600
Dallas, Texas 75201

Re: Crosstex Energy, L.P.—Registration Statement on Form S-1

We have acted as counsel to Crosstex Energy, L.P., a Delaware limited partnership (the "Partnership"), and Crosstex Energy GP, L.P., a Delaware limited partnership and the general partner of the Partnership (the "General Partner"), in connection with the registration under the Securities Act of 1933, as amended (the "Securities Act"), of the offering and sale of up to an aggregate of 1,725,000 common units representing limited partner interests in the Partnership (the "Common Units").

As the basis for the opinion hereinafter expressed, we examined the Delaware Uniform Revised Limited Partnership Act (the "Act"), corporate records and documents, certificates of corporate and public officials, and other instruments and documents as we deemed necessary or advisable for the purposes of this opinion. In making our examination, we have assumed that all signatures on documents examined by us are genuine, that all documents submitted to us as originals are authentic and that all documents submitted to us as certified or photostatic copies conform with the original copies of such documents.

Based on the foregoing and on such legal considerations as we deem relevant, we are of the opinion that:

1. The Partnership has been duly formed and is validly existing as a limited partnership under the Act.

2. The Common Units, when issued and delivered on behalf of the Partnership against payment therefor as described in the Partnership's Registration Statement on Form S-1, as amended, relating to the Common Units filed on this date with the Securities and Exchange Commission and to which this opinion has been filed as an Exhibit (the "Registration Statement"), will be duly authorized, validly issued, fully paid and nonassessable.

We hereby consent to the statements with respect to us under the heading "Validity of the Common Units" in the prospectus forming a part of the Registration Statement and to the filing of this opinion as an exhibit to the Registration Statement. In giving this consent, we do not hereby admit that we are within the category of persons whose consent is required under the provisions of the Securities Act or the rules and regulations of the Securities Exchange Commission issued thereunder.

Very truly yours,

/s/ THOMPSON & KNIGHT

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EXHIBIT 8.1

[LETTERHEAD OF THOMPSON & KNIGHT L.L.P.]

July 9, 2003

Crosstex Energy, L.P.
2501 Cedar Springs, Suite 600
Dallas, Texas 75201

Re: Crosstex Energy, L.P.—Registration Statement on Form S-1

Ladies and Gentlemen:

We have acted as counsel to Crosstex Energy, L.P., a Delaware limited partnership (the "Partnership") and to the general partner of the Partnership in connection with the offer and sale of common units in the Partnership pursuant to a Registration Statement on Form S-1 (the "Registration Statement").

We hereby confirm as our opinion the statements that appear under the caption "Material Tax Consequences" in the Registration Statement and that are identified as our opinion subject to the assumptions, qualifications and limitations set forth therein as to such opinion.

This opinion is expressed as of the date hereof, and we are under no obligation to supplement or revise our opinion to reflect any changes in applicable law or in any information, document, covenant, statement, representation or assumption referenced therein that becomes untrue or incorrect. This opinion is furnished to you solely for use in connection with the Registration Statement, and it is not to be used, circulated, quoted or otherwise referred to for any other purpose without our express written consent.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement and to the use of our name in the Registration Statement under the heading "Material Tax Consequences." This consent does not constitute an admission that we are within the category of persons whose consent is required under Section 7 of the Securities Act of 1933, as amended, or the rules and regulations of the Securities Exchange Commission thereunder.

THOMPSON & KNIGHT L.L.P.

By: /s/ R. DAVID WHEAT

R. David Wheat, Partner

Exhibit 10.2

FIRST AMENDMENT

THIS FIRST AMENDMENT TO SECOND AMENDED AND RESTATED CREDIT AGREEMENT (this "*Amendment*") is entered into this 3rd day of June, 2003 by and among the persons executing this Amendment as banks (the "*Banks*"), Crosstex Energy Services, L.P., a Delaware limited partnership (the "*Borrower*"), and Union Bank of California, N.A., as administrative agent (the "*Administrative Agent*").

BACKGROUND

A. The Banks, the Administrative Agent and the Borrower are parties to that certain Second Amended and Restated Credit Agreement dated as of November 26, 2002 (said Agreement, as so amended, herein called the "*Credit Agreement*"). Terms defined in the Credit Agreement and not otherwise defined herein have the same respective meanings when used herein.

B. The Borrower has requested, and the Banks have agreed to increase the aggregate amount of the Revolver A Commitments to $70,000,000 and the Revolver B Commitments to $30,000,000 and make certain other amendments to the Credit Agreement.

C. In addition, the parties hereto wish to add each of The Royal Bank of Canada and U.S. Bank National Association as a "Bank" under the Credit Agreement (the "*New Banks*").

AGREEMENT

NOW THEREFORE, in connection of the covenants, conditions and agreements hereafter 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:

Section 1. *Amendments.*

(a) Schedules 1 and 2 to the Credit Agreement are hereby deleted in their entirety and Schedules 1 and 2 attached hereto are hereby substituted therefor.

(b) Section 1.01 of the Credit Agreement is hereby amended as follows:

(i) The definition of "Acceptable Security Interest" is amended in its entirety as follows:

"*Acceptable Security Interest*" in any Property means a Lien which (a) exists in favor of the Collateral Agent for its benefit and the ratable benefit of the Administrative Agent, the Banks and their Affiliates that are parties to any Hydrocarbon Hedge Agreement or Interest Rate Contract with the Borrower or any Subsidiary, and the Holders, (b) is superior to all other Liens, except Permitted Liens, (c) secures the Obligations and, if outstanding, the Note Obligations, and (d) is perfected and enforceable.

(ii) The definition of "Acquisition" is amended by adding the word "equity" before the word "interest" in the parenthetical thereof.

(iii) The definition of "Agents" is amended by adding the words "and the Documentation Agent" at the end thereof.

(iv) The pricing grid set forth in the definition of "Applicable Margin" is hereby amended in its entirety as follows:

Leverage Ratio	**Eurodollar Rate Advances**	**Reference Rate Advances**	**Commitment Fees**	**Letter of Credit Fees**
>3.50	3.00%	1.50%	0.50%	2.00%
>3.00 and £3.50	2.50%	1.00%	0.50%	1.75%
>2.50 and £3.00	2.25%	0.75%	0.50%	1.75%
>2.00 and £2.50	2.00%	0.50%	0.375%	1.50%
£2.00	1.75%	0.25%	0.375%	1.50%

(v) The definition of "Borrowing Base" is amended in its entirety as follows:

"Borrowing Base" means, at any time of determination, the sum of the following: (a) 100% of the aggregate amount of cash and Permitted Investments of the Borrower and its Subsidiaries (excluding the Pipeline Entities) maintained in accounts in which the Collateral Agent has an Acceptable Security Interest; (b) 95% of the aggregate amount of Eligible Accounts backed by Eligible LCs; (c) 90% of the aggregate amount of Eligible Accounts that do not fall within clause (b) above and the account debtor of which has a long-term debt rating of at least BBB- from S&P or Baa3 from Moody's or whose parent company has a long-term debt rating of at least BBB- from S&P or Baa3 from Moody's and has guaranteed the Accounts of such account debtor to the Borrower and its Subsidiaries and (d) 80% of the aggregate amount of Eligible Accounts that do not fall within clauses (b) and (c) above and which are not more than 90 days past due.

(vi) The definition of "Collateral" is amended by replacing "Pledge Agreement" with "Pledge Agreements".

(vii) The definition of "Credit Documents" is amended by replacing "any Interest Rate Contract with a Bank, any Hydrocarbon Hedge Agreement with a Bank" with "any Interest Rate Contract between the Borrower or any Subsidiary and a Bank or an Affiliate thereof, any Hydrocarbon Hedge Agreement between the Borrower or any Subsidiary and a Bank or an Affiliate thereof."

(viii) The definition of "Eligible Accounts" is hereby amended as follows:

(A) Subsection (vii) is hereby amended in its entirety to read as follows:

(vii) [intentionally omitted];

(B) Clause (A) of subsection (xi) is hereby amended in its entirety to read as follows:

(A) such Accounts due from such account debtor do not comply with the representations and warranties of the Borrower or of the relevant Subsidiary (as applicable) in Section 6 of the Borrower Security Agreement or of the relevant Guarantor Security Agreement (as applicable) and if the Administrative Agent notifies the Borrower or the relevant Subsidiary (as applicable) that such Accounts are ineligible or

(ix) The definition of "Final Maturity Date" is hereby deleted in its entirety.

(x) The definition of "Interest Expense" is hereby amended by adding "and on a pro forma basis at any time that EBITDA is being determined on such a basis" at the end thereof.

(xi) The definition of "Material Adverse Effect" is hereby amended in its entirety as follows:

"*Material Adverse Effect*" shall mean a material adverse effect on (a) the business, assets, condition (financial or otherwise), operations, performance or properties of the Borrower and its Subsidiaries taken as a whole, or (b) the validity or enforceability of the Credit Documents or the rights or remedies of the Banks, the Administrative Agent or the Collateral Agent under any of the Credit Documents.

(xii) The definition of "Material Subsidiary" is hereby amended by replacing (A) "$1,000,000" with "$3,000,000" and (B) "$250,000" with "$500,000".

(xiii) The definition of "Obligations" is hereby amended by adding ", the Collateral Agent" after each occurrence of the words "the Administrative Agent".

(xiv) The definition of "Pledge Agreement" is hereby amended in its entirety as follows:

"*Pledge Agreement*" means, collectively, (a) the Pledge Agreement among the Partners and the Collateral Agent in form and substance reasonably satisfactory to the Collateral Agent and the Lenders, (b) the Pledge Agreement between Crosstex Treating Services GP, LLC and the Collateral Agent in form and substance reasonably satisfactory to the Collateral Agent and the Lenders, and (c) the Pledge Agreement between Crosstex Acquisition Management GP, LLC and the Collateral Agent in form and substance reasonably satisfactory to the Collateral Agent and the Lenders, as each may be amended, modified or supplemented from time-to-time.

(xv) Each of the definitions of "Revolver A Termination Date" and "Revolver B Termination Date" is hereby amended by replacing "April 30, 2004" with "June 1, 2006".

(xvi) The definition of "Syndication Agent" is amended by replacing "Fleet National Bank" with "The Royal Bank of Canada".

(xvii) Each of the definitions of "Asset-Based Audit", "Borrower Security Agreement", clauses (c) and (d)(v) of the definition of "Eligible Accounts", "Guarantor Security Agreement", and "Mortgages" is amended by replacing each occurrence of "Administrative Agent" therein with "Collateral Agent".

(xviii) The following definitions are hereby added in appropriate alphabetical order:

"*Additional Notes*" shall mean any Senior Secured Notes of one or more series (other than the Series A Notes) issued by the Borrower from time to time pursuant to the Note Agreement, together with any notes issued in substitution or exchange therefor pursuant to the Note Agreement.

"*Approved Fund*" means any Person (other than a natural person) that is engaged in making, purchasing, holding or investing in bank loans and similar extensions of credit in the ordinary course of its business and that is administered or managed by (a) a Bank, (b) an Affiliate of a Bank or (c) an entity or an Affiliate of an entity that administers or manages a Bank.

"*Arrangers*" means the Lead Arranger and the Co-Arranger.

"*Co-Arranger*" means The Royal Bank of Canada.

"*Collateral Agent*" means Union Bank of California, N.A., in its capacity as collateral agent pursuant to the Intercreditor Agreement, and any successor collateral agent appointed pursuant to the Intercreditor Agreement.

"*Documentation Agent*" means Fleet National Bank.

"*Duke*" means Duke Energy Field Services, LP.

"Duke Acquisition" means the acquisition by the Borrower of certain Properties owned by Duke as further described in the Duke Purchase Agreement.

"*Duke Acquisition Documents*" means the Duke Purchase Agreement and all other agreements, instruments or documents executed in connection therewith or otherwise related to the Duke Acquisition.

"*Duke Purchase Agreement*" means a purchase and sale agreement between the Borrower and Duke providing for the sale by Duke of the Properties described therein in form and substance satisfactory to the Administrative Agent, as it may be amended, modified or supplemented.

"*Holder*" means a holder of any Private Note and "*Holders*" means all of the holders of the Private Notes from time to time.

"*Intercreditor Agreement*" means the Intercreditor Agreement and Collateral Agency Agreement dated as of June 3, 2003 among the Collateral Agent, the Administrative Agent, the Banks, the Noteholders (as defined therein) party to the Note Agreement, and the Bank Affiliated Counterparties (as defined therein) party thereto.

"*Lead Arranger*" means Union Bank of California, N.A.

"*Note Agreement*" means the Master Shelf Agreement dated as of June 3, 2003 among the Borrower, Prudential Investment Management, Inc. and each of the initial noteholders party thereto.

"*Note Obligations*" means "Obligations" as defined in the Note Agreement.

"*Private Notes*" shall mean the Series A Notes and any Additional Notes.

"*Series A Notes*" shall mean $30,000,000 aggregate principal amount of the Borrower's 6.95% Senior Secured Notes, Series A, due June 1, 2010, together with any notes of such series issued in substitution or exchange therefor pursuant to the Note Agreement.

(c) Section 2.01(a) of the Credit Agreement is hereby amended by adding the following proviso at the end thereof:

; *provided further, however* that until the satisfaction of the conditions precedent set forth in Section 3.03, the aggregate outstanding principal amount of all Revolver A Advances shall not exceed $40,000,000.

(d) Section 2.01(b) of the Credit Agreement is hereby amended by replacing "$5,000,000" with "$10,000,000" in the second proviso of the first sentence thereof.

(e) Section 2.01(e) of the Credit Agreement is hereby deleted in its entirety.

(f) Section 2.05(a) of the Credit Agreement is hereby amended in its entirety as follows:

(a) *Revolver A Advances*. The Borrower shall repay the outstanding principal amount of the Revolver A Advances outstanding on the Revolver A Termination Date.

(g) Section 2.06(b) of the Credit Agreement is amended in its entirety as follows:

(b) The Borrower agrees to pay to the Administrative Agent for the benefit of the Administrative Agent or the Lead Arranger, as applicable, the fees described in the letter dated April 9, 2003 from UBOC to the Borrower (the "Fee Letters").

(h) Section 2.06(d) of the Credit Agreement is amended by replacing ".50%" with ".375%".

(i) Section 2.07 of the Credit Agreement is amended by replacing each reference to "3.00%" therein with "2.00%".

(j) Section 2.13(a)(i) of the Credit Agreement is hereby amended in its entirety as follows:

(i) unless such issuance, increase, or extension would not cause the Letter of Credit Exposure to exceed the lesser of (A) the Revolver B Commitment less the aggregate

outstanding principal amount of all Revolver B Advances and (B) the Borrowing Base less the aggregate outstanding principal amount of all Revolver B Advances;

(k) A new Section 3.03 of the Credit Agreement is hereby added as follows:

Section 3.03. *Conditions Precedent to Duke Acquisition*. The obligation of each Bank to make an Advance on the occasion of each Borrowing related to the Duke Acquisition is subject to the conditions precedent that:

(a) *Prior Conditions Satisfied*. All of the conditions precedent set forth in Section 3.02 shall have been satisfied.

(b) *Documentation*. On or before the day on which any Advances related to the Duke Acquisition are made, the Administrative Agent or the Collateral Agent, as applicable, shall have received the following duly executed by all the parties thereto, in form and substance satisfactory to the Administrative Agent and the Banks, and, where applicable, in sufficient copies for each Bank:

(i) Mortgages, other Security Documents and appropriate UCC-1 and UCC-3 Financing Statements covering the Collateral for filing with the appropriate authorities covering the Property being acquired by the Borrower pursuant to such Duke Acquisition Documents, together with, at the request of the Administrative Agent, a favorable opinion of outside counsel to the Borrower, substantially in the form and substance satisfactory to the Administrative Agent and the Banks as to such related matters as the Administrative Agent or any Bank may reasonably request;

(ii) copies of the Duke Acquisition Documents certified by a Responsible Officer (A) as being true and correct copies of such documents as of the date of such Borrowing, and (B) except as otherwise disclosed in writing and acceptable to the Administrative Agent (i) as being in full force and effect and no material term or condition thereof shall have been amended, modified or waived after the execution thereof; and (ii) that to the knowledge of such Responsible Officer, none of the parties to the Duke Acquisition Documents shall have failed to perform any material obligation or covenant required by the Duke Acquisition Documents to be performed or complied with by it on or before the date of closing of the Duke Acquisition;

(iii) a report by Barnes and Click, Inc. in form and substance satisfactory to the Administrative Agent and the Lenders;

(iv) a Phase I environmental review by Flat Rock Energy Partners covering those Properties to be acquired in connection with the Duke Acquisition in form and substance satisfactory to the Administrative Agent and the Lenders; and

(v) such other documents, agreements or information as any Bank may reasonably request.

(c) *Consummation of Duke Acquisition*. The Duke Acquisition shall, simultaneously with the making of the related Borrowing, have been consummated by the Borrower, and all other conditions to the Duke Acquisition shall have been satisfied in form and substance satisfactory to the Administrative Agent.

(d) *Agent's Liens*. The Collateral Agent shall have received satisfactory evidence that arrangements have been made so that the Liens granted to it under the Security Documents are or will be Acceptable Security Interests and that all actions or filings necessary to protect, preserve and validly perfect such Liens have been made, taken or obtained (or will be upon the filing and recording of the appropriate Security Documents), as the case may be, and are in full force and effect.

(e) *Title*. The Administrative Agent shall be satisfied in its sole discretion as to the status of the Borrower's or Guarantor's, as applicable, title to the Properties acquired in connection with the Duke Acquisition.

(f) *Due Diligence*. The Administrative Agent shall be satisfied in its sole discretion with its due diligence analysis and review of the Properties acquired pursuant to the Duke Acquisition.

(g) *No Material Adverse Effect*. No event or events has occurred which, individually or in the aggregate, have had or could reasonably be expected to have a Material Adverse Effect.

(h) *No Material Litigation*. No legal or regulatory action or proceeding has commenced and is continuing against the Borrower or any Guarantor that could reasonably be expected to cause a Material Adverse Effect.

(l) Section 4.01 of the Credit Agreement is hereby amended by (i) adding "Texas" before "New Mexico" in clause (b) thereof and (ii) adding the following additional sentences at the end thereof:

Each Subsidiary is duly organized and validly existing in good standing under the laws of the jurisdiction in which it is organized, and each Subsidiary has the corporate, partnership, limited liability company, or similar power to own its respective property and to carry on its respective business as now being conducted. The execution, delivery and performance by each Guarantor of each Credit Document to which it is a party are within such Guarantor's powers and have been duly authorized by all necessary action.

(m) Section 4.17 of the Credit Agreement is amended in its entirety as follows:

Section 4.17. *Environmental Compliance*.

(a) The operations and properties of the Borrower and of each Subsidiary comply in material respects with all applicable Environmental Laws and Environmental Permits. All past noncompliance by the Borrower or any Subsidiary with such Environmental Laws and Environmental Permits has been resolved without ongoing material obligations or costs. To the best of the Borrower's knowledge, no circumstances exist that could reasonably be expected to (i) form the basis of an Environmental Proceeding against the Borrower or any Subsidiary, or any property thereof, that could reasonably be expected to have a Material Adverse Effect or (ii) cause any such property to be subject to any material restriction on ownership, occupancy, use or transferability under any Environmental Law.

(b) None of the properties currently or, to the best of the Borrower's knowledge, formerly owned or operated by the Borrower or any Subsidiary is listed or, to the best of the Borrower's knowledge, proposed for listing on the National Priorities List under CERCLA, on CERCLIS or on any analogous foreign, state or local list or, to the best of the Borrower's knowledge, is adjacent to any such property. There are not now, and to the best of the Borrower's knowledge never have been, any underground or aboveground storage tanks, or any surface impoundments, septic tanks, pits, sumps or lagoons, in which any Hazardous Material is being or has been treated, stored or disposed of on any property currently or, to the best of the Borrower's knowledge, formerly owned or operated by the Borrower or any Subsidiary, in each case in any manner not in compliance in material respects with all applicable Environmental Laws. There is no asbestos or asbestos-containing material on any property currently owned or operated by the Borrower or any Subsidiary, except in compliance in material respects with all applicable Environmental Laws. No Hazardous Material has been released, discharged or disposed of by the Borrower or any Subsidiary on any property currently owned or operated by the Borrower or any Subsidiary, except

(i) in compliance in material respects with all applicable Environmental Laws and (ii) as has been remediated in compliance in material respects with all applicable Environmental Laws.

(c) Neither the Borrower nor any Subsidiary is engaged in or has completed, either individually or together with any other potentially responsible party, any investigation, assessment or remedial or response action relating to any actual or threatened release, discharge or disposal of any Hazardous Material at any site, location or operation that the Borrower or any Subsidiary never owned or operated, either voluntarily or pursuant to the order of any Governmental Person or the requirements of any Environmental Law. All Hazardous Materials generated, used, treated, handled or stored at, or transported to or from, any property owned or operated by the Borrower or any Subsidiary have been disposed of in a manner reasonably expected not to result in material liability to the Borrower or any Subsidiary.

(n) Section 4.19 of the Credit Agreement is amended by (i) adding "and Liens in favor of the Collateral Agent" at the end of subsection (a) thereof and (b) replacing "Administrative Agent" with "Collateral Agent" in subsection (b) thereof.

(o) The first clause of Section 5.01(c) is amended in its entirety as follows:

As soon as available and in any event within 45 days after the end of each of the Borrower's first three fiscal quarters of each fiscal year of the Borrower,

(p) Each of Sections 5.01(e) and (h) of the Credit Agreement is amended by replacing "Authorized Officer" with "Responsible Officer".

(q) Section 5.01(h) of the Credit Agreement is hereby amended by replacing "$500,000" with "$1,000,000".

(r) Section 5.10 of the Credit Agreement is hereby amended by adding the parenthetical "(other than the Borrower or any Guarantor)" after the words "with any of its Affiliates".

(s) Section 5.12 of the Credit Agreement is hereby amended in its entirety as follows:

Section 5.12. *Environmental Remediation and Indemnification*. If at any time any Hazardous Material is discovered on, under or about any Mortgaged Property or any other property owned or operated by the Borrower or any Subsidiary ("*Other Property*") and failure to remediate the same would cause the Borrower or any

Subsidiary to be in violation of any Environmental Law, the Borrower will inform the Administrative Agent of the same and of the Borrower's proposed remediation program, and the Borrower or such Subsidiary will, at no cost and expense to the Collateral Agent, the Administrative Agent or the Banks, and only to the extent of any legal requirement under applicable Environmental Laws for the Borrower or such Subsidiary to do so, remediate or remove such Hazardous Materials from such Mortgaged Property or Other Property or the groundwater underlying such Mortgaged Property or Other Property in accordance with (a) such remediation program as a prudent operator would undertake, (b) the approval of the appropriate Governmental Persons, if any such approval is required under the applicable Environmental Laws, and (c) all applicable Environmental Laws. In addition to all other rights and remedies of the Collateral Agent, the Administrative Agent and the Banks under the Credit Documents, if such Hazardous Materials are not remediated or removed from the affected Mortgaged Property or Other Property or the groundwater underlying such Mortgaged Property or Other Property by the Borrower in accordance with the preceding requirements, the Collateral Agent, at its sole discretion, may pay to have the same remediated or removed in accordance with the applicable remediation program, and the Borrower will reimburse the Collateral Agent therefor within 10 Business Days of the Collateral Agent's or the Administrative Agent's written demand for payment. The Borrower and any Subsidiary shall have the right to contest any notice or directive by any appropriate Governmental Person to remediate or remove Hazardous Materials

from any Mortgaged Property or Other Property so long as the Borrower or such Subsidiary diligently prosecutes such contest to completion and complies with any final order or determination. The Borrower shall be solely responsible for, and will indemnify and hold harmless the Collateral Agent, the Administrative Agent and the Banks and their respective directors, officers, employees, agents, successors and assigns from and against, any and all losses, damages, demands, claims, causes of action, judgments, actions, assessments, penalties, costs, expenses and liabilities to the extent that they directly or indirectly arise out of or are attributable to the release of any Hazardous Materials at any Mortgaged Property or Other Property, including the following: (i) all foreseeable and unforeseeable consequential damages; (ii) the costs of any repair, cleanup or detoxification of any Mortgaged Property or Other Property required by any applicable Environmental Laws, and the preparation and implementation of any closure, remedial or other plans required by any applicable Environmental Laws; and (iii) all reasonable costs and expenses incurred by the Collateral Agent, the Administrative Agent or any Bank in connection with clauses (i) and (ii) above, including reasonable attorneys' fees; *provided, however*, that the Borrower shall not be liable for any of the foregoing if a final, nonappealable judgment by a court of competent jurisdiction finds that such release of Hazardous Materials resulted from the gross negligence or willful misconduct of the Collateral Agent, the Administrative Agent or a Bank. The indemnities provided in this section shall survive the repayment or any other satisfaction of the Obligations of the Borrower under the Credit Documents.

(t) Section 6.01 of the Credit Agreement is hereby amended as follows:

(i) By amending subsection (d) thereof in its entirety as follows:

(d) purchase-money Liens on property acquired or held by the Borrower or any Subsidiary in the ordinary course of business, to secure the purchase price of such property or to secure Debt incurred solely for the purpose of financing the acquisition of such property to be subject to such Liens, or Liens existing on any such property at the time of acquisition thereof (or at the time the Borrower acquires the Subsidiary owning such property), or renewals or refinancings of any of the foregoing Liens for the same or a lesser amount; provided, however, that (i) no such Lien may extend to or cover any property other than the property being acquired and improvements and accessions thereto and proceeds thereof, (ii) no such renewal or refinancing may extend to or cover any property not previously subject to the Lien being renewed or refinanced and (iii) the aggregate principal amount of Debt at any time outstanding secured by such Liens may not exceed the amount permitted by paragraph 6.02(g);

(ii) By adding the following new subsections (e), (f) and (g) as follows:

(e) the negative pledge contained in the Note Agreement;

(f) customary limitations and restrictions constituting negative pledges contained in, and limited to, specific leases, licenses, conveyances, partnership agreements and co-owners' agreements, and similar conveyances and agreements to the extent that any such Lien referred to in this clause does not materially impair the use of the Property covered by such Lien for the purposes for which such Property is held or materially impair the value of such Property subject thereto; and

(g) Liens incurred in the ordinary course of business of the Borrower or any Subsidiary with respect to obligations (other than Debt for borrowed money) that do not exceed $500,000 at any one time outstanding.

(u) Section 6.02 of the Credit Agreement is hereby amended as follows:

(i) By amending subsection (f) by replacing "$3,000,000" with "$5,000,000";

(ii) By amending subsection (g) by replacing "$2,000,000" with "$3,000,000";

(iii) By deleting the "and" and the end of subsection (h) thereof;

(iv) By amending subsection (i) by (A) replacing "$3,000,000" with "$5,000,000" and (B) and an "and" at the end thereof; and

(v) By adding the following new subsection (j):

(j) Debt under the Note Agreement in an aggregate principal amount not to exceed $50,000,000.

(v) Section 6.03 of the Credit Agreement is hereby amended as follows:

(i) By amending subsection (a)(i) thereof in its entirety as follows:

before the effectiveness of such Acquisition and to the extent required by the Majority Banks, the Borrower delivers to the Collateral Agent (A) guaranties, mortgages, deeds of trust, security agreements, releases, UCC financing statements and UCC terminations, duly executed by the parties thereto, in form and substance satisfactory to the Collateral Agent and accompanied by UCC searches, title investigations and legal opinions (except with respect to priority) demonstrating that, upon the effectiveness of such Acquisition and the recording and filing of any necessary documentation, the Collateral Agent will have an Acceptable Security Interest on the Property to be acquired and (B) evidence of company authority to enter into and environmental assessments with respect to such Acquisition;

(ii) By amending subsections (c) and (d) thereof in their entirety as follows:

(c) so long as no Default has occurred and is continuing or would be caused thereby, any Subsidiary may merge into or consolidate with any other Subsidiary or into the Borrower; *provided, however*, that any such merger or consolidation shall be permitted only if, before the effectiveness of such merger or consolidation and to the extent required by the Administrative Agent, the Borrower delivers to the Collateral Agent documents of the type described in the proviso to clause (a) above; and

(d) the Borrower and its Subsidiaries may acquire Property in the ordinary course of business.

(w) Section 6.04 of the Credit Agreement is hereby amended as follows:

(i) By amending subsection (b) thereof in its entirety as follows:

(b) sales, leases, transfers and other dispositions in the ordinary course of business of worn-out or other Property that is no longer useful in the conduct of the business of the Borrower or any Subsidiary;

(ii) By amending subsection (c) thereof by adding the words "or liquidations" after the word "sales";

(iii) By amending subsection (d) thereof in its entirety as follows:

(d) so long as no Default has occurred and is continuing or would be caused thereby, sales and other transfers of Property from the Borrower or any Subsidiary to the Borrower or to any other Subsidiary; *provided, however*, that any such sale or other transfer of real property or equity interests shall be permitted only if, before the effectiveness of such sale or other

transfer and to the extent required by the Majority Banks, the Borrower delivers to the Collateral Agent documents of the type described in the proviso to Section 6.03(a);

(iv) By amending subsection (g) thereof in its entirety as follows:

(g) so long as no Default has occurred and is continuing or would be caused thereby, sales, leases, transfers and other dispositions of Property in the ordinary course of business for consideration not exceeding $3,000,000 in the aggregate in any fiscal year of the Borrower, provided that the net cash proceeds thereof are used within 270 days of such sale to purchase Property of similar value, quality and business utility to the Property sold, leased, transferred or otherwise disposed of;

(v) By amending subsection (h) thereof by replacing "$1,000,000" with "$3,000,000".

(x) The proviso in Section 6.05(e) of the Credit Agreement is hereby deleted in its entirety.

(y) Section 6.06(a) of the Credit Agreement is hereby amended by adding the following proviso to the end thereof:

provided, however, that no more than $5,000,000 of such cash distributions to the Partners in the aggregate during the term of this Agreement shall consist of proceeds from Advances.

(z) Section 6.06(c) of the Credit Agreement is hereby amended in its entirety as follows:

(c) any Subsidiary may pay dividends, or make other distributions, to the Borrower or to any wholly-owned Subsidiary of the Borrower.

(aa) Section 6.07 of the Credit Agreement is hereby amended by replacing the words "its business" with the words "their collective businesses".

(bb) Section 6.10(b) of the Credit Agreement is hereby amended in its entirety as follows:

(b) within 15 days after the formation of such Subsidiary and to the extent required by the Majority Banks, such Subsidiary delivers to the Administrative Agent (or the Collateral Agent, as appropriate) (i) guaranties, mortgages, deeds of trust, security agreements, releases, UCC financing statements, and UCC terminations, duly executed by the parties thereto, in form and substance satisfactory to the Administrative Agent or the Collateral Agent, as the case may be, and accompanied by UCC searches, title investigations and legal opinions (except with respect to priority) demonstrating that, upon the recording and filing of any necessary documentation, the Collateral Agent will have an Acceptable Security Interest on the Property of such Subsidiary, and (ii) evidence of company authority to enter into and environmental assessments with respect to such Investment.

(cc) Section 6.11 of the Credit Agreement is hereby amended by adding the words "futures or derivatives" before the words "contract or obligation for speculative purposes".

(dd) Section 6.14 of the Credit Agreement is hereby amended in its entirety as follows:

Section 6.14. *Leverage Ratio.* 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 the following ratios for the following fiscal quarters:

Fiscal Quarters Ending	Maximum Ratio
June 30, 2003, September 30, 2003, December 31, 2003 and March 31, 2004	3.75 to 1.00
June 30, 2004 and thereafter	3.50 to 1.00

(ee) Section 6.15 of the Credit Agreement is amended by replacing (i) "$55,000,000" with "$60,000,000" and (ii) "the Effective Date" with "December 31, 2002".

(ff) A new Section 6.17 of the Credit Agreement is hereby added as follows:

Section 6.17. *Note Agreement*. The Borrower may not make any optional or scheduled payments or prepayments on account of principal (whether by redemption, purchase, retirement, defeasance, set-off or otherwise) in respect of the Private Notes prior to the Revolver A Termination Date and the Revolver B Termination Date. The Borrower shall not amend, supplement or otherwise modify the terms of the Note Agreement without the prior written consent of the Majority Banks, which consent will not be unreasonably withheld, which has the effect of (a) increasing the outstanding principal amount of the Note Obligations above $50,000,000, (b) increasing the rate of interest except with respect to imposing the default rate as provided for in the Note Agreement on the date hereof or any fees charged on the Note Obligations or (c) any other provision of the Note Agreement if such amendment, modification or supplement would be materially adverse to the interests of the Banks without the prior written consent of the Majority Banks.

(gg) A new Section 6.18 of the Credit Agreement is hereby added as follows:

Section 6.18. *Eligible Accounts*. The Borrower and its Subsidiaries shall not have Accounts from any single account debtor that exceed 25% of the Borrower's total partners' equity, other than Accounts owed by Kinder Morgan Energy Partners, L.P. ("KMEP") or any of its Affiliates for so long as KMEP has a long-term debt rating of at least BBB- from S&P or Baa3 from Moody's.

(hh) Section 7.01(d) of the Credit Agreement is hereby amended by replacing "$1,000,000" with "$3,000,000".

(ii) Section 7.01(f) of the Credit Agreement is hereby amended by (i) replacing "$1,000,000" with "$3,000,000" and (ii) each reference therein to "10 consecutive days" to "30 consecutive days".

(jj) Section 7.01(g) of the Credit Agreement is hereby amended in its entirety as follows:

(g) [Intentionally deleted];

(kk) Section 7.01(i) of the Credit Agreement is hereby amended by (i) replacing the words "a valid and perfected first-priority Lien on any of" with the words "an Acceptable Security Interest on any material portion of" therein.

(ll) Section 8.07 of the Credit Agreement is hereby amended in its entirety as follows:

Section 8.07. *Agents and Arrangers*. None of the Lead Arranger, the Co-Arranger, the Syndication Agent or the Documentation Agent shall have any duties, obligations, or liabilities in such respective capacities, the Banks shall have no right to replace the Arrangers, the Syndication Agent or the Documentation Agent if the any of the Arrangers, the Syndication Agent or the Documentation Agent is no longer a Bank, and none of the Arrangers, the Syndication Agent and the Documentation Agent may not assign its status as an Arranger, Syndication Agent or Documentation Agent to any Person.

(mm) Section 9.06(a)(iii) of the Credit Agreement is hereby amended in its entirety as follows:

(iii) each such assignment shall be to an Affiliate, an Approved Fund or an Eligible Assignee,

Section 2. *Conditions Precedent*. This Amendment shall become effective as of the date first set forth above when:

(a) the Borrower shall have paid to the Administrative Agent for its benefit and ratable benefit of the Banks such non-refundable upfront fees as agreed to among the Borrower and the Banks and all costs and expenses which have been invoiced and are payable pursuant to Section 9.04;

(b) all of the following, each dated the date hereof, in form and substance satisfactory to the Administrative Agent and in the number of originals requested by the Administrative Agent:

(i) this Amendment, duly executed by the Borrower, the Banks, the Administrative Agent, the Syndication Agent and the Documentation Agent;

(ii) the Intercreditor Agreement, duly executed by each of the parties thereto;

(iii) an assignment and amendment with respect to each of the Security Documents assigning such Security Documents from the Administrative Agent to the Collateral Agent and amending such Security Documents to secure the Note Obligations *pari passu* with the Obligations;

(iv) new Revolver A Notes in favor of each of the Banks, each in the face amount of such Bank's Revolver A Commitment and duly executed by the Borrower (the "*New Revolver A Notes*");

(v) new Revolver B Notes in favor of each of the Banks, each in the face amount of such Bank's Revolver B Commitment and duly executed by the Borrower (the "*New Revolver B Notes*"; together with the New Revolver A Notes, the "*New Notes*");

(vi) one or more consents to this Amendment, duly executed by each Guarantor that has previously executed a Guaranty;

(vii) a Guaranty executed by each of Crosstex Alabama Gathering System, L.P., Crosstex Mississippi Industrial Gas Sales, L.P., Crosstex Mississippi Pipeline, L.P., Crosstex Seminole Gas, L.P. and Crosstex Acquisition Management, L.P. (collectively, the "*Additional Guarantors*") in form and substance reasonably satisfactory to the Administrative Agent and the Lenders;

(viii) a Pledge Agreement executed between Crosstex Acquisition Management GP, LLC and the Collateral Agent in form and substance reasonably satisfactory to the Collateral Agent and the Lenders;

(ix) a certificate from a Responsible Officer stating that (A) all representations and warranties of the Borrower set forth in the Credit Agreement and each of the other Credit Documents to which it is a party are true and correct in all material respects; (B) no Default has occurred and is continuing; and (C) the conditions in this Section 2 have been met;

(x) a certificate of the secretary or assistant secretary of the General Partner certifying as of the date of this Amendment (A) the existence of the Borrower and the General Partner, (B) that there have been no changes to its organizational documents or the Borrower Partnership Agreement since the Effective Date, (C) the resolutions of the General Partner approving this Amendment, the Note Agreement and the related transactions, and (D) all documents evidencing other necessary corporate, partnership or limited liability company action and governmental approvals, if any, with respect to this Amendment, the Note Agreement and the other Credit Documents executed and delivered on or before the date hereof;

(xi) a certificate of the secretary or assistant secretary of each of the Guarantors certifying as of the date of this Amendment (A) either (i) that there have been no changes to its organizational documents since the Effective Date or (ii) with respect to the Additional Guarantors only, its organizational documents, (B) the resolutions of the governing body of such Guarantor approving this Amendment, the Note Agreement and the related transactions, and (C) all documents evidencing other necessary corporate, partnership or limited liability company action and governmental approvals, if any, with respect to this Amendment, the Note Agreement and the other Credit Documents executed and delivered on or before the date hereof;

(xii) certificates of good standing, existence and authority for the Borrower, the General Partner and each of the Guarantors from each of the states in which the Borrower, the General Partner and each of the Guarantors is either organized or does business;

(xiii) a favorable opinion of Thompson & Knight L.L.P., outside Texas counsel to the Borrower and the Guarantors; and

(xiv) such other approvals, opinions, evidence and documents as any Bank, through the Administrative Agent, may reasonably request.

(c) no event or events has occurred which, individually or in the aggregate, have had or could reasonably be expected to have a Material Adverse Effect;

(d) no Default shall have occurred and be continuing;

(e) the representations and warranties of the Borrower and the Guarantors contained in this Amendment, Article IV of the Credit Agreement and in each of the other Credit Documents executed and delivered on or before date hereof shall be true and correct in all material respects on and as of the date hereof, except to the extent any such representation or warranty is stated to relate solely to an earlier date, in which case such representation or warranty shall have been true and correct on such earlier date; and

(f) no legal or regulatory action or proceeding has commenced and is continuing against the Borrower or any Guarantor which could reasonably be expected to cause a Material Adverse Effect.

Section 3. *Representations and Warranties*. The Borrower represents and warrants to the Banks and the Administrative Agent as set forth below:

(a) The execution, delivery and performance by the Borrower of this Amendment, the New Notes and the Credit Documents, as amended hereby and thereby, to which the Borrower is a party are within the Borrower's legal powers, have been duly authorized by all necessary partnership action and do not (i) contravene the Partnership Agreement, (ii) contravene any Governmental Rule or contractual restriction binding on or affecting the Borrower or (iii) result in or require the creation or imposition of any Lien (other than any created by the Credit Documents) upon or with respect to any of the properties of the Borrower.

(b) No Governmental Action is required for the due execution, delivery or performance by the Borrower or this Amendment, the New Notes or any of the Credit Documents, as amended hereby and thereby, to which the Borrower is a party.

(c) This Amendment, the New Notes and each of the Credit Documents, as amended hereby and thereby, to which the Borrower is a party constitute legal, valid and binding obligations of the Borrower, enforceable against the Borrower 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.

(d) Each of the Security Documents constitutes an Acceptable Security Interest on the Collateral purported to be encumbered thereby, enforceable against all third parties in all jurisdictions, and secures the payment of all obligations stated to be secured thereby under the Credit Documents, as amended hereby and by the New Notes, and the execution, delivery and performance of this Amendment and the New Notes do not adversely affect any Lien of the Collateral 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 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). Since December 31, 2002 there has been no material and adverse change in the business, condition (financial or otherwise), operations, performance, properties or prospects of the Borrower or

any Subsidiary. 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) There has been no amendment to the Partnership Agreement. The representations and warranties of the Borrower contained in the Credit Documents are correct on and as of the date hereof as though made on and as of such date except to the extent any such representation or warranty is stated to relate solely to an earlier date, in which case such representation or warranty shall have been true and correct on such earlier date. No event has occurred and is continuing, or would result from the effectiveness of this Amendment, that constitutes a Default.

Section 4. *Modification and Increase in Commitments.* The Borrower, the Administrative Agent, and the Banks hereby agree that the Commitments of the Banks under the Credit Agreement shall be modified to reflect the Commitments for the Banks set forth on the attached Schedule 1 and upon the effectiveness of this Agreement pursuant to Section 2 above, each such Bank's Commitment shall be the Commitment set forth on the attached Schedule 1.

Section 5. *Addition of New Banks.* Each of the New Banks (i) confirms that it has received a copy of the Credit Agreement, together with copies of the financial statements referred to in Section 4.05 and 5.01 thereof and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Amendment; (ii) agrees that it will, independently and without reliance upon the Administrative Agent or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Agreement or any other Credit Document; (iii) appoints and authorizes the Administrative Agent and the Collateral Agent to take such action as agent on its behalf and to exercise such powers as it deems necessary under the Credit Agreement and any other Credit Document as are delegated to the Administrative Agent or the Collateral Agent by the terms thereof, together with such powers as are reasonably incidental thereto; (iv) agrees that it will perform in accordance with their terms all of the obligations which by the terms of the Credit Agreement or any other Credit Document are required to be performed by it as a Bank; and (v) specifies as its Domestic Lending Office (and address for notices) the office set forth beneath its name on Schedule 2 hereto.

Section 6. *Authorization of Agents*. Each Lender hereby authorizes and empowers the Administrative Agent, as holder of the liens and security interests granted pursuant to the Security Documents, to execute and deliver to the Collateral Agent assignments of liens, including UCC-3 assignments, to effect the assignments contemplated hereby. The Administrative Agent hereby authorizes and empowers the Collateral Agent to make such filings as are necessary to make the assignments contemplated hereby of record in the appropriate jurisdictions.

Section 7. *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 and except for the issuance of the New Notes, 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 Collateral 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, as amended hereby and by the New Notes.

(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 8. *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 9. *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, each Bank and their respective successors and assigns.

Section 10. *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.

Effective as of the 3rd day of June, 2003.

CROSSTEX ENERGY SERVICES, L.P.

By: CROSSTEX ENERGY SERVICES GP, LLC,
General Partner

By: ______________________________

William W. Davis
Senior Vice President and
Chief Financial Officer

UNION BANK OF CALIFORNIA, N.A.,
as Lead Arranger, Administrative Agent and Bank

By: ______________________________

Name: ______________________________

Title: ______________________________

By: ______________________________

Name: ______________________________

Title: ______________________________

THE ROYAL BANK OF CANADA,
as Co-Arranger, Syndication Agent and Bank

By:

Name:

Title:

FLEET NATIONAL BANK,
as Documentation Agent and Bank

By:

Name:

Title:

U.S. BANK NATIONAL ASSOCIATION,
as Bank

By:

Name:

Title:

SCHEDULE 1

COMMITMENTS

Bank	Revolver A Commitment	Revolver B Commitment
Union Bank of California, N.A.	$ 19,950,000.00	$ 8,550,000.00
The Royal Bank of Canada	$ 16,800,000.00	$ 7,200,000.00
Fleet National Bank	$ 19,950,000.00	$ 8,550,000.00
U.S. Bank National Association	$ 13,300,000.00	$ 5,700,000.00
TOTALS	$ 70,000,000.00	$ 30,000,000.00

SCHEDULE 2

APPLICABLE LENDING OFFICES; ADDRESS FOR NOTICES

Bank	Domestic and Eurodollar Lending Offices
Union Bank of California, N.A.	445 South Figueroa Street, Suite 1502 Los Angeles, California 90071 Telecopier: 213-236-5747 Attention: Energy Capital Services
The Royal Bank of Canada	New York Branch One Liberty Plaza, 3rd Floor New York, NY 10006-1404 Telephone: (212) 428-6332 Telecopier: (212) 428-2372 Attention: Compton Singh, Liability Officer

	With a copy to: 5700 Williams Tower 2800 Post Oak Blvd. Houston, Texas 77056 Phone: 713-899-0234 Fax: 713-899-5624 Attention: Lorne Gartner
Fleet National Bank	100 Federal Street Mail Stop MADE 10008A Boston, Massachusetts 02110 Telecopier: 617-434-3652 Attention: Timothy J. Norton
U.S. Bank National Association	918 17th Street, 3rd Floor Denver, Colorado 80202 Telecopier: 303-585-4362 Attention: Matthew Purchase
	Address for Notices
Crosstex Energy Services, L.P.	2501 Cedar Springs, Suite 600 Dallas, Texas 75201 Telephone: 214-953-9500 Telecopier: 214-953-9501 Attention: Mr. William W. Davis

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Union Bank of California, N.A.	445 South Figueroa Street, Suite 1502 Los Angeles, California 90071 Telecopier: 213-236-5747 Attention: Energy Capital Services With a copy to: 4200 Lincoln Plaza 500 N. Akard Street Dallas, Texas 75201 Telecopier: 214-922-4209 Attention: John Clark, Vice President
The Royal Bank of Canada	New York Branch One Liberty Plaza, 3rd Floor New York, NY 10006-1404 Telephone: (212) 428-6332 Telecopier: (212) 428-2372 Attention: Compton Singh, Liability Officer With a copy to: 5700 Williams Tower 2800 Post Oak Blvd. Houston, Texas 77056 Phone: 713-899-0234 Fax: 713-899-5624 Attention: Lorne Gartner
Fleet National Bank	100 Federal Street Mail Stop MADE 10008A Boston, Massachusetts 02110 Telecopier: 617-434-3652 Attention: Timothy J. Norton
U.S. Bank National Association	918 17th Street, 3rd Floor Denver, Colorado 80202 Telecopier: 303-585-4362 Attention: Matthew Purchase

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QuickLinks

Exhibit 10.2

FIRST AMENDMENT

SCHEDULE 1

COMMITMENTS

SCHEDULE 2

APPLICABLE LENDING OFFICES; ADDRESS FOR NOTICES

Exhibit 10.3

EXECUTION VERSION

CROSSTEX ENERGY SERVICES, L.P.

$50,000,000

SENIOR SECURED NOTES

MASTER SHELF AGREEMENT

Dated as of June 3, 2003

TABLE OF CONTENTS

(Not Part of Agreement)

CROSSTEX ENERGY SERVICES, L.P.
2501 Cedar Springs, Suite 600
Dallas, TX 75201

As of June 3, 2003

To: Prudential Investment Management, Inc.
(herein called "**Prudential**")
Each Prudential Affiliate (as hereinafter defined)
which becomes bound by certain provisions of this
Agreement as hereinafter provided (together with
Prudential, the "**Purchasers**")
c/o Prudential Capital Group
Gateway Center Four
100 Mulberry Street
Newark, NJ 07102-4069

Ladies and Gentlemen:

The undersigned, Crosstex Energy Services, L.P. (the "**Company**"), hereby agrees with you as follows:

1. **AUTHORIZATION OF ISSUE OF NOTES.** The Company will authorize the issue of its senior secured promissory notes (the "**Notes**") in the aggregate principal amount of $50,000,000, to be dated the date of issue thereof; to mature, in the case of each Note so issued, no more than seven years after the date of original issuance thereof; to have an average life, in the case of each note so issued, of no more than five years after the date of original issuance thereof; to bear interest on the unpaid balance thereof from the date thereof at the rate per annum, and to have such other particular terms, as shall be set forth, in the case of each Note so issued, in the Confirmation of Acceptance with respect to such Note delivered pursuant to paragraph 2F; and to be substantially in the form of *Exhibit A-1* attached hereto. The term "Notes" as used herein shall include each Note delivered pursuant to any provision of this Agreement and each Note delivered in substitution or exchange for any such Note pursuant to any such provision. Notes which have (i) the same final maturity, (ii) the same principal prepayment dates, (iii) the same principal prepayment amounts (as a percentage of the original principal amount of each Note), (iv) the same interest rate, (v) the same interest payment periods, and (vi) the same original date of issuance are herein called a "Series" of Notes. Capitalized terms used herein have the meanings specified in paragraph 10.

2. **PURCHASE AND SALE OF NOTES.**

2A. **Facility.** Prudential is willing to consider, in its sole discretion and within limits which may be authorized for purchase by Prudential Affiliates from time to time, the purchase of Notes pursuant to this Agreement. The willingness of Prudential to consider such purchase of Notes is herein called the "**Facility**". At any time, the aggregate principal amount of Notes stated in paragraph 1, *minus* the aggregate principal amount of Notes purchased and sold pursuant to this Agreement prior to such time, *minus* the aggregate principal amount of Accepted Notes (as hereinafter defined) which have not yet been purchased and sold hereunder prior to such time is herein called the "**Available Facility Amount**" at such time. **NOTWITHSTANDING THE WILLINGNESS OF PRUDENTIAL TO CONSIDER PURCHASES OF NOTES BY PRUDENTIAL AFFILIATES, THIS AGREEMENT IS ENTERED INTO ON THE EXPRESS UNDERSTANDING THAT NEITHER PRUDENTIAL NOR ANY PRUDENTIAL AFFILIATE SHALL BE OBLIGATED TO MAKE OR ACCEPT OFFERS TO PURCHASE NOTES, OR TO QUOTE RATES, SPREADS OR OTHER TERMS WITH RESPECT TO SPECIFIC PURCHASES OF NOTES, AND THE FACILITY SHALL IN NO WAY BE CONSTRUED AS A COMMITMENT BY PRUDENTIAL OR ANY PRUDENTIAL AFFILIATE.**

2B. **Issuance Period.** Notes may be issued and sold pursuant to this Agreement until the earlier of (i) (a) if no Notes (other than the Series A Notes) have been previously issued hereunder, the second anniversary of the date of this Agreement or (b) upon receipt of the Renewal Fee provided for in paragraph 2I(4) or the issuance of Notes, prior to the second anniversary date of this Agreement, the third anniversary of the date of this Agreement (or if any such anniversary is not a Business Day, the Business Day next preceding such anniversary) and (ii) the thirtieth day after Prudential shall have given to the Company, or the Company shall have given to Prudential, written notice stating that it elects to terminate the issuance and sale of Notes pursuant to this Agreement (or if such thirtieth day is not a Business Day, the Business Day next preceding such thirtieth day). The period during which Notes may be issued and sold pursuant to this Agreement is herein called the "**Issuance Period**".

2C. **Periodic Spread Information.** Provided no Default or Event of Default exists, not later than 9:30 A.M. (New York City local time) on a Business Day during the Issuance Period if there is an Available Facility Amount on such Business Day, the Company may request by telecopier or telephone, and Prudential will, to the extent reasonably practicable, provide to the Company on such Business Day (or, if such request is received after 9:30 A.M. (New York City local time) on such Business Day, on the following Business Day), information (by telecopier or telephone) with respect to various spreads at which Prudential Affiliates might be interested in purchasing Notes of different average lives; *provided, however*, that the Company may not make such requests more frequently than once in every five Business Days or such other period as shall be mutually agreed to by the Company and Prudential. The amount and content of information so provided shall be in the sole discretion of Prudential but it is the intent of Prudential to provide information which will be of use to the Company in determining whether to initiate procedures for use of the Facility. Information so provided shall not constitute an offer to purchase Notes, and neither Prudential nor any Prudential Affiliate shall be obligated to purchase Notes at the spreads specified. Information so provided shall be representative of potential interest only for the period commencing on the day such information is provided and ending on the earlier of the fifth Business Day after such day and the first day after such day on which further spread information is provided. Prudential may suspend or terminate providing information pursuant to this paragraph 2C for any reason, including its determination that the credit quality of the Company has declined since the date of this Agreement.

2D. **Request for Purchase.** The Company may from time to time during the Issuance Period make requests for purchases of Notes (each such request being a "**Request for Purchase**"). Each Request for Purchase shall be made to Prudential by telecopier or overnight delivery service, and shall, unless otherwise expressly accepted by Prudential, (i) specify the aggregate principal amount of Notes covered thereby, which shall not be less than $10,000,000 and not be greater than the Available Facility Amount at the time such Request for Purchase is made, (ii) specify the principal amounts, final maturities, principal prepayment dates and amounts and interest payment periods (quarterly or semi-annual in arrears) of the Notes covered thereby, (iii) specify the use of proceeds of such Notes, (iv) specify the proposed day for the closing of the purchase and sale of such Notes, which shall be a Business Day during the Issuance Period not less than 10 days and not more than 25 days after the making of such Request for Purchase, (v) specify the number of the account and the name and address of the depository institution to which the purchase prices of such Notes are to be transferred on the Closing Day for such purchase and sale, (vi) certify that the representations and warranties contained in paragraph 8 are true on and as of the date of such Request for Purchase and that there exists on the date of such Request for Purchase no Event of Default or Default, (vii) specify the Designated Spread for such Notes and (viii) be substantially in the form of *Exhibit B* attached hereto. Each Request for Purchase shall be in writing and shall be deemed made when received by Prudential.

2E. **Rate Quotes.** Not later than five Business Days after the Company shall have given Prudential a Request for Purchase pursuant to paragraph 2D, Prudential may, but shall be under no obligation to, provide to the Company by telephone or telecopier, in each case between 9:30 A.M. and

1:30 P.M. New York City local time (or such later time as Prudential may elect) interest rate quotes for the several principal amounts, maturities, principal prepayment schedules, and interest payment periods of Notes specified in such Request for Purchase. Each quote shall represent the interest rate per annum payable on the outstanding principal balance of such Notes, at which a Prudential Affiliate would be willing to purchase such Notes at 100% of the principal amount thereof.

2F. **Acceptance.** Within 30 minutes after Prudential shall have provided any interest rate quotes pursuant to paragraph 2E or such other period as Prudential may specify to the Company (such period being the "**Acceptance Window**"), the Company may, subject to paragraph 2G, elect to accept such interest rate quotes as to not less than $10,000,000 aggregate principal amount of the Notes specified in the related Request for Purchase. Such election shall be made by an Authorized Officer of the Company notifying Prudential by telephone or telecopier within the Acceptance Window that the Company elects to accept such interest rate quotes, specifying the Notes (each such Note being an "**Accepted Note**") as to which such acceptance (an "**Acceptance**") relates. The day the Company notifies an Acceptance with respect to any Accepted Notes is herein called the "**Acceptance Day**" for such Accepted Notes. Any interest rate quotes as to which Prudential does not receive an Acceptance within the Acceptance Window shall expire, and no purchase or sale of Notes hereunder shall be made based on such expired interest rate quotes. Subject to paragraph 2G and the other terms and conditions hereof, the Company agrees to sell to a Prudential Affiliate, and Prudential agrees to cause the purchase by a Prudential Affiliate of, the Accepted Notes at 100% of the principal amount of such Notes. As soon as practicable following the Acceptance Day, the Company, Prudential and each Prudential Affiliate which is to purchase any such Accepted Notes will execute a confirmation of such Acceptance substantially in the form of *Exhibit C* attached hereto (a "**Confirmation of Acceptance**"). If the Company should fail to execute and return to Prudential within two Business Days following receipt thereof a Confirmation of Acceptance with respect to any Accepted Notes, Prudential may at its election at any time prior to its receipt thereof cancel the closing with respect to such Accepted Notes by so notifying the Company in writing.

2G. **Market Disruption.** Notwithstanding the provisions of paragraph 2F, if Prudential shall have provided interest rate quotes pursuant to paragraph 2E and thereafter prior to the time an Acceptance with respect to such quotes shall have been notified to Prudential in accordance with paragraph 2F the domestic market for U.S. Treasury securities or derivatives shall have closed or there shall have occurred a general suspension, material limitation, or significant disruption of trading in securities generally on the New York Stock Exchange or in the domestic market for U.S. Treasury securities or derivatives, then such interest rate quotes shall expire, and no purchase or sale of Notes hereunder shall be made based on such expired interest rate quotes. If the Company thereafter notifies Prudential of the Acceptance of any such interest rate quotes, such Acceptance shall be ineffective for all purposes of this Agreement, and Prudential shall promptly notify the Company that the provisions of this paragraph 2G are applicable with respect to such Acceptance.

2H. **Closing.**

2H(1). **Series A Closing.** The Company hereby agrees to sell to the Purchasers and, subject to the terms and conditions herein set forth, each Purchaser agrees to purchase from the Company under the Facility 6.95% Senior Secured Notes, Series A, due 2010 (the "**Series A Notes**") in the aggregate principal amount set forth opposite its name on the *Purchaser Schedule* attached hereto at 100% of such aggregate principal amount. The Series A Notes shall be substantially in the form of *Exhibit A-2* attached hereto. The Company will deliver to Prudential, at the offices of Baker Botts L.L.P. at 2001 Ross Avenue, Dallas, Texas 75201, one or more Notes registered in the name of the Purchasers, evidencing the aggregate principal amount of Series A Notes to be purchased by the Purchasers and in the denomination or denominations specified in the *Purchaser Schedule* attached hereto against payment of the purchase price thereof by transfer of immediately available funds to the credit of the Company's account #0880423630 at Union Bank of California, Los Angeles, California (ABA

No. 122000496) on the date of closing, which shall be June 3, 2003, or any other date upon which the Company and Prudential may mutually agree in writing (the "**Series A Closing**").

2H(2). **Subsequent Closings.** Not later than 11:30 A.M. (New York City local time) on the Closing Day for any Accepted Notes, the Company will deliver to each Purchaser listed in the Confirmation of Acceptance relating thereto at the offices of Baker Botts L.L.P., 2001 Ross Avenue, Dallas, Texas 75201 the Accepted Notes to be purchased by such Purchaser in the form of one or more Notes in authorized denominations as such Purchaser may request for each Series of Accepted Notes to be purchased on the Closing Day, dated the Closing Day and registered in such Purchaser's name (or in the name of its nominee), against payment of the purchase price thereof by transfer of immediately available funds for credit to the Company's account specified in the Request for Purchase of such Notes.

2H(3). **Rescheduled Closings.** If the Company fails to tender to any Purchaser the Accepted Notes to be purchased by such Purchaser on the scheduled Closing Day for such Accepted Notes as provided above in this paragraph 2H, or any of the conditions specified in paragraph 3 shall not have been fulfilled by the time required on such scheduled Closing Day, the Company shall, prior to 1:00 P.M., New York City local time, on such scheduled Closing Day notify Prudential (which notification shall be deemed received by each Purchaser) in writing whether (x) such closing is to be rescheduled (such rescheduled date to be a Business Day during the Issuance Period not less than one Business Day and not more than 30 Business Days after such scheduled Closing Day (the "**Rescheduled Closing Day**") and certify to Prudential (which certification shall be for the benefit of each Purchaser) that the Company reasonably believes that it will be able to comply with the conditions set forth in paragraph 3 on such Rescheduled Closing Day and that the Company will pay the Delayed Delivery Fee in accordance with paragraph 2I(3) or (y) such closing is to be canceled as provided in paragraph 2I(4). In the event that the Company shall fail to give such notice referred to in the preceding sentence, Prudential (on behalf of each Purchaser) may at its election, at any time after 1:00 P.M., New York City local time, on such scheduled Closing Day, notify the Company in writing that such closing is to be canceled as provided in paragraph 2I(4). Notwithstanding anything to the contrary appearing in this Agreement, the Company may elect to reschedule a closing with respect to any given Accepted Notes on not more than one occasion, unless Prudential shall have otherwise consented in writing.

2I. **Fees.**

2I(1). **Facility Fee.** In consideration for the time, effort and expense involved in the preparation, negotiation and execution of this Agreement, at the time of the execution and delivery of this Agreement by the Company and Prudential, the Company will pay to Prudential in immediately available funds a fee (the "**Facility Fee**") in the amount of $100,000.

2I(2). **Issuance Fee.** The Company will pay to each Purchaser in immediately available funds a fee (the "**Issuance Fee**") on each Closing Day on or after June 6, 2003 in an amount equal to 0.25% of the aggregate principal amount of Notes sold to such Purchaser on such Closing Day.

2I(3). **Delayed Delivery Fee.** If the closing of the purchase and sale of any Accepted Note is delayed for any reason (other than if the Company has satisfied all of the conditions in paragraph 3 with respect to the purchase of such Accepted Notes and the Purchasers fail to purchase such Accepted Notes) beyond the original Closing Day for such Accepted Note, the Company will pay to the Purchaser of such Accepted Note on the Cancellation Date or actual closing date of such purchase and sale a fee (the "**Delayed Delivery Fee**") calculated as follows:

(BEY–MMY) X DTS/360 X PA

where "**BEY**" means Bond Equivalent Yield, *i.e.*, the bond equivalent yield per annum of such Accepted Note, "**MMY**" means Money Market Yield, *i.e.*, the yield per annum on a commercial paper

investment of the highest quality selected by Prudential on the date Prudential receives notice of the delay in the closing for such Accepted Note having a maturity date or dates the same as, or closest to, the Rescheduled Closing Day or Rescheduled Closing Days (a new alternative investment being selected by Prudential each time such closing is delayed); "**DTS**" means Days to Settlement, *i.e.*, the number of actual days elapsed from and including the original Closing Day with respect to such Accepted Note to but excluding the date of such payment; and "**PA**" means Principal Amount, *i.e.*, the principal amount of the Accepted Note for which such calculation is being made. In no case shall the Delayed Delivery Fee be less than zero. Nothing contained herein shall obligate any Purchaser to purchase any Accepted Note on any day other than the Closing Day for such Accepted Note, as the same may be rescheduled from time to time in compliance with paragraph 2H.

2I(4). **Cancellation Fee.** If the Company at any time notifies Prudential in writing that the Company is canceling the closing of the purchase and sale of any Accepted Note, or if Prudential notifies the Company in writing under the circumstances set forth in the penultimate sentence of paragraph 2H(3) that the closing of the purchase and sale of such Accepted Note is to be canceled, or if the closing of the purchase and sale of such Accepted Note is not consummated on or prior to the last day of the Issuance Period (the date of any such notification, or the last day of the Issuance Period, as the case may be, being the "**Cancellation Date**"), the Company will pay the Purchasers in immediately available funds an amount (the "**Cancellation Fee**") calculated as follows:

PI X PA

where "**PI**" means Price Increase, *i.e.*, the quotient (expressed in decimals) obtained by dividing (a) the excess of the ask price (as determined by Prudential) of the Hedge Treasury Note(s) on the Cancellation Date over the bid price (as determined by Prudential) of the Hedge Treasury Notes(s) on the Acceptance Day for such Accepted Note by (b) such bid price; and "**PA**" has the meaning specified in paragraph 2I(3). The foregoing bid and ask prices shall be as reported by TradeWeb LLC (or, if such data for any reason ceases to be available through TradeWeb LLC, any publicly available source of similar market data). Each price shall be rounded to the second decimal place. In no case shall the Cancellation Fee be less than zero.

2I(5). **Renewal Fee.** If no Notes (other than the Series A Notes) are issued after the date hereof until the second anniversary of the date of this Agreement, the Facility shall be terminated and the Issuance Period shall end on such anniversary date unless on or before such second anniversary the Company shall pay to Prudential a renewal fee (the "**Renewal Fee**") in the aggregate amount of $10,000. In the event the Company pays the Renewal Fee, the Facility shall remain in place and the Issuance Period shall extend until the third anniversary of the date of this Agreement (unless terminated earlier pursuant to paragraph 2B).

3. **CONDITIONS OF CLOSING.** The obligation of any Purchaser to purchase and pay for any Notes is subject to the satisfaction, on or before the Closing Day for such Notes, of the following conditions:

3A. **Certain Documents.** Such Purchaser shall have received the following, each dated the date of the applicable Closing Day unless otherwise specified:

(i) The Note(s) to be purchased by such Purchaser.

(ii) A certificate of the Secretary or an Assistant Secretary of the General Partner certifying (A) the existence of the Company and the General Partner, (B) the Company Partnership Agreement, (C) the General Partner's organizational documents, (D) the resolutions of the General Partner approving this Agreement, the Notes, and the other Loan Documents and the related transactions, and (E) all documents evidencing other necessary corporate, partnership or limited liability company action and governmental approvals, if any, with respect to this Agreement, the Notes, and the other Loan Documents executed and delivered on or before such

Closing Day (*provided*, that for any Closing Day occurring after the Series A Closing, the Company may certify that there has been no change to any applicable authorization or approval since the date on which it was most recently delivered to such Purchaser under this clause (ii) as an alternative to the further delivery thereof).

(iii) A certificate of the Secretary or an Assistant Secretary of the General Partner certifying the names and true signatures of the officers of the General Partner authorized to sign this Agreement, the Notes, the other Loan Documents and the other documents to be delivered hereunder on behalf of the Company (*provided*, that for any Closing Day occurring after the Series A Closing, the Secretary or an Assistant Secretary and one other officer of the General Partner may certify that there has been no change to the officers of the Company authorized to sign Accepted Notes and other documents to be delivered therewith since the date on which a certificate setting forth the names and true signatures of such officers, as described above, was most recently delivered to such Purchaser under this clause (iii), as an alternative to the further delivery thereof).

(iv) Certificates of the Secretary or an Assistant Secretary of each of the Guarantors certifying (A) the organizational documents of such Guarantor, (B) the resolutions of the governing body of such Guarantor approving this Agreement, the Guaranty, and the other Loan Documents to which such Guarantor is a party and the related transactions, and (C) all other documents evidencing other necessary corporate, partnership or limited liability company action and governmental approvals, if any, with respect to this Agreement, the Guaranty, and the other Loan Documents to which such Guarantor is a party executed and delivered on or before such Closing Day (*provided*, that for any Closing Day occurring after the Series A Closing, such Guarantor may certify that there has been no change to any applicable authorization or approval since the date on which it was most recently delivered to such Purchaser under this clause (ii) as an alternative to the further delivery thereof).

(v) Certificates of the Secretary or an Assistant Secretary of each Guarantor certifying the names and true signatures of the officers of such Guarantor authorized to sign the Guaranty, the other Loan Documents to which such Guarantor is a party and the other documents to be delivered hereunder on behalf of such Guarantor (*provided*, that for any Closing Day occurring after the Series A Closing, the Secretary or an Assistant Secretary and one other officer of such Guarantor may certify that there has been no change to the officers of such Guarantor authorized to sign any other documents to be delivered on such Closing Day since the date on which a certificate setting forth the names and true signatures of such officers, as described above, was most recently delivered to such Purchaser under this clause (v), as an alternative to the further delivery thereof).

(vi) A favorable opinion of Thompson & Knight LLP, special counsel to the Company and the Guarantors (or such other counsel designated by the Company and acceptable to the Purchaser(s)) satisfactory to such Purchaser and substantially in the form of *Exhibit D* attached hereto and as to such other matters as such Purchaser may reasonably request. The Company hereby directs such counsel to deliver such opinion, agrees that the issuance and sale of any Notes will constitute a reconfirmation of such direction, and understands and agrees that each Purchaser receiving such an opinion will be and is hereby authorized to rely on such opinion.

(vii) Certificates of good standing, existence and authority for the Company, the General Partner and each of the Guarantors from each of the states in which the Company, the General Partner and each of the Guarantors is either organized or does business.

(viii) Solely with respect to the Series A Closing, results of searches of the UCC Records of the Secretary of State of Delaware and the Secretary of State and applicable counties of the States of Texas, heretofore obtained by the Collateral Agent and, in the case of the searches of the UCC

Records, reflecting no Liens against any of the Collateral as to which perfection of a Lien is accomplished by the filing of a financing statement other than Liens in favor of the Collateral Agent for the benefit of the Holders and the Banks and Permitted Liens.

(ix) The Guaranties duly executed by all parties thereto.

(x) The Intercreditor Agreement duly executed by the Collateral Agent, the Banks, the Purchasers other than Prudential, the Company and the Guarantors.

(xi) The Security Agreements and the Pledge Agreements duly executed by all parties thereto.

(xii) Amendments to each of the existing Mortgages in form and substance satisfactory to the Purchasers.

(xiii) Appropriate UCC-1 or UCC-3 Financing Statements, naming the Collateral Agent as the secured party and covering the Collateral, for filing with the appropriate authorities.

(xiv) Solely with respect to the Series A Closing, certificate(s) of insurance naming the Collateral Agent as loss payee or additional insured evidencing insurance which meets the requirements of this Agreement and the Security Documents and which is in amount, form and substance and from an issuer satisfactory to the Required Holders.

(xv) Certified copy of an amendment to the Bank Agreement permitting the Company to enter into this Agreement and issue the Notes.

(xvi) Additional documents or certificates with respect to legal matters or corporate or other proceedings related to the transactions contemplated hereby as may be reasonably requested by such Purchaser.

(xvii) Written instructions of the Company in the form of *Exhibit E* attached hereto.

(xviii) Solely with respect to the Duke Acquisition Closing, such Purchaser shall have received the following (other than the documents and instruments described in subclause (a) below, which shall be delivered to the Collateral Agent) duly executed by all the parties thereto, in form and substance satisfactory to such Purchaser:

(a) Mortgages, other Security Documents and appropriate UCC-1 and UCC-3 Financing Statements for filing with the appropriate authorities covering the Property being acquired by the Company pursuant to the Duke Acquisition Documents, together with, at the request of the Required Holders, a favorable opinion of outside counsel to the Company, in form and substance reasonably satisfactory to the Required Holders, as to such matters relating to the foregoing documents as the Required Holders may reasonably request;

(b) copies of the Duke Acquisition Documents certified by a Responsible Officer (A) as being true and correct copies of such documents as of the Duke Acquisition Closing, and (B) except as otherwise disclosed in writing and acceptable to such Purchaser (i) as being in full force and effect and no material term or condition thereof having been amended, modified or waived after the execution thereof; and (ii) that to the knowledge of such Responsible Officer, none of the parties to the Duke Acquisition Documents shall have failed to perform any material obligation or covenant required by the Duke Acquisition Documents to be performed or complied with by it on or before the Duke Acquisition Closing;

(c) a report by Barnes and Click, Inc. in form and substance satisfactory to such Purchaser, together with a certificate from a Responsible Officer certifying that the Properties subject to such report are the same Properties that are the subject of the Duke Acquisition;

(d) a Phase I environmental review by Flat Rock Energy Partners covering those Properties to be acquired in connection with the Duke Acquisition in form and substance satisfactory to such Purchaser; and

(e) such other documents, agreements or information as such Purchaser may reasonably request.

(xix) Solely with respect to the Duke Acquisition Closing, the Duke Acquisition shall, simultaneously with the issuance of the Notes in connection with the Duke Acquisition Closing, have been consummated by the Company, and all other conditions to the Duke Acquisition shall have been satisfied in form and substance satisfactory to such Purchaser.

(xx) Solely with respect to the Duke Acquisition Closing, such Purchaser shall have received satisfactory evidence that arrangements have been made so that the Liens granted to the Collateral Agent under the Security Documents relating to the Duke Acquisition are or will be Acceptable Security Interests and that all actions or filings necessary to protect, preserve and validly perfect such Liens have been made, taken or obtained (or will be upon the filing and recording of the appropriate Security Documents), as the case may be, and are in full force and effect.

(xxi) Solely with respect to the Duke Acquisition Closing, such Purchaser shall be satisfied in its reasonable discretion as to the status of the Company's or Guarantor's, as applicable, title to the Properties acquired pursuant to the Duke Acquisition.

(xxii) Solely with respect to the Duke Acquisition Closing, such Purchaser shall be satisfied in its sole discretion with its due diligence analysis and review of the Properties acquired pursuant to the Duke Acquisition.

3B. **Opinion of Purchaser's Special Counsel.** Such Purchaser shall have received from Baker Botts L.L.P., who is acting as special counsel for it in connection with this transaction, a favorable opinion satisfactory to such Purchaser as to such matters incident to the matters herein contemplated as it may reasonably request.

3C. **Representations and Warranties; No Default.** The representations and warranties contained in paragraph 8 hereof and in the other Loan Documents shall be true on and as of such Closing Day, except to the extent of changes caused by the transactions herein contemplated; there shall exist on such Closing Day no Event of Default or Default; and the Company shall have delivered to such Purchaser an Officer's Certificate, dated such Closing Day, to both such effects.

3D. **Purchase Permitted by Applicable Laws.** The purchase of and payment for the Notes to be purchased by such Purchaser on the terms and conditions herein provided (including the use of the proceeds of such Notes by the Company) shall not violate any applicable law or governmental regulation (including, without limitation, Section 5 of the Securities Act or Regulation T, U or X of the Board of Governors of the Federal Reserve System) and shall not subject such Purchaser to any tax, penalty, liability or other onerous condition under or pursuant to any applicable law or governmental regulation, and such Purchaser shall have received such certificates or other evidence as it may request to establish compliance with this condition.

3E. **Legal Matters.** Counsel for such Purchaser, including any special counsel for the Purchasers retained in connection with the purchase and sale of such Accepted Notes, shall be satisfied as to all legal matters relating to such purchase and sale, and such Purchaser shall have received from such counsel favorable opinions as to such legal matters as it may request.

3F. **Payment of Fees.** The Company shall have paid to the Purchasers and Prudential any fees due them pursuant to or in connection with this Agreement, including any Facility Fee due pursuant to paragraph 2I(1), any Issuance Fee due pursuant to paragraph 2I(2) and any Delayed Delivery Fee due pursuant to paragraph 2I(3). In addition, all other fees which are due and payable on or before any

Closing Day shall have been paid, and without limiting the provisions of paragraph 11B, special counsel to the Purchasers shall have received its fees, charges and disbursements to the extent reflected in a statement of such special counsel rendered to the Company at least one Business Day prior to such Closing Day.

3G. **Proceedings.** All corporate and other proceedings taken or to be taken in connection with the transactions contemplated hereby and all documents incident thereto shall be satisfactory in substance and form to such Purchaser, and it shall have received all such counterpart originals or certified or other copies of such documents as it may reasonably request.

3H. **Private Placement Numbers.** Private Placement numbers issued by Standard & Poor's CUSIP Service Bureau (in cooperation with the Securities Valuation Office of the National Association of Insurance Commissioners) shall have been obtained for the Notes.

3I. **Title.** Prudential shall be satisfied in its reasonable discretion as to the status of the Company's or a Guarantor's, as applicable, title to the Company's and its Subsidiaries' Properties.

3J. **Collateral Agent's Liens.** Prudential shall have received satisfactory evidence that the Liens granted to the Collateral Agent under the Security Documents are Acceptable Security Interests and that all actions or filings necessary to protect, preserve and validly perfect such Liens have been made, taken or obtained, as the case may be, and are in full force and effect.

3K. **Encumbrance of Real Property Interests.** Prudential shall be satisfied that the Security Documents encumber substantially all of such real property interests held by the Company and its Subsidiaries as the Collateral Agent may require.

4. **PREPAYMENTS.** The Notes shall be subject to prepayment with respect to any required prepayments set forth in such Notes as provided in paragraph 4A and with respect to the optional prepayments permitted by paragraph 4B. Any prepayment made by the Company pursuant to any other provision of this paragraph 4 shall not reduce or otherwise affect its obligation to make any required prepayment as specified in paragraph 4A.

4A. **Required Prepayments.** The Notes of each Series shall be subject to required prepayments, if any, set forth in the Notes of such Series.

4B. **Optional Prepayment With Yield-Maintenance Amount.** The Notes shall be subject to prepayment, in whole at any time or from time to time in part (in integral multiples of $1,000,000 and in a minimum amount of $100,000), at the option of the Company, at 100% of the principal amount so prepaid plus interest thereon to the prepayment date and the Yield-Maintenance Amount, if any, with respect to each such Note. Any partial prepayment of Notes pursuant to this paragraph 4B shall be applied in satisfaction of required payments of principal of the Notes in inverse order of their scheduled due dates.

4C. **Notice of Optional Prepayment.** The Company shall give the Holder of each Note to be prepaid pursuant to paragraph 4B irrevocable written notice of such prepayment not less than 10 Business Days prior to the prepayment date, specifying such prepayment date, specifying the aggregate principal amount of the Notes to be prepaid on such date, identifying each Note held by such Holder, and the principal amount of each such Note, to be prepaid on such date and stating that such prepayment is to be made pursuant to paragraph 4B. Notice of prepayment having been given as aforesaid, the principal amount of the Notes specified in such notice, together with interest thereon to the prepayment date and together with the Yield-Maintenance Amount, if any, herein provided, shall become due and payable on such prepayment date. The Company shall, on or before the day on which it gives written notice of any prepayment pursuant to paragraph 4A, give telephonic notice of the principal amount of the Notes to be prepaid and the prepayment date to each Holder which shall have

designated a recipient for such notices in the *Purchaser Schedule* attached hereto or by notice in writing to the Company.

4D. **Application of Prepayments.** Upon any partial prepayment of the Notes of any Series pursuant to paragraph 4A, the amount so prepaid shall be allocated to all outstanding Notes of such Series (including, for the purpose of this paragraph 4D only, all Notes prepaid or otherwise retired or purchased or otherwise acquired by the Company or any of its Subsidiaries or Affiliates other than by prepayment pursuant to paragraph 4A or 4B) in proportion to the respective outstanding principal amounts thereof. Upon any partial prepayment of the Notes pursuant to 4B, the amount to be prepaid shall be applied pro rata to all outstanding Notes of all Series (including, for the purpose of this paragraph 4D only, all Notes prepaid or otherwise retired or purchased or otherwise acquired by the Company or any of its Subsidiaries or Affiliates other than by prepayment pursuant to paragraph 4A or 4B) according to the respective unpaid principal amounts thereof.

4E. **Retirement of Notes.** The Company shall not, and shall not permit any of its Subsidiaries or Affiliates to, prepay or otherwise retire in whole or in part prior to their stated installment or final maturities (other than by prepayment pursuant to paragraphs 4A or 4B or upon acceleration of such final maturity pursuant to paragraph 7A), or purchase or otherwise acquire, directly or indirectly, Notes held by any Holder.

5. **AFFIRMATIVE COVENANTS.** During the Issuance Period and so long thereafter as any Note or any amount under any Loan Document shall remain unpaid, the Company agrees to comply with the following covenants.

5A. **Reporting Requirements.** The Company will furnish to each Holder:

(i) *Quarterly Financials*. As soon as available and in any event within 45 days after the end of each of the first three fiscal quarters of each fiscal year of the Company, an unaudited Consolidated balance sheet of the Company and its Subsidiaries as of the end of such quarter and unaudited Consolidated statements of operations, changes in partners' capital and cash flows of the Company and its Subsidiaries for the period commencing at the end of the preceding fiscal year and ending with the end of such quarter, setting forth in each case in comparative form the corresponding figures for the corresponding period of the preceding fiscal year, all in reasonable detail and duly certified (subject to normal year-end audit adjustments and the absence of footnotes) by the chief financial officer or chief accounting officer of the General Partner as having been prepared in accordance with GAAP, together with (i) a certificate of said officer stating that no Default or Event of Default has occurred and is continuing or, if a Default or Event of Default has occurred and is continuing, a statement as to the nature thereof and the action that the Company proposes to take with respect thereto and (ii) a schedule in reasonable detail showing the computations used by such officer in determining, as of the end of such fiscal quarter, compliance with the covenants contained in paragraphs 6A(1), 6A(2), 6A(3) and 6A(4);

(ii) *Audited Annual Financials*. As soon as available and in any event within 120 days after the end of each fiscal year of the Company, audited Consolidated and unaudited consolidating balance sheets of the Company and its Subsidiaries as of the end of such fiscal year and audited Consolidated and unaudited consolidating statements of operations, changes in partners' capital and cash flows of the Company and its Subsidiaries for such fiscal year, in each case certified without qualification by KPMG LLP or other independent public accountants of recognized national standing acceptable to the Required Holders, together with (a) a certificate of such accounting firm stating that, in the course of the regular audit of the business of the Company and its Subsidiaries, which audit was conducted by such accounting firm in accordance with generally accepted auditing standards, such accounting firm has obtained no knowledge that an Event of Default has occurred and is continuing with respect to paragraphs 6A(1), 6A(2), 6A(3) or 6A(4) if in the opinion of such accounting firm such an Event of Default has occurred and is continuing, a

statement as to the nature thereof, (b) a schedule in form and substance reasonably satisfactory to the Required Holders of the computations used by such accounting firm in determining, as of the end of such fiscal year, compliance with the covenants contained in paragraphs 6A(1), 6A(2), 6A(3) and 6A(4), (c) copies of any material accountant's letters received by management in connection with such accounting firm's findings during its audit of the financial records of the Company during, or in respect of, such fiscal year; and (d) a schedule, in substantially the form of *Schedule 8T* attached hereto, listing all its Subsidiaries as of the end of the fiscal year to which such financial statements relate;

(iii) *Defaults*. Forthwith, but in any event within five Business Days, following the occurrence of any Default or Event of Default, a certificate of a Responsible Officer setting forth the details thereof and the action that the Company is taking or proposes to take with respect thereto;

(iv) *Litigation*. Promptly after the assertion or occurrence thereof or any Responsible Officer becoming aware of the reasonable likelihood thereof, notice of any litigation, judicial reference proceeding, arbitration proceeding or regulatory proceeding affecting the Company or any Subsidiary or the property of the Company or any Subsidiary, other than any such litigation or proceeding that, if adversely determined, could not reasonably be expected to have a Material Adverse Effect;

(v) *Environmental Proceedings*. Promptly after the assertion or occurrence thereof or any Responsible Officer becoming aware of the reasonable likelihood thereof, notice of any Environmental Proceeding against the Company or any Subsidiary, or of any noncompliance by the Company or any Subsidiary with any Environmental Law or Environmental Permit, that could reasonably be expected (a) to have a Material Adverse Effect or (b) to cause any property owned or operated by the Company or any Subsidiary to be subject to any material restriction on ownership, occupancy, use or transferability under any Environmental Law;

(vi) *Disputes*. Forthwith upon any dispute or claim concerning Accounts and exceeding $1,000,000 in any instance, a certificate of a Responsible Officer setting forth the details thereof; and

(vii) *Other Information*. Promptly upon request, such additional information regarding the financial position or business (including with respect to environmental matters) of the Company or any Subsidiary as any Holder may reasonably request from time to time.

5B. **Information Required by Rule 144A.** The Company will, upon the request of any Holder, provide such Holder, and any qualified institutional buyer designated by such Holder, such financial and other information as such Holder may reasonably determine to be necessary in order to permit compliance with the information requirements of Rule 144A under the Securities Act in connection with the resale of Notes, except at such times as the Company is subject to and in compliance with the reporting requirements of section 13 or 15(d) of the Exchange Act. For the purpose of this paragraph 5B, the term "**qualified institutional buyer**" shall have the meaning specified in Rule 144A under the Securities Act.

5C. **Visitation Rights.** At any reasonable time and from time to time, upon reasonable notice by the Holder concerned, the Company will permit, and cause each Subsidiary to permit, any Holder, and any agents or representatives thereof, to examine and make copies of and abstracts from the records and books of account of, and visit the properties of, the Company and its Subsidiaries and to discuss the affairs, finances and accounts of the Company and its Subsidiaries with any of their respective officers or directors (or equivalent persons) or, *provided* the Company has been given reasonable opportunity to be present, with their independent certified public accountants;*provided, however*, that, unless a Default or Event of Default has occurred and is continuing, the Holders' visitation rights shall be limited to not more than four occasions in any calendar year.

5D. **Covenant to Secure Notes Equally.** The Company will, if it or any Subsidiary shall create or assume any Lien upon any of its property or assets, whether now owned or hereafter acquired, other than Liens permitted by the provisions of paragraph 6C(1) (unless prior written consent to the creation or assumption thereof shall have been obtained pursuant to paragraph 11C), make or cause to be made effective provision whereby the Notes will be secured by such Lien equally and ratably with any and all other Debt thereby secured so long as any such other Debt shall be so secured.

5E. **Preservation of Legal Existence, Etc.** The Company will preserve and maintain, and cause each Subsidiary to preserve and maintain, its legal existence, rights (charter and statutory) and franchises, except as otherwise permitted by paragraph 6C(4); provided, however, that neither the Company nor any Subsidiary shall be required to preserve any such right or franchise if the general partner, board of directors or equivalent body of the Company or such Subsidiary determines that the preservation thereof is no longer desirable in the conduct of the business of the Company or such Subsidiary, as applicable, and if the loss thereof is not disadvantageous in any material respect to the Holders.

5F. **Maintenance of Properties, Etc.** Except as otherwise permitted by paragraph 6C(5), the Company will maintain and preserve, and cause each Subsidiary to maintain and preserve, all of its properties that are necessary for the conduct of its business in good working order and condition, ordinary wear and tear excepted.

5G. **Compliance with Laws, Etc.** The Company will comply, and cause each Subsidiary to comply, with all Governmental Rules the noncompliance with which could reasonably be expected to have a Material Adverse Effect.

5H. **Payment of Taxes, Etc.** The Company will pay and discharge, and cause each Subsidiary to pay and discharge, before the same become delinquent, (a) all federal, state and other taxes, assessments and governmental charges or levies imposed upon or against it or its property and (b) all lawful claims that, if unpaid, might by law become a Lien upon its property; provided, however, that neither the Company nor any Subsidiary shall be required to pay or discharge any such tax, assessment, charge, levy or claim that is being contested in good faith and, in the case of any such tax, assessment, charge or levy, by proper proceedings and as to which, in all such cases, it is maintaining appropriate reserves in accordance with GAAP.

5I. **Maintenance of Insurance.** The Company will maintain, and cause each Subsidiary to maintain, insurance with responsible and reputable insurance companies or associations in such amounts and covering such risks (a) as is usually carried by companies engaged in similar businesses and owning similar properties in the same general areas in which the Company or such Subsidiary, as applicable, operates and (b) as is reasonably acceptable to the Required Holders.

5J. **Keeping of Books.** The Company will keep, and cause each Subsidiary to keep, proper books of record and account in which full and correct entries shall be made of all financial transactions and the Properties and business of the Company and each Subsidiary, in accordance with GAAP consistently applied.

5K. **Transactions with Affiliates.** The Company will conduct, and cause each Subsidiary to conduct, all transactions otherwise permitted under the Loan Documents with any of its Affiliates (other than the Company or a Guarantor) on terms that are fair and reasonable and no less favorable to the Company or such Subsidiary than it would obtain in a comparable arms' length transaction with a Person not an Affiliate.

5L. **Compliance with Environmental Laws.** The Company will (i) comply, and cause each Subsidiary and each lessee or other Person operating or occupying any of its properties to comply, in all material respects with all applicable Environmental Laws and Environmental Permits, (ii) obtain and renew, and cause each Subsidiary to obtain and renew, when needed all material Environmental

Permits necessary for its operations and properties, (iii) conduct, and cause each Subsidiary to conduct, any investigation, study, sampling and testing in accordance with the requirements of all applicable Environmental Laws and (iv) undertake, and cause each Subsidiary to undertake, any cleanup, removal, remedial and other action necessary to remove and clean up all Hazardous Materials from any of its properties, in accordance with the material requirements of all applicable Environmental Laws.

5M. **Environmental Remediation and Indemnification.** If at any time any Hazardous Material is discovered on, under or about any Mortgaged Property or any other property owned or operated by the Company or any Subsidiary ("**Other Property**") and failure to remediate the same would cause the Company or any Subsidiary to be in violation of any Environmental Law, the Company will inform the Holders of the same and of the Company's proposed remediation program, and the Company or such Subsidiary will, at no cost and expense to the Collateral Agent or the Holders, and only to the extent of any legal requirement under applicable Environmental Laws for the Company or such Subsidiary to do so, remediate or remove such Hazardous Materials from such Mortgaged Property or Other Property or the groundwater underlying such Mortgaged Property or Other Property in accordance with (i) such remediation program as a prudent operator would undertake, (ii) the approval of the appropriate Governmental Persons, if any such approval is required under the applicable Environmental Laws, and (iii) all applicable Environmental Laws. In addition to all other rights and remedies of the Collateral Agent and the Holders under the Loan Documents, if such Hazardous Materials are not remediated or removed from the affected Mortgaged Property or Other Property or the groundwater underlying such Mortgaged Property or Other Property by the Company in accordance with the preceding requirements, the Collateral Agent, at its sole discretion, may pay to have the same remediated or removed in accordance with the applicable remediation program, and the Company will reimburse the Collateral Agent therefor within 10 Business Days of the Collateral Agent's written demand for payment. The Company and any Subsidiary shall have the right to contest any notice or directive by any appropriate Governmental Person to remediate or remove Hazardous Materials from any Mortgaged Property or Other Property so long as the Company or such Subsidiary diligently prosecutes such contest to completion and complies with any final order or determination. The Company shall be solely responsible for, and will indemnify and hold harmless the Collateral Agent and the Holders and their respective directors, officers, employees, agents, successors and assigns from and against, any and all losses, damages, demands, claims, causes of action, judgments, actions, assessments, penalties, costs, expenses and liabilities to the extent that they directly or indirectly arise out of or are attributable to the release of any Hazardous Materials at any Mortgaged Property or Other Property, including the following: (a) all foreseeable and unforeseeable consequential damages; (b) the costs of any repair, cleanup or detoxification of any Mortgaged Property or Other Property required by any applicable Environmental Laws, and the preparation and implementation of any closure, remedial or other plans required by any applicable Environmental Laws; and (c) all reasonable costs and expenses incurred by the Collateral Agent or any Holder in connection with clauses (a) and (b) above, including reasonable attorneys' fees; *provided, however*, that the Company shall not be liable for any of the foregoing if a final, nonappealable judgment by a court of competent jurisdiction finds that such release of Hazardous Materials resulted from the gross negligence or willful misconduct of the Collateral Agent or a Holder. The indemnities provided in this paragraph 5M shall survive the repayment or any other satisfaction of the Obligations of the Company under the Loan Documents.

5N. **Maintenance of Credit Facility.** The Company will at all times maintain a committed revolving credit facility in an amount of not less than $20,000,000 with a remaining term of at least 12 months and maintain the Borrowing Base thereunder in an amount not less than $15,000,000.

5O. **Additional Covenants and Additional Defaults.** If the Company or any Subsidiary enters into, assumes or otherwise becomes bound or obligated under any agreement (including amendments of the Bank Agreement) evidencing, securing, guaranteeing or otherwise relating to the Bank Obligations that contains one or more Additional Covenants or Additional Defaults, the terms of this Agreement

shall, without any further action on the part of the Company or any of the holders of the Notes, be deemed to be amended automatically to include each Additional Covenant and each Additional Default contained in such agreement. The Company further covenants to promptly execute and deliver at its expense (including the reasonable fees and expenses of counsel for the holders of the Notes) an amendment to this Agreement in form and substance satisfactory to the Required Holder(s) evidencing the amendment of this Agreement to include such Additional Covenants and Additional Defaults, *provided* that the execution and delivery of such amendment shall not be a precondition to the effectiveness of such amendment as provided for in this paragraph 5O, but shall merely be for the convenience of the parties hereto.

6. **NEGATIVE COVENANTS.** During the Issuance Period and so long thereafter as any Note or any amount under any Loan Document shall remain unpaid, the Company agrees to comply with the following covenants.

6A(1). **Current Ratio.** The Company shall not, as of the end of any fiscal quarter commencing with the fiscal quarter ended March 31, 2003, permit the ratio of (a) the consolidated current assets of the Company and its Subsidiaries to (b) the consolidated current liabilities of the Company and its Subsidiaries (other than current maturities of long-term debt) to be less than 1.00 to 1.00; *provided, however*, that, current assets shall include the unused portions of the commitments under the Bank Agreement so long as the Company is permitted to borrow under the Bank Agreement and current liabilities shall exclude the current portion of the Debt of the Company under the Bank Agreement.

6A(2). **Interest Charge Coverage Ratio.** The Company shall not, as of the end of any fiscal quarter commencing with the fiscal quarter ended March 31, 2003, permit the Interest Charge Coverage Ratio for the Company and its Subsidiaries on a Consolidated basis to be less than 3.50 to 1.00.

6A(3). **Leverage Ratio.** 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 the following ratios for the following fiscal quarters:

Fiscal Quarters Ending	Maximum Ratio
March 31, 2003	4.00 to 1.00
June 30, 2003, September 30, 2003, December 31, 2003, and March 31, 2004	3.75 to 1.00
June 30, 2004 and thereafter	3.50 to 1.00

6A(4). **Minimum Tangible Net Worth.** At all times the Company shall not permit its Tangible Net Worth to be less than the sum of (a) $60,000,000 plus (b) 50% of any Equity Contribution Proceeds received after December 31, 2002.

6B. **Distributions, Etc.** The Company will not pay any management fee or similar fee of any sort to any Affiliate thereof or to any other Person, declare or pay any dividends or distributions, purchase, redeem, retire, defease or otherwise acquire for value any of its equity interests or any warrants, rights or options to acquire such equity interests, now or hereafter outstanding, return any capital to its equity holders as such, or make any distribution of Property, equity interests, warrants, rights, options, obligations or securities to its equity-holders as such, or permit any Subsidiary to purchase, redeem, retire, defease or otherwise acquire for value any equity interests in the Company or any warrants, rights or options to acquire such equity interests or to pay any such fee, *except* for the following:

(i) provided that no Default or Event of Default has occurred and is continuing or would be caused thereby, the Company may make cash distributions to the Partners during any fiscal quarter

in amounts that do not exceed the Available Cash for the immediately preceding fiscal quarter; *provided, further*, that no more than $5,000,000 of such cash distributions to the Partners in the aggregate during the term of this Agreement shall consist of proceeds from advances under the Bank Agreement;

(ii) the Company and its Subsidiaries may declare and pay dividends and other distributions payable solely in equity interests; and

(iii) any Subsidiary may pay dividends, or make other distributions, to the Company or any wholly owned Subsidiary.

6C(1). **Liens, Etc.** The Company will not create, incur, assume or suffer to exist, or permit any Subsidiary to create, incur, assume or suffer to exist, any Lien, or enter into or permit to exist any agreement with any other Person not to create any Lien, on or with respect to any of its properties of any character (including accounts receivable) whether now owned or hereafter acquired (a "**negative pledge**"), or sign or file, or permit any Subsidiary to sign or file, under the Uniform Commercial Code of any jurisdiction, a financing statement that names the Company or any Subsidiary as debtor (except in connection with true leases), or sign, or permit any Subsidiary to sign, any security agreement authorizing any secured party thereunder to file such a financing statement (except in connection with true leases), or assign, or permit any Subsidiary to assign, any accounts (as defined in the New York Uniform Commercial Code), excluding, however, from the operation of the foregoing restrictions the following:

(i) Liens created by the Security Documents (*provided*, that the obligations of the Company to the Banks and Affiliates of the Banks in respect of Interest Rate Contracts and Hydrocarbon Hedge Agreements may be secured by such Liens only so long as, with respect to each Bank or Affiliate thereof, the Bank remains a Bank under the Bank Agreement);

(ii) Permitted Liens;

(iii) Liens securing obligations of such Person as lessee under Capital Leases permitted by paragraph 6C(2)(vii);

(iv) purchase-money Liens on property acquired or held by the Company or any Subsidiary in the ordinary course of business, to secure the purchase price of such property or to secure Debt incurred solely for the purpose of financing the acquisition of such property to be subject to such Liens, or Liens existing on any such property at the time of acquisition thereof (or at the time the Company acquires the Subsidiary owning such property), or renewals or refinancings of any of the foregoing Liens for the same or a lesser amount; *provided, however*, that (a) no such Lien may extend to or cover any property other than the property being acquired and improvements and accessions thereto and proceeds thereof, (b) no such renewal or refinancing may extend to or cover any property not previously subject to the Lien being renewed or refinanced and (c) the aggregate principal amount of Debt at any time outstanding secured by such Liens may not exceed the amount permitted by paragraph 6C(2)(viii);

(v) the negative pledge contained in the Bank Agreement;

(vi) customary limitations and restrictions constituting negative pledges contained in, and limited to, specific leases, licenses, conveyances, partnership agreements and co-owners' agreements, and similar conveyances and agreements, to the extent that any such Lien referred to in this clause does not materially impair the use of the Property covered by such Lien for the purposes for which such Property is held or materially impair the value of such Property subject thereto; and

(vii) Liens incurred in the ordinary course of business of the Company or any Subsidiary with respect to obligations (other than Debt for borrowed money) that do not exceed $500,000 in the aggregate at any one time outstanding.

6C(2). **Debt.** The Company will not create, incur, assume or suffer to exist, or permit any Subsidiary to create, incur, assume or suffer to exist, any Debt other than the following:

(i) Debt under the Loan Documents;

(ii) Debt under the Bank Agreement Documents;

(iii) Debt existing on the date of this Agreement and described in *Schedule 6C(2)*, including renewals and refinancings of such Debt, so long as the principal amount thereof is not increased;

(iv) Debt under one or more Interest Rate Contracts or Hydrocarbon Hedge Agreements;

(v) Debt in respect of endorsement of negotiable instruments in the ordinary course of business;

(vi) Debt between the Company and any Subsidiary or between Subsidiaries, *provided* that (a) such Debt is noted on the books and records of the Company and its Subsidiaries and (b) in the case of any Debt owed by the Company or any Subsidiary that is a Guarantor, such Debt is subordinated to the Obligations of the Company or such Subsidiary under the Loan Documents on terms and conditions, and pursuant to documentation, in form and a substance satisfactory to the Required Holders in their sole discretion;

(vii) Debt in respect of Capital Leases not exceeding $5,000,000 in aggregate amount equivalent to principal at any time outstanding;

(viii) Debt secured by Liens permitted by paragraph 6C(1)(iv), not exceeding $3,000,000 in aggregate principal amount at any time outstanding;

(ix) at any time following the termination of the Revolver B Commitments under the Bank Agreement, termination of all Letters of Credit, repayment of all Revolver B Advances under the Bank Agreement, reimbursement of all drawings under Letters of Credit and payment of all interest, fees and other amounts payable in respect of the Revolver B Advances under the Bank Agreement, Debt of the Company or its Subsidiaries in respect of letter-of-credit facilities not exceeding $10,000,000 in the aggregate at any time outstanding; and

(x) Debt in addition to that described above, not exceeding $5,000,000 in aggregate principal amount at any time outstanding.

6C(3). **Investments in Other Persons.** The Company will not make, or permit any Subsidiary to make, any loan or advance to any Person, or purchase or otherwise acquire, or permit any Subsidiary to purchase or otherwise acquire, any equity interests, warrants, rights, options, obligations or other securities of, make any capital contribution to, or otherwise invest in, any Person (all of the foregoing collectively called "**Investments**"); *provided, however*, that nothing in this section shall prevent the Company or any Subsidiary from doing any of the following:

(i) acquiring Permitted Investments;

(ii) generating and holding accounts receivable in the ordinary course of business;

(iii) so long as no Default has occurred and is continuing or would be caused thereby, making Investments in Persons that will not be Subsidiaries of the Company, for consideration not exceeding $5,000,000 in the aggregate during the term of this Agreement;

(iv) Investments permitted by paragraph 6C(4)(i);

(v) acquiring Investments in connection with (a) the bankruptcy or reorganization of suppliers and customers or (b) the settlement of delinquent obligations of, and other disputes with, customers and suppliers arising in the ordinary course of business; and

(vi) so long as no Default or Event of Default has occurred and is continuing or would be caused thereby, making loans and advances to officers or employees of the Company or any Subsidiary, *provided* that the aggregate principal amount of such loans and advances, other than loans for the purpose of financing the purchase of common units, subordinated units or other equity securities in the Limited Partner, shall not exceed $500,000 in aggregate principal amount at any time outstanding.

6C(4). **Mergers, Acquisitions, Etc.** The Company will not merge or consolidate with or into, or sell, lease, transfer or otherwise dispose of (whether in one transaction or in a series of transactions) all or substantially all of its Property (whether now owned or hereafter acquired) to, or enter into any Acquisition, or permit any Subsidiary to do any of the foregoing, except for the following:

(i) so long as no Default or Event of Default has occurred and is continuing or would be caused thereby, the Company or any Subsidiary may make any

Acquisition; *provided, however*, that any such Acquisition shall be permitted only if, (a) before the effectiveness of such Acquisition and to the extent required by the Required Holders, the Company delivers to the Holders (I) guaranties, mortgages, deeds of trust, security agreements, releases, UCC financing statements and UCC terminations, duly executed by the parties thereto, in form and substance satisfactory to the Required Holders and accompanied by UCC searches, title investigations and legal opinions (except with respect to priority) demonstrating that, upon the effectiveness of such Acquisition and the recording and filing of any necessary documentation, the Collateral Agent will have an Acceptable Security Interest on the Property to be acquired, (II) such legal opinions in relation to the documents described in the foregoing subclause (I) as the Required Holders may reasonably request, and (III) evidence of company authority to enter into, and environmental assessments with respect to, such Acquisition, (b) the Company or such Guarantor is the acquiring or surviving entity, (c) no Default or Event of Default exists and the Acquisition would not reasonably be expected to cause a Default or Event of Default, (d) after giving effect to such Acquisition on a pro forma basis, the Company would have been in compliance with all of the covenants contained in this Agreement, including, without limitation, paragraph 6A as of the end of the most recent fiscal quarter, (e) the acquisition target is in the same or similar line of business as the Company and its Subsidiaries, (f) the terms of paragraph 6G are satisfied, and (g) the aggregate amount of cash, Permitted Investments and the remaining unused portion of the Revolver A Commitment under the Bank Agreement is sufficient to fund such Acquisition;

(ii) so long as no Default has occurred and is continuing or would be caused thereby, any Subsidiary may merge into or consolidate with any other Subsidiary or into the Company; *provided, however*, that any such merger or consolidation shall be permitted only if, before the effectiveness of such merger or consolidation and to the extent required by the Required Holders, the Company delivers to the Holders documents (or photocopies thereof) of the type described in the proviso to clause (i) above; and

(iii) the Company and its Subsidiaries may acquire Property in the ordinary course of business.

6C(5). **Sales, Etc. of Property.** The Company will not sell, lease, transfer or otherwise dispose of, or permit any Subsidiary to sell, lease, transfer or otherwise dispose of, any of its Property, *except* for the following:

(i) sales of inventory in the ordinary course of business;

(ii) sales, leases, transfers and other dispositions in the ordinary course of business of worn-out or other Property that is no longer useful in the conduct of the business of the Company or any Subsidiary;

(iii) sales or liquidations of Permitted Investments in the ordinary course of business;

(iv) so long as no Default has occurred and is continuing or would be caused thereby, sales and other transfers of Property from the Company to any Subsidiary or by any Subsidiary to the Company or to any other Subsidiary, *provided, however*, that any such sale or other transfer of real property or equity interests shall be permitted only if, before the effectiveness of such sale or other transfer and to the extent required by the Required Holders, the Company delivers to the Holders documents of the type described in the proviso to paragraph 6C(4)(i);

(v) sales of Property resulting from the condemnation thereof;

(vi) sales or discounts of overdue Accounts in the ordinary course of business, in connection with the compromise or collection thereof;

(vii) so long as no Default has occurred and is continuing or would be caused thereby, sales, leases, transfers and other dispositions of Property in the ordinary course of business for consideration not exceeding $3,000,000 in the aggregate in any fiscal year of the Company, *provided* that the net cash proceeds thereof are used within 270 days of such sale to purchase Property of similar value, quality and business utility to the Property sold, leased, transferred or otherwise disposed of; and

(viii) so long as no Default or Event of Default has occurred and is continuing or would be caused thereby, sales of Property in the ordinary course of business for consideration not exceeding $3,000,000 in the aggregate in any fiscal year of the Company.

6D. **Change in Nature of Business.** The Company will not make, or permit any Subsidiary to make, any material change in the nature of their collective businesses as carried on as of the date hereof.

6E. **ERISA Plans.** The Company will not establish, maintain or contribute to, or permit any ERISA Affiliate to establish, maintain or contribute to, any Plan or Welfare Plan, and the Company will not become obligated to, or permit any Subsidiary to become obligated to, contribute to any Multiemployer Plan.

6F. **Accounting Changes.** The Company will not make or permit, or permit any Subsidiary to make or permit, any change in (i) any of its accounting policies affecting the presentation of financial statements or reporting practices, except as required or permitted by GAAP, or (ii) its fiscal year.

6G. **Creation of Subsidiaries.** The Company will not create, or permit any Subsidiary to create, any Subsidiary unless (i) the creation of such Subsidiary is otherwise specifically permitted by the terms of this Agreement and (ii) within 15 days after the formation of such Subsidiary and to the extent required by the Required Holders, such Subsidiary delivers to the Holders (a) guaranties, mortgages, deeds of trust, security agreements, releases, UCC financing statements and UCC terminations, duly executed by the parties thereto, in form and substance satisfactory to the Required Holders and accompanied by UCC searches, title investigations and legal opinions (except with respect to priority) demonstrating that, upon the recording and filing of any necessary documentation, the Collateral Agent will have an Acceptable Security Interest on the Property of such Subsidiary, (b) such legal opinions in relation to the documents described in the foregoing subclause (a) as the Required Holders may reasonably request, and (c) evidence of company authority on the part of the Company or the Subsidiary creating the new Subsidiary, and on the part of the new Subsidiary created, to enter into and perform its obligations under such documents.

6H. **Commodity Contracts.** The Company will not, and will not permit any Subsidiary to, enter into, assume or otherwise acquire an interest in (i) any contract or other obligation to purchase or sell any natural gas or other commodities or goods, or any hedged or unhedged commodity futures contract, option or other derivative contract, that in any case would result in the Company or such Subsidiary having an "open" or "uncovered" position in natural gas or other commodities or goods, or in any derivative of any thereof, exceeding $500,000 in the aggregate at the end of any day or (ii) any other futures or derivatives contract or obligation for speculative purposes.

6I. **Amendment of Company Partnership Agreement.** The Company will not amend, modify or supplement (i) the definition of "Available Cash" without the prior written consent of the Required Holders or (ii) any other provision of the Company Partnership Agreement if such amendment, modification or supplement would be materially adverse to the interests of the Holders without the prior written consent of the Required Holders.

6J. **Bank Agreement.** The Company will not amend, supplement or otherwise modify any term of the Bank Agreement without the prior written consent of the Required Holders, which consent will not be unreasonably withheld, which amendment, supplement or modification would have the effect of (i) increasing the aggregate commitments under the Bank Agreement above $100,000,000, (ii) increasing the rate of interest except with respect to imposing the default rate as provided for in the Bank Agreement on the date hereof or any fees charged on the Bank Obligations or (iii) being materially adverse to the interests of the Holders.

7. **EVENTS OF DEFAULT.**

7A. **Acceleration.** If any of the following events shall occur and be continuing for any reason whatsoever (and whether such occurrence shall be voluntary or involuntary or come about or be effected by operation of law or otherwise):

(i) the Company defaults in the payment of any principal of, or Yield-Maintenance Amount payable with respect to, any Note when the same shall become due, either by the terms thereof or otherwise as herein provided; or

(ii) the Company defaults in the payment of any interest on any Note for more than three Business Days after the date due; or

(iii) the Company, any Guarantor or any Material Subsidiary defaults (whether as primary obligor or as guarantor or other surety) in any payment of principal of or interest on any other obligation for money borrowed (or any Capitalized Lease Obligation, any obligation under a conditional sale or other title retention agreement, any obligation issued or assumed as full or partial payment for property whether or not secured by a purchase money mortgage or any obligation under notes payable or drafts accepted representing extensions of credit) beyond any period of grace provided with respect thereto, or the Company, any Guarantor or any Material Subsidiary fails to perform or observe any other agreement, term or condition contained in any agreement under which any such obligation is created (or if any other event thereunder or under any such agreement shall occur and be continuing) and the effect of such failure or other event is to cause, or to permit the holder or holders of such obligation (or a trustee on behalf of such holder or holders) to cause, such obligation to become due (or to be repurchased by the Company, any Guarantor or any Material Subsidiary) prior to any stated maturity, *provided* that the aggregate amount of all obligations as to which such a payment default shall occur and be continuing or such a failure or other event causing or permitting acceleration (or resale to the Company, any Guarantor or any Material Subsidiary) shall occur and be continuing exceeds $3,000,000; or

(iv) any representation or warranty made by the Company, the General Partner, any Guarantor or any Subsidiary in any Loan Document or by the Company, the General Partner, any Guarantor, or any Subsidiary or any of their officers in any writing furnished in connection with or

pursuant to any Loan Document shall be false in any material respect on the date as of which made; or

(v) the Company fails to perform or observe any term, covenant or agreement contained in paragraph 6 or paragraph 5A(iii), 5E, 5I or 5N; or

(vi) the Company, any Guarantor or any Subsidiary fails to perform or observe any other term, covenant, agreement or condition contained in any Loan Document on its part to be performed or observed and such failure shall not be remedied within 30 days after written notice thereof has been given to the Company, such Guarantor or such Subsidiary, as applicable, by the Required Holder(s); or

(vii) the Company, any Guarantor or any Subsidiary makes an assignment for the benefit of creditors or is generally not paying its debts as such debts become due; or

(viii) any decree or order for relief in respect of the Company, any Guarantor or any Subsidiary is entered under any bankruptcy, reorganization, compromise, arrangement, insolvency, readjustment of debt, dissolution or liquidation or similar law, whether now or hereafter in effect (the "**Bankruptcy Law**"), of any jurisdiction; or

(ix) the Company, any Guarantor or any Subsidiary petitions or applies to any tribunal for, or consents to, the appointment of, or taking possession by, a trustee, receiver, custodian, liquidator or similar official of the Company, any Guarantor or any Subsidiary, or of any substantial part of the assets of the Company, any Guarantor or any Subsidiary, or commences a voluntary case under the Bankruptcy Law of the United States or any proceedings (other than proceedings for the voluntary liquidation and dissolution of a Subsidiary) relating to the Company, any Guarantor or any Subsidiary under the Bankruptcy Law of any other jurisdiction; or

(x) any such petition or application is filed, or any such proceedings are commenced, against the Company, any Guarantor or any Subsidiary and the Company, such Guarantor or such Subsidiary by any act indicates its approval thereof, consent thereto or acquiescence therein, or an order, judgment or decree is entered appointing any such trustee, receiver, custodian, liquidator or similar official, or approving the petition in any such proceedings, and such order, judgment or decree remains unstayed and in effect for more than 60 days; or

(xi) any order, judgment or decree is entered in any proceedings against the Company decreeing the dissolution of the Company and such order, judgment or decree remains unstayed and in effect for more than 60 days; or

(xii) any order, judgment or decree is entered in any proceedings against the Company, any Guarantor or any Subsidiary decreeing a split-up of the Company, any Guarantor or any Subsidiary which requires the divestiture of assets representing a substantial part, or the divestiture of the stock of a Subsidiary whose assets represent a substantial part, of the consolidated assets of the Company and its Subsidiaries (determined in accordance with GAAP) or which requires the divestiture of assets, or stock of a Subsidiary, which shall have contributed a substantial part of the consolidated net income of the Company and its Subsidiaries (determined in accordance with GAAP) for any of the three fiscal years then most recently ended, and such order, judgment or decree remains unstayed and in effect for more than 60 days; or

(xiii) (a) any judgment or order for the payment of money in excess of $3,000,000 is rendered against the Company, any Guarantor or any Material Subsidiary by a court of competent jurisdiction, and either (A) enforcement proceedings are commenced by any creditor upon such judgment or order or (B) there is any period of 30 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, is not in effect, unless such judgment or order has been vacated, satisfied, dismissed, or bonded pending

appeal or, in the case of a judgment or order the entire amount of which is covered by insurance (subject to applicable deductibles), is the subject of a binding agreement with the plaintiff and the insurer covering payment therefor; or

(b) any non-monetary judgment or order is rendered against the Company, the Guarantor or any Material Subsidiary that could reasonably be expected to have a Material Adverse Effect, and there is any period of 30 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, is not in effect; or

(xiv) any material provision of any Loan Document for any reason ceases to be valid and binding on, or enforceable against, the Company, any Guarantor or any Subsidiary, as applicable (except to the extent such provision is released in writing by the Required Holders), or the Company, any Guarantor or any Subsidiary, as applicable, so states in writing; or

(xv) any Security Document for any reason (except pursuant to the terms thereof) ceases to create an Acceptable Security Interest on any material portion of the Collateral purported to be covered by such Security Document, and the same, if curable, is not cured within 15 days after the Collateral Agent or the Required Holders notify the Company or the affected Subsidiary, as applicable, of the same; or

(xvi) a Change of Control shall occur;

then (**a**) if such event is an Event of Default specified in clause (i) or (ii) of this paragraph 7A, any Holder may at its option, by notice in writing to the Company, declare all of the Notes held by such Holder to be, and all of the Notes held by such Holder shall thereupon be and become, immediately due and payable at par together with interest accrued thereon, without presentment, demand, protest or notice of any kind (including, without limitation, notice of intent to accelerate), all of which are hereby waived by the Company, (**b**) if such event is an Event of Default specified in clause (viii), (ix) or (x) of this paragraph 7A with respect to the Company, all of the Notes at the time outstanding shall automatically become immediately due and payable at par together with interest accrued thereon and together with the Yield-Maintenance Amount, if any, with respect to each Note, without presentment, demand, protest or notice of any kind (including, without limitation, notice of intent to accelerate and notice of acceleration of maturity), all of which are hereby waived by the Company, and (**c**) if such event is any Event of Default other than as specified in preceding clause (b), the Required Holder(s) of the Notes may at its or their option by notice in writing to the Company, declare all of the Notes to be, and all of the Notes shall thereupon be and become, immediately due and payable together with interest accrued thereon and together with the Yield-Maintenance Amount, if any, with respect to each Note, without presentment, demand, protest or notice of any kind (including, without limitation, notice of intent to accelerate), all of which are hereby waived by the Company.

The Company acknowledges, and the parties hereto agree, that each Holder has the right to maintain its investment in the Notes free from repayment by the Company (except as herein specifically provided for) and that the provision for payment of the Yield-Maintenance Amount by the Company in the event that the Notes are prepaid or are accelerated as a result of an Event of Default, is intended to provide compensation for the deprivation of such right under such circumstances.

7B. **Rescission of Acceleration.** At any time after any or all of the Notes shall have been declared immediately due and payable pursuant to paragraph 7A, the Required Holder(s) may, by notice in writing to the Company, rescind and annul such declaration and its consequences if (i) the Company shall have paid all overdue interest on the Notes, the principal of and Yield-Maintenance Amount, if any, payable with respect to any Notes which have become due otherwise than by reason of such declaration, and interest on such overdue interest and overdue principal and Yield Maintenance Amount at the rate specified in the Notes, (ii) the Company shall not have paid any amounts which

have become due solely by reason of such declaration, (iii) all Events of Default and Defaults, other than non-payment of amounts which have become due solely by reason of such declaration, shall have been cured or waived pursuant to paragraph 11C, and (iv) no judgment or decree shall have been entered for the payment of any amounts due pursuant to the Notes or this Agreement. No such rescission or annulment shall extend to or affect any subsequent Event of Default or Default or impair any right arising therefrom.

7C. **Notice of Acceleration or Rescission.** Whenever any Note shall be declared immediately due and payable pursuant to paragraph 7A or any such declaration shall be rescinded and annulled pursuant to paragraph 7B, the Company shall forthwith give written notice thereof to each Holder at the time outstanding.

7D. **Other Remedies.** If any Event of Default or Default shall occur and be continuing, the Holder of any Note may proceed to protect and enforce its rights under this Agreement, such Note and the other Loan Documents by exercising such remedies as are available to such Holder in respect thereof under applicable law, either by suit in equity or by action at law, or both, whether for specific performance of any covenant or other agreement contained in this Agreement or in aid of the exercise of any power granted in this Agreement. No remedy conferred in this Agreement upon any Holder is intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to every other remedy conferred herein or now or hereafter existing at law or in equity or by statute or otherwise. All amounts recovered by any Holder as the result of the exercise of such remedies or from distributions or other payments under the Intercreditor Agreement (after application of amounts thereunder pursuant to the terms of Section 4.3 thereof) shall be applied in accordance with the following priorities (with all partial payments of amounts owing within each category being allocated ratably in accordance with the amounts so owing to each Holder): *first*, to the payment of all fees, indemnities, costs and expenses then owing to the Holders under the Loan Documents; *second*, after payment in full of the amounts set forth in clause *first* above, to the payment of the Yield-Maintenance Amount, if any, then owing; *third*, after payment in full of the amounts set forth in clause *second* above, to the payment of all accrued and unpaid interest then owing to the Holders under the Loan Documents; and *fourth*, after payment in full of the amounts set forth in clause *third* above, to the payment of principal then outstanding under the Notes

8. **REPRESENTATIONS, COVENANTS AND WARRANTIES.** The Company represents, covenants and warrants as follows (all references to "**Subsidiary**" and "**Subsidiaries**" in this paragraph 8 shall be deemed omitted if the Company has no Subsidiaries at the time the representations herein are made or repeated):

8A. **Organization.** The Company (a) is a limited partnership duly formed, validly existing and in good standing under the laws of Delaware, (b) is duly qualified or licensed as a foreign limited partnership and is in good standing in Texas, New Mexico, Oklahoma and each other jurisdiction in which it owns or leases property or in which the conduct of its business requires it to so qualify or be licensed, except to the extent that the failure to so qualify or be licensed could not reasonably be expected to have a Material Adverse Effect, and (c) has all requisite limited partnership power and authority to own or lease and operate its properties and to carry on its business as now conducted and as proposed to be conducted. Each Subsidiary is duly organized and validly existing in good standing under the laws of the jurisdiction in which it is organized, and each Subsidiary has the corporate, partnership, limited liability company or similar power to own its respective property and to carry on its respective business as now being conducted. The execution, delivery and performance by the Company of this Agreement, the Notes and the other Loan Documents to which it is a party are within the Company's powers and have been duly authorized by all necessary action. The execution, delivery and performance by each Guarantor of each Loan Document to which it is a party are within such Guarantor's powers and have been duly authorized by all necessary action.

8B. **Financial Statements.** The Company has furnished Prudential and each Purchaser of the Series A Notes and any Accepted Notes with the following financial statements, identified by a principal financial officer of the General Partner: (i) consolidating and Consolidated balance sheets of the Company and its Subsidiaries as at December 31, 2002 and as at December 31 in each of the three fiscal years of the Company most recently completed after December 31, 2002, if any, prior to the date as of which this representation is made or repeated to such Purchaser (other than fiscal years completed within 120 days prior to such date for which audited financial statements have not been released) and consolidating and Consolidated statements of operations and cash flows and a Consolidated statement of changes in partners' capital of the Company and its Subsidiaries for each such year, all such Consolidated statements having been reported on by KPMG LLP; and (ii) a Consolidated balance sheet of the Company and its Subsidiaries as at the end of the quarterly period (if any) most recently completed prior to such date and after the end of such fiscal year (other than quarterly periods completed within 45 days prior to such date for which financial statements have not been released) and the comparable quarterly period in the preceding fiscal year and Consolidated statements of operations, cash flows and changes in partners' capital for the periods from the beginning of the fiscal years in which such quarterly periods are included to the end of such quarterly periods, prepared by the Company. Such financial statements (including any related schedules and/or notes) are true and correct in all material respects (subject, as to interim statements, to changes resulting from audits and year-end adjustments), have been prepared in accordance with GAAP consistently followed throughout the periods involved and show all liabilities, direct and contingent, of the Company and its Subsidiaries required to be shown in accordance with such principles. The balance sheets fairly present the condition of the Company and its Subsidiaries as at the dates thereof, and the statements of operations, cash flows and changes in partners' capital fairly present the results of the operations of the Company and its Subsidiaries and their cash flows for the periods indicated. There has been no material adverse change in the business, property or assets, condition (financial or otherwise) operations or prospects of the Company and its Subsidiaries taken as a whole since the end of the most recent fiscal year for which such audited financial statements have been furnished.

8C. **Actions Pending.** There is no action, suit, investigation or proceeding pending or, to the knowledge of the Company, threatened against the Company or any of its Subsidiaries, or any properties or rights of the Company or any of its Subsidiaries, by or before any court, arbitrator or administrative or governmental body which might result in any material adverse change in the business, property or assets, condition (financial or otherwise), operations or prospects of the Company and its Subsidiaries taken as a whole. There is no action, suit, investigation or proceeding pending or, to the knowledge of the Company, threatened against the Company or any of its Subsidiaries which purports to affect the validity or enforceability of this Agreement, any Note or any other Loan Document.

8D. **Outstanding Debt.** Neither the Company nor any of its Subsidiaries has outstanding any Debt except as permitted by paragraphs 6A(3) and 6C(2). There exists no default under the provisions of any instrument evidencing such Debt or of any agreement relating thereto.

8E. **Title to Properties.** The Company has and each of its Subsidiaries has good and indefeasible title to its respective real properties (other than easements or properties which it leases) and good title to all of its respective personal properties and assets, including the properties and assets reflected in the most recent audited balance sheet referred to in paragraph 8B (other than properties and assets disposed of in the ordinary course of business), subject to no Lien of any kind except Liens permitted by paragraph 6C(1). Each of the Company and its Subsidiaries has good and defensible title to all easements and rights of way purported to be owned by it. All leases necessary in any material respect for the conduct of the respective businesses of the Company and its Subsidiaries are valid and subsisting and are in full force and effect. The Company and each Subsidiary enjoys peaceful and undisturbed possession of all easements and rights of way necessary in any material respect for the operation of its Properties. None of the Assigned Agreements, and none of the other documents

creating or affecting any such leasehold, easement or right of way, contains any provisions that could reasonably be expected to have a Material Adverse Effect or to materially impair the operation of the business of the Company and its Subsidiaries.

8F. **Taxes.** The Company and each of its Subsidiaries has filed, or there has been filed on its behalf, or an extension has been obtained for the filing of, all federal, state and other material tax returns required to be filed before the making of this representation and warranty, and each has paid all taxes shown thereon to be due, including interest, additions to taxes and penalties, or has provided adequate reserves in accordance with GAAP for the payment thereof.

8G. **Conflicting Agreements and Other Matters.** Neither the Company nor any of its Subsidiaries is a party to any contract or agreement or subject to any charter or other restriction which materially and adversely affects its business, property or assets, condition (financial or otherwise) or operations. Neither the execution nor delivery of this Agreement, the Notes or any other Loan Document, nor the offering, issuance and sale of the Notes, nor fulfillment of nor compliance with the terms and provisions hereof and of the other Loan Documents will conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a default under, or result in any violation of, or result in the creation of any Lien upon any of the properties or assets of the Company or any of its Subsidiaries other than the Liens created in favor of the Collateral Agent for the ratable benefit of the Holders and the Banks pursuant to, the Company Partnership Agreement or the charter or by-laws or other organizational documents of any of its Subsidiaries, any award of any arbitrator or any agreement (including any agreement with partners or members), instrument, order, judgment, decree, statute, law, rule or regulation to which the Company or any of its Subsidiaries is subject. Neither the Company nor any of its Subsidiaries is a party to, or otherwise subject to any provision contained in, any instrument evidencing Debt of the Company or such Subsidiary, any agreement relating thereto or any other contract or agreement (including its limited partnership agreement or limited liability company agreement) which limits the amount of, or otherwise imposes restrictions on the incurring of, Debt of the Company of the type to be evidenced by the Notes, or Debt of the Subsidiaries that are Guarantors of the type to be evidenced by the Guaranties, except as set forth in the agreements listed in *Schedule 8G* attached hereto.

8H. **Offering of Notes.** Neither the Company nor any agent acting on its behalf has, directly or indirectly, offered the Notes or any similar security of the Company for sale to, or solicited any offers to buy the Notes or any similar security of the Company from, or otherwise approached or negotiated with respect thereto with, any Person other than institutional investors, and neither the Company nor any agent acting on its behalf has taken or will take any action which would subject the issuance or sale of the Notes to the provisions of Section 5 of the Securities Act or to the provisions of any securities or Blue Sky law of any applicable jurisdiction.

8I. **Use of Proceeds.** The proceeds of the Series A Notes will be used to repay Debt under the Bank Agreement. None of the proceeds of the sale of any Notes will be used, directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of purchasing or carrying any "**margin stock**" as defined in Regulation U (12 CFR Part 221) of the Board of Governors of the Federal Reserve System ("margin stock") or for the purpose of maintaining, reducing or retiring any Indebtedness which was originally incurred to purchase or carry any stock that is then currently a margin stock or for any other purpose which might constitute the purchase of such Notes a "purpose credit" within the meaning of such Regulation U, unless the Company shall have delivered to the Purchaser which is purchasing such Notes, on the Closing Day for such Notes, an opinion of counsel satisfactory to such Purchaser stating that the purchase of such Notes does not constitute a violation of such Regulation U. Neither the Company nor any agent acting on its behalf has taken or will take any action which might cause this Agreement or the Notes to violate Regulation T, Regulation U or any other regulation of the Board of Governors of the Federal Reserve System or to violate the Exchange Act, in each case as in effect now or as the same may hereafter be in effect.

8J. **ERISA.** No accumulated funding deficiency (as defined in section 302 of ERISA and section 412 of the Code), whether or not waived, exists with respect to any Plan (other than a Multiemployer Plan). No liability to the PBGC has been or is expected by the Company or any ERISA Affiliate to be incurred with respect to any Plan (other than a Multiemployer Plan) by the Company, any Subsidiary or any ERISA Affiliate which is or would be materially adverse to the business, property or assets, condition (financial or otherwise) or operations of the Company and its Subsidiaries taken as a whole. Neither the Company, any Subsidiary nor any ERISA Affiliate has incurred or presently expects to incur any withdrawal liability under Title IV of ERISA with respect to any Multiemployer Plan which is or would be materially adverse to the business, property or assets, condition (financial or otherwise) or operations of the Company and its Subsidiaries taken as a whole. The execution and delivery of this Agreement and the issuance and sale of the Notes will be exempt from or will not involve any transaction which is subject to the prohibitions of section 406 of ERISA and will not involve any transaction in connection with which a penalty could be imposed under section 502(i) of ERISA or a tax could be imposed pursuant to section 4975 of the Code. The representation by the Company in the next preceding sentence is made in reliance upon and subject to the accuracy of the representation of each Purchaser in paragraph 9B as to the source of funds to be used by it to purchase any Notes.

8K. **Governmental Consent.** Neither the nature of the Company or of any Subsidiary, nor any of their respective businesses or properties, nor any relationship between the Company or any Subsidiary and any other Person, nor any circumstance in connection with the offering, issuance, sale or delivery of the Notes is such as to require any authorization, consent, approval, exemption or any action by or notice to or filing with any court or administrative or governmental or regulatory body (other than routine filings after the Closing Day for any Notes with the Securities and Exchange Commission and/or state Blue Sky authorities) in connection with the execution and delivery of this Agreement and the other Loan Documents, the offering, issuance, sale or delivery of the Notes or fulfillment of or compliance with the terms and provisions hereof or of the other Loan Documents.

8L. **Compliance with Laws.** The Company and its Subsidiaries and all of their respective properties and facilities have complied at all times and in all respects with all federal, state, local and regional statutes, laws, ordinances and judicial or administrative orders, judgments, rulings and regulations, including those relating to protection of the environment except, in any such case, where failure to comply would not result in a Material Adverse Effect.

8M. **Environmental Compliance.**

(a) The operations and properties of the Company and of each Subsidiary comply in all material respects with all applicable Environmental Laws and Environmental Permits. All past noncompliance by the Company or any Subsidiary with such Environmental Laws and Environmental Permits has been resolved without ongoing material obligations or costs. To the best of the Company's knowledge, no circumstances exist that could reasonably be expected to (i) form the basis of an Environmental Proceeding against the Company or any Subsidiary, or any property thereof, that could reasonably be expected to have a Material Adverse Effect or (ii) cause any such property to be subject to any material restriction on ownership, occupancy, use or transferability under any Environmental Law.

(b) None of the properties currently or, to the best of the Company's knowledge, formerly owned or operated by the Company or any Subsidiary is listed or, to the best of the Company's knowledge, proposed for listing on the National Priorities List under CERCLA, on CERCLIS or on any analogous foreign, state or local list or, to the best of the Company's knowledge, is adjacent to any such property. There are not now, and to the best of the Company's knowledge never have been, any underground or aboveground storage tanks, or any surface impoundments, septic tanks, pits, sumps or lagoons, in which any Hazardous Material is being or has been treated, stored or disposed of on any property currently or, to the best of the Company's knowledge, formerly owned or operated by the Company or any Subsidiary, in each case in any manner not in compliance in all material respects with all applicable

Environmental Laws. There is no asbestos or asbestos-containing material on any property currently or, to the Company's knowledge, formerly owned or operated by the Company or any Subsidiary, except in compliance in all material respects with all applicable Environmental Laws. No Hazardous Material has been released, discharged or disposed of on any property owned or operated by the Company or any Subsidiary, except (i) in compliance in all material respects with all applicable Environmental Laws and (ii) as has been remediated in compliance in all material respects with all applicable Environmental Laws.

(c) Neither the Company nor any Subsidiary is engaged in or has completed, either individually or together with any other potentially responsible party, any investigation, assessment or remedial or response action relating to any actual or threatened release, discharge or disposal of any Hazardous Material at any site, location or operation that the Company or any Subsidiary never owned, leased or operated, either voluntarily or pursuant to the order of any Governmental Person or the requirements of any Environmental Law. All Hazardous Materials generated, used, treated, handled or stored at, or transported to or from, any property owned or operated by the Company or any Subsidiary have been disposed of in a manner reasonably expected not to result in material liability to the Company or any Subsidiary.

8N. **Utility Company Status.** Neither the Company nor any Subsidiary is a (i) "holding company," a "subsidiary company" of a "holding company" or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company," as such terms are defined in the Public Utility Holding Company Act of 1935, as amended or (ii) public utility within the meaning of the Federal Power Act, as amended.

8O. **Investment Company Status.** Neither the Company nor any Subsidiary is an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940, as amended, or an "investment adviser" within the meaning of the Investment Advisers Act of 1940, as amended.

8P. **Disclosure.** Neither this Agreement nor any other document, certificate or statement furnished to any Purchaser by or on behalf of the Company in connection herewith contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein and therein, taken as a whole, not misleading. There is no fact peculiar to the Company or any of its Subsidiaries which materially adversely affects or in the future may reasonably be expected (so far as the Company can now foresee) to materially adversely affect the business, property or assets, condition (financial or otherwise) or operations of the Company or any of its Subsidiaries and which has not been set forth in this Agreement.

8Q. **Rule 144A.** The Notes are not of the same class as securities of the Company, if any, listed on a national securities exchange, registered under Section 6 of the Exchange Act or quoted in a U.S. automated inter-dealer quotation system.

8R. **Delivery of Bank Agreement.** The Company has delivered to each Purchaser a true, correct and complete copy of the Bank Agreement, including all amendments and waivers of any provision thereof.

8S. **Hostile Tender Offers.** None of the proceeds of the sale of any Notes will be used to finance a Hostile Tender Offer.

8T. **Subsidiaries.** As of the date hereof, the Company has no Subsidiaries other than those described in*Schedule 8T*.

8U. **Ownership.**

(a) The General Partner is the sole general partner of the Company, and the Limited Partner is the sole limited partner of the Company. As of the date hereof, (i) the General Partner is the legal and

beneficial owner of 0.001% of the partnership interests in the Company, and (ii) the Limited Partner is the legal and beneficial owner of 99.999% of the partnership interests in the Company and 100% of the membership interests of the General Partner. No part of the partnership interests in the Company or the membership interests of the General Partner is subject to any Lien, other than preferential rights of the Partners under the Company Partnership Agreement and Liens in favor of the Collateral Agent.

(b) As of the date hereof, the equity interests in the Subsidiaries are legally and beneficially owned by the Persons, and by such Persons in the percentages, specified in *Schedule 8T*. No part of such equity interests is subject to any Lien, other than in favor of the Collateral Agent.

8V. **Natural Gas Act.** Neither the Company nor any Subsidiary is subject to the jurisdiction of the Federal Energy Regulatory Commission under the Natural Gas Act of 1938, as amended.

9. **REPRESENTATIONS OF THE PURCHASERS.** Each Purchaser represents as follows:

9A. **Nature of Purchase.** Such Purchaser is not acquiring the Notes purchased by it hereunder with a view to or for sale in connection with any distribution thereof within the meaning of the Securities Act, *provided* that the disposition of such Purchaser's property shall at all times be and remain within its control. Such Purchaser is an "accredited investor" within the meaning of Regulation D under the Securities Act. Such Purchaser understands that the Notes have not been registered under the Securities Act and may be resold only if registered pursuant to the provisions of the Securities Act or if an exemption from registration is available, except under circumstances where neither such registration nor such exemption is required by law, and that the Company is not required to register the Notes.

9B. **Source of Funds.** At least one of the following statements is an accurate representation as to each source of funds (the "**Source**") to be used by such Purchaser to pay the purchase price of the Notes to be purchased by such Purchaser hereunder:

(i) the Source is an "insurance company general account" (as the term is defined in the United States Department of Labor's Prohibited Transaction Exemption ("**PTE**") 95-60) in respect of which the reserves and liabilities (as defined by the annual statement for life insurance companies approved by the National Association of Insurance Commissioners (the "**NAIC Annual Statement**")) for the general account contract(s) held by or on behalf of any employee benefit plan together with the amount of the reserves and liabilities for the general account contract(s) held by or on behalf of any other employee benefit plans maintained by the same employer (or affiliate thereof as defined in PTE 95-60) or by the same employee organization in the general account do not exceed 10% of the total reserves and liabilities of the general account (exclusive of separate account liabilities) plus surplus as set forth in the NAIC Annual Statement filed with such Purchaser's state of domicile; or

(ii) the Source is a separate account that is maintained solely in connection with such Purchaser's fixed contractual obligations under which the amounts payable, or credited, to any employee benefit plan (or its related trust) that has any interest in such separate account (or to any participant or beneficiary of such plan (including any annuitant)) are not affected in any manner by the investment performance of the separate account; or

(iii) the Source is either (a) an insurance company pooled separate account, within the meaning of PTE 90-1 or (b) a bank collective investment fund, within the meaning of the PTE 91-38 and, except as disclosed by such Purchaser to the Company in writing pursuant to this clause (iii), no employee benefit plan or group of plans maintained by the same employer or employee organization beneficially owns more than 10% of all assets allocated to such pooled separate account or collective investment fund; or

(iv) the Source constitutes assets of an "investment fund" (within the meaning of Part V of PTE 84-14 (the "**QPAM Exemption**")) managed by a "qualified professional asset manager" or "QPAM" (within the meaning of Part V of the QPAM Exemption), no employee benefit plan's assets that are included in such investment fund, when combined with the assets of all other employee benefit plans established or maintained by the same employer or by an affiliate (within the meaning of Section V(c)(1) of the QPAM Exemption) of such employer or by the same employee organization and managed by such QPAM, exceed 20% of the total client assets managed by such QPAM, the conditions of Part I(c) and (g) of the QPAM Exemption are satisfied, neither the QPAM nor a person controlling or controlled by the QPAM (applying the definition of "control" in Section V(e) of the QPAM Exemption) owns a 5% or more interest in the Company and (a) the identity of such QPAM and (b) the names of all employee benefit plans whose assets are included in such investment fund have been disclosed to the Company in writing pursuant to this clause (iv); or

(v) the Source constitutes assets of a "plan(s)" (within the meaning of Section IV of PTE 96-23 (the "**INHAM Exemption**")) managed by an "in-house asset manager" or "INHAM" (within the meaning of Part IV of the INHAM exemption), the conditions of Part I(a), (g) and (h) of the INHAM Exemption are satisfied, neither the INHAM nor a person controlling or controlled by the INHAM (applying the definition of "control" in Section IV(h) of the INHAM Exemption) owns a 5% or more interest in the Company and (a) the identity of such INHAM and (b) the name(s) of the employee benefit plan(s) whose assets constitute the Source have been disclosed to the Company in writing pursuant to this clause (v); or

(vi) the Source is a governmental plan; or

(vii) the Source is one or more employee benefit plans, or a separate account or trust fund comprised of one or more employee benefit plans, each of which has been identified to the Company in writing pursuant to this clause (vii); or

(viii) the Source does not include assets of any employee benefit plan, other than a plan exempt from the coverage of ERISA.

As used in this paragraph 9B, the terms "employee benefit plan," "governmental plan," and "separate account" shall have the respective meanings assigned to such terms in Section 3 of ERISA.

10. **DEFINITIONS; ACCOUNTING MATTERS.** For the purpose of this Agreement, the terms defined in paragraphs 10A and 10B (or within the text of any other paragraph) shall have the respective meanings specified therein and all accounting matters shall be subject to determination as provided in paragraph 10D.

10A. **Yield-Maintenance Terms.**

"**Called Principal**" means, with respect to any Note, the principal of such Note that is to be prepaid pursuant to paragraph 4B or is declared to be immediately due and payable pursuant to paragraph 7A, as the context requires.

"**Designated Spread**" shall mean 1.00% in the case of each Series A Note and 0% in the case of each Note of any other Series unless the Confirmation of Acceptance with respect to the Notes of such Series specifies a different Designated Spread in which case it shall mean, with respect to each Note of such Series, the Designated Spread so specified.

"**Discounted Value**" means, with respect to the Called Principal of any Note, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (as converted to reflect the

periodic basis on which interest on such Note is payable, if payable other than on a semi-annual basis) equal to the Reinvestment Yield with respect to such Called Principal.

"**Reinvestment Yield**" means, with respect to the Called Principal of any Note, the Designated Spread over the yield to maturity implied by (i) the yields reported as of 10:00 a.m. (New York City local time) on the Business Day next preceding the Settlement Date with respect to such Called Principal for actively traded U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date on the Treasury Yield Monitor page of Standard & Poor's MMS—Treasury Market Insight (or, if Standard & Poor's shall cease to report such yields in MMS—Treasury Market Insight or shall cease to be Prudential Capital Group's customary source of information for calculating yield-maintenance amounts on privately placed notes, then such source as is then Prudential Capital Group's customary source of such information), or if such yields shall not be reported as of such time or the yields reported as of such time shall not be ascertainable, (ii) the Treasury Constant Maturity Series yields reported, for the latest day for which such yields shall have been so reported as of the Business Day next preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15(519) (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. Such implied yield shall be determined, if necessary, by (a) converting U.S. Treasury bill quotations to bond equivalent yields in accordance with accepted financial practice and (b) interpolating linearly between yields reported for various maturities. The Reinvestment Yield shall be rounded to that number of decimal places as appears in the coupon of the applicable Note.

"**Remaining Average Life**" means, with respect to the Called Principal of any Note, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (i) such Called Principal into (ii) the sum of the products obtained by multiplying (a) each Remaining Scheduled Payment of such Called Principal (but not of interest thereon) by (b) the number of years (calculated to the nearest one-twelfth year) which will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

"**Remaining Scheduled Payments**" means, with respect to the Called Principal of any Note, all payments of such Called Principal and interest thereon that would be due on or after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date.

"**Settlement Date**" means, with respect to the Called Principal of any Note, the date on which such Called Principal is to be prepaid pursuant to paragraph 4B or is declared to be immediately due and payable pursuant to paragraph 7A, as the context requires.

"**Yield-Maintenance Amount**" means, with respect to any Note, an amount equal to the excess, if any, of the Discounted Value of the Called Principal of such Note over the sum of (i) such Called Principal plus (ii) interest accrued thereon as of (including interest due on) the Settlement Date with respect to such Called Principal. The Yield-Maintenance Amount shall in no event be less than zero.

10B. **Other Terms.**

"**Acceptable Security Interest**" in any Property means a Lien which (a) exists in favor of the Collateral Agent for its benefit and the ratable benefit of the Holders, the Administrative Agent, the Banks and the Bank Affiliates that are parties to any Hydrocarbon Hedge Agreement or Interest Rate Contract with the Company or any of its Subsidiaries, (b) is superior to all other Liens, except Permitted Liens, (c) secures the Obligations and, if outstanding, the Bank Obligations and obligations of the Company to the Banks and Affiliates of the Banks in respect of Interest Rate Contracts and Hydrocarbon Hedge Agreements (so long as, with respect to the Bank or Affiliate thereof, the Bank remains a Bank under the Bank Agreement) and (d) is perfected and enforceable.

"**Acceptance**" shall have the meaning specified in paragraph 2F.

"**Acceptance Day**" shall have the meaning specified in paragraph 2F.

"**Acceptance Window**" shall have the meaning specified in paragraph 2F.

"**Accepted Note**" shall have the meaning specified in paragraph 2F.

"**Accounts**" means the unpaid portion of the obligations to the Company and its Subsidiaries of customers of the Company and its Subsidiaries to pay for goods sold and shipped or services rendered (net of commissions to agents).

"**Acquisition**" means the direct or indirect purchase or acquisition, whether in one or more related transactions, by the Company or any of its Subsidiaries of any Person or group of Persons (or any equity interest in any Person or group of Persons) or any related group of assets, liabilities or securities of any Person or group of Persons, other than acquisitions of Property in the ordinary course of business.

"**Additional Covenant**" shall mean any affirmative or negative covenant or similar restriction applicable to the Company or any Subsidiary (regardless of whether such provision is labeled or otherwise characterized as a covenant) the subject matter of which either (i) is similar to that of any covenant in paragraph 5 or 6 of this Agreement, or related definitions in paragraph 10 of this Agreement, but contains one or more percentages, amounts or formulas that is more restrictive than those set forth herein or more beneficial to the holder or holders of the Indebtedness created or evidenced by the document in which such covenant or similar restriction is contained (and such covenant or similar restriction shall be deemed an Additional Covenant only to the extent that is more restrictive or more beneficial) or (ii) is different from the subject matter of any covenants in paragraph 5 or 6 of this Agreement, or related definitions in paragraph 10 of this Agreement.

"**Additional Default**" shall mean any provision contained in any document or instrument creating or evidencing Debt of the Company or any Subsidiary which permits the holder or holders of Debt to accelerate (with the passage of time or giving of notice or both) the maturity thereof or otherwise requires the Company or any Subsidiary to purchase such Debt prior to the stated maturity thereof and which either (i) is similar to any Default or Event of Default contained in paragraph 7 of this Agreement, or related definitions in paragraph 10 of this Agreement, but contains one or more percentages, amounts or formulas that is more restrictive or has a shorter grace period than those set forth herein or is more beneficial to the holders of such other Debt (and such provision shall be deemed an Additional Default only to the extent that it is more restrictive, has a shorter grace period or is more beneficial) or (ii) is different from the subject matter of any Default or Event of Default contained in paragraph 7 of this Agreement, or related definitions in paragraph 10 of this Agreement.

"**Administrative Agent**" means Union Bank of California, N.A., in its capacity as administrative agent pursuant to the Bank Agreement and any successor administrative agent appointed pursuant to the provisions thereof.

"**Affiliate**" means, as to any Person, any other Person that, directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, such Person or any Subsidiary of such Person. The term "control" (including the terms "controlled by" or "under common control with") means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of voting securities, by contract or otherwise.

"**Agreement**" has the meaning specified in paragraph 11C.

"**Agreement in Principle**" means that certain letter dated March 11, 2003 from Prudential to the Company.

"**Approved Consultant's Report**" means a report by Barnes & Click, Inc., Purvin & Gertz, Oil & Gas Advisors, Inc. or another consultant selected by the Company and reasonably acceptable to the Required Holders confirming that the assumptions used by the Company in the adjustment of EBITDA in connection with any Acquisition are reasonable.

"**Assigned Agreements**" means (a) the "Assigned Agreements" as defined in the Company Security Agreement and (b) the "Assigned Agreements" as defined in the Guarantor Security Agreement.

"**Authorized Officer**" shall mean (i) in the case of the Company, the chief executive officer, chief financial officer or any vice president of the General Partner designated as an "Authorized Officer" of the Company for the purpose of this Agreement in an Officer's Certificate executed by the General Partner's chief executive officer or chief financial officer and delivered to Prudential, and (ii) in the case of Prudential, any officer of Prudential designated as its "Authorized Officer" in the *Purchaser Schedule* or any officer of Prudential designated as its "Authorized Officer" for the purpose of this Agreement in a certificate executed by one of its Authorized Officers. Any action taken under this Agreement on behalf of the Company by any individual who on or after the date of this Agreement shall have been an Authorized Officer of the Company and whom Prudential in good faith believes to be an Authorized Officer of the Company at the time of such action shall be binding on the Company even though such individual shall have ceased to be an Authorized Officer of the Company, and any action taken under this Agreement on behalf of Prudential by any individual who on or after the date of this Agreement shall have been an Authorized Officer of Prudential and whom the Company in good faith believes to be an Authorized Officer of Prudential at the time of such action shall be binding on Prudential even though such individual shall have ceased to be an Authorized Officer of Prudential.

"**Available Cash**" for any fiscal quarter has the meaning set forth in the Company Partnership Agreement.

"**Available Facility Amount**" shall have the meaning specified in paragraph 2A.

"**Bank Agreement**" means the Second Amended and Restated Credit Agreement dated as of November 26, 2002 among the Company, the Banks, Union Bank of California, N.A., as Administrative Agent, and The Royal Bank of Canada, as Syndication Agent, as amended by that certain First Amendment thereto dated June 3, 2003, and as further amended, modified or supplemented from time-to-time.

"**Bank Agreement Documents**" means the "Credit Documents" as defined in the Bank Agreement on the date hereof.

"**Bank Obligations**" means the "Obligations," as such term is defined in the Bank Agreement on the date hereof.

"**Bankruptcy Law**" shall have the meaning specified in clause (viii) of paragraph 7A.

"**Banks**" means the lenders listed on the signature pages of the Bank Agreement and each Eligible Assignee (as defined in the Bank Agreement) that shall become a party to the Bank Agreement pursuant to the terms thereof.

"**Borrowing Base**" means the amount that is available to be advanced to the Company under a committed, revolving credit facility (without regard to outstanding advances thereunder).

"**Business Day**" means any day other than (i) a Saturday or a Sunday, (ii) a day on which commercial banks in New York City are required or authorized to be closed and (iii) for purposes of paragraph 2C hereof only, a day on which Prudential is not open for business.

"**Cancellation Date**" shall have the meaning specified in paragraph 2I(3).

"**Cancellation Fee**" shall have the meaning specified in paragraph 2I(3).

"**Capital Leases**" means, as applied to any Person, any lease of any Property by such Person as lessee which would, in accordance with GAAP, be required to be classified and accounted for as a capital lease on the balance sheet of such Person.

"**CERCLA**" means the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, state and local analogs, and all rules and regulations and requirements thereunder in each case as now or hereafter in effect.

"**CERCLIS**" means the Comprehensive Environmental Response, Compensation and Liability Information System maintained by the U.S. Environmental Protection Agency.

"**Change of Control**" means (a) the General Partner is no longer the sole general partner of the Company, (b) the Limited Partner is no longer the sole limited partner of the Company, or (c) individuals who, at the beginning of any period of 12 consecutive months, constitute the General Partner's Board of Directors cease for any reason (other than death or disability) to constitute a majority of the General Partner's Board of Directors then in office.

"**Closing Day**" means, with respect to the Series A Notes, the Series A Closing and, with respect to any Accepted Note, the Business Day specified for the closing of the purchase and sale of such Accepted Note in the Request for Purchase of such Accepted Note, provided that (i) if the Company and the Purchasers which are obligated to purchase such Note agree in writing on an earlier Business Day for such closing, the "**Closing Day**" for such Accepted Note shall be such earlier Business Day, and (ii) if the closing of the purchase and sale of such Accepted Note is rescheduled pursuant to paragraph 2H, the Closing Day for such Accepted Note, for all purposes of this Agreement except references to "original Closing Day" in paragraph 2I(3), shall mean the Rescheduled Closing Day with respect to such Accepted Note.

"**Code**" means the Internal Revenue Code of 1986, as amended, and any successor statute.

"**Collateral**" means all Collateral as defined in each of the Security Agreements, in each of the Pledge Agreements and in each of the Mortgages.

"**Collateral Agent**" means Union Bank of California, N.A., in its capacity as collateral agent pursuant to the Intercreditor Agreement and any successor collateral agent appointed pursuant to the provisions thereof.

"**Company Partnership Agreement**" means the Amended and Restated Agreement of Limited Partnership of the Company dated December 17, 2002 between the General Partner and the Limited Partner, as the same may be amended, modified or supplemented from time-to-time as permitted by this Agreement.

"**Company Security Agreement**" means the Amended and Restated Borrower Security Agreement between the Company and the Collateral Agent in form and substance reasonably satisfactory to the Collateral Agent and the Required Holders, substantially in the form of *Exhibit G* attached hereto, as amended by the First Amendment thereto dated as of June 3, 2003, and as it may be further amended, modified or supplemented from time-to-time.

"**Confirmation of Acceptance**" shall have the meaning specified in paragraph 2F.

"**Consolidated**" refers to the consolidation of the accounts of the Company and its Subsidiaries in accordance with GAAP, including, when used in reference to the Company, principles of consolidation consistent with those applied in the preparation of the financial statements referred to in paragraphs 5A and 8B.

"**Debt**" for any Person, means, without duplication,

(a) indebtedness of such Person for borrowed money;

(b) obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(c) obligations of such Person to pay the deferred purchase price of Property or services (other than trade payables which are not more than 90 days past due, except for any such trade payables which are being contested in good faith and by appropriate proceedings);

(d) all indebtedness created or arising under any conditional-sale or other title-retention agreement with respect to property acquired by such Person (even though the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property);

(e) obligations of such Person as lessee under Capital Leases;

(f) obligations of such Person under any Hydrocarbon Hedge Agreement or Interest Rate Contract;

(g) reimbursement obligations of such Person in respect of letters of credit, acceptance facilities, drafts or similar instruments issued or accepted by banks and other financial institutions for the account of such Person;

(h) obligations of such Person under direct or indirect guaranties in respect of, and obligations (contingent or otherwise) of such Person to purchase or otherwise acquire, or otherwise to assure a creditor against loss in respect of, another's indebtedness or obligations of the kinds referred to in clauses (a) through (g) above; and

(i) another's indebtedness or obligations of the kinds referred to in clauses (a) through (h) secured by any Lien on or in respect of any Property of such Person; provided that the amount of such Debt, if such Person has not assumed the same or become liable therefore, shall in no event be deemed to be greater than the fair market value from time to time of the Property subject to such Lien.

"**Default Rate**" means, for any Note at any time upon the occurrence of an Event of Default and until such Event of Default has been cured or waived in writing, a rate of interest per annum from time to time equal to the lesser of (i) the maximum rate permitted by applicable law and (ii) the greater of (a) 2% over the coupon rate for such Note over the rate of interest in effect immediately prior to such Event of Default and (b) 2.0% over the rate of interest publicly announced by The Bank of New York from time to time in New York City as its Prime Rate.

"**Delayed Delivery Fee**" shall have the meaning specified in paragraph 2I(3).

"**Duke**" means Duke Energy Field Services, L.P.

"**Duke Acquisition**" means the acquisition by the Company of certain Properties owned by Duke as further described in the Duke Purchase Agreement.

"**Duke Acquisition Closing**" means the day upon which Accepted Notes are issued by the Company in connection with its consummation of the Duke Acquisition.

"**Duke Acquisition Documents**" means the Duke Purchase Agreement and all other agreements, instruments or documents executed in connection therewith or otherwise related to the Duke Acquisition.

"**Duke Purchase Agreement**" means a purchase and sale agreement between the Company and Duke providing for the sale by Duke of the Properties described therein in form and substance satisfactory to the Purchasers, as such agreement may be amended, modified or supplemented.

"**EBITDA**" means, for the Company and its Subsidiaries on a Consolidated basis for any period, (a) Net Income for such period plus (b) to the extent deducted in determining Net Income, Interest Expense, taxes, depreciation, amortization and other non-cash items for such period, losses directly related to Enron Corp. and its Affiliates, and up to $500,000 in expenses incurred during the fiscal quarters ended March 31, 2002 and June 30, 2002. EBITDA shall be calculated, on a pro forma basis, after giving effect to, without duplication, (a) any Acquisition or (b) any construction of Property, in each case, occurring during the period commencing on the first day of such period to and including the date of such transaction (the "**Reference Period**") and whether or not such acquired or constructed Property were operated during such Reference Period, as if such Acquisition or construction or acquisition of Property occurred on the first day of the Reference Period. In making the calculation contemplated by the preceding sentence, EBITDA generated by such acquired Person or by such acquired or constructed Property shall be determined in good faith by the Company based on reasonable assumptions and may take into account pro forma expenses that would have been incurred by the Company and its Subsidiaries in the operation of such acquired Person or acquired or constructed Property during such period computed on the basis of personnel expenses for employees retained or to be retained by the Company and its Subsidiaries in the operation of such acquired Person or acquired or constructed Property and non-personnel costs and expenses incurred by the Company and its Subsidiaries in the operation of the Company's business at similarly situated facilities of the Company or any of its Subsidiaries; *provided, however*, that if the amount of EBITDA attributable thereto exceeds 10% of the EBITDA for the Company and its Subsidiaries on a Consolidated basis prior to such adjustment, then the pro forma EBITDA attributable thereto shall be supported by an Approved Consultant's Report.

"**Environmental Law**" means any Governmental Rule relating to pollution or protection of the environment or any natural resource, to any Hazardous Material or to health or safety, including any Governmental Rule relating to the use, handling, transportation, treatment, storage, disposal, release or discharge of any Hazardous Material.

"**Environmental Permit**" means any Governmental Action required under any Environmental Law.

"**Environmental Proceeding**" means any action, suit, written demand, demand letter, claim, notice of noncompliance or violation, notice of liability or potential liability, investigation, proceeding, consent order or consent agreement relating in any way to any Environmental Law, any Environmental Permit or any Hazardous Material or arising from alleged injury or threat to health, safety or the environment, including (a) by any Governmental Person for enforcement, cleanup, removal, response, remedial or other action or damages and (b) by any Person for damages, contribution, indemnification, cost recovery, compensation or injunctive relief.

"**Equity Contribution Proceeds**" means all cash and Permitted Investments received by the Company or any of its Subsidiaries from any equity contribution by the Partners.

"**ERISA**" means the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations promulgated and rulings issued thereunder.

"**ERISA Affiliate**" means any Person that for purposes of Title IV of ERISA is a member of the Company's controlled group, or is under common control with the Company, within the meaning of Section 414 of the Code and the regulations promulgated and rulings issued thereunder.

"**Event of Default**" means any of the events specified in paragraph 7A, provided that there has been satisfied any requirement in connection with such event for the giving of notice, or the lapse of time, or the happening of any further condition, event or act, and "**Default**" shall mean any of such events, whether or not any such requirement has been satisfied.

"**Exchange Act**" means the Securities Exchange Act of 1934, as amended.

"**Facility**" shall have the meaning specified in paragraph 2A.

"**Facility Fee**" shall have the meaning specified in paragraph 2I(1).

"**Funded Debt**" of any Person means Debt of such Person as described in clauses (a), (b), (d) and (e) of the definition of "**Debt**" in this paragraph 10B.

"**GAAP**" means United States generally accepted accounting principles as in effect from time to time, applied on a basis consistent with the requirements of paragraph 10D.

"**General Partner**" means Crosstex Energy Services GP, LLC, a Delaware limited liability company.

"**Governmental Action**" means any authorization, approval, consent, waiver, exception, license, filing, registration, permit, notarization or other requirement of any Governmental Person.

"**Governmental Person**" means, whether domestic or foreign, any national, federal, state or local government, any political subdivision thereof, or any governmental, quasi-governmental, judicial, public or statutory instrumentality, authority, body or entity, including any central bank and any comparable authority.

"**Governmental Rule**" means any treaty, law, rule, regulation, ordinance, order, code, interpretation, judgment, writ, injunction, decree, determination, award, directive, guideline, request, policy or similar form of decision of any Governmental Person, referee or arbitrator.

"**Guarantor**" means as of the date hereof, the Limited Partner and each of the Persons listed on *Schedule 10B(3)*, and thereafter, each of the present and future direct and indirect Material Subsidiaries of the Company, and "**Guarantors**" means all such Guarantors collectively.

"**Guarantor Security Agreement**" means the Amended and Restated Subsidiary Security Agreement between each of the Guarantors and the Collateral Agent, in substantially the form of *Exhibit H* attached hereto, as amended by the First Amendment thereto, dated as of June 3, 2003, and as further amended, modified or supplemented from time-to-time.

"**Guaranty**" means (a) the Guaranty executed by the Limited Partner and (b) each of the Guaranties executed by each Guarantor, in substantially the respective forms of *Exhibits F-1 and F-2* attached hereto, as each may be amended from time-to-time, and "**Guaranties**" shall mean all such Guaranties collectively.

"**Hazardous Material**" means any substance or material described as a toxic or hazardous substance, waste or material or as a pollutant, contaminant or infectious waste, or words of similar import, in any Environmental Law, including asbestos, petroleum (including crude oil and any fraction thereof, natural gas, natural-gas liquid, liquefied natural gas and synthetic gas usable for fuel, and any mixture of any of the foregoing), polychlorinated biphenyls, urea formaldehyde, radon gas, radioactive matter, and chemicals that may cause cancer or reproductive toxicity.

"**Hedge Treasury Note(s)**" means, with respect to any Accepted Note, the United States Treasury Note or Notes whose duration (as determined by Prudential) most closely matches the duration of such Accepted Note.

"**Holder**" means a holder of Notes and "**Holders**" means the holders of the Notes from time to time.

"**Hostile Tender Offer**" means, with respect to the use of proceeds of any Note, any offer to purchase, or any purchase of, shares of capital stock of any corporation or equity interests in any other entity, or securities convertible into or representing the beneficial ownership of, or rights to acquire, any such shares or equity interests, if such shares, equity interests, securities or rights are of a class which is publicly traded on any securities exchange or in any over-the-counter market, other than purchases of such shares, equity interests, securities or rights representing less than 5% of the equity

interests or beneficial ownership of such corporation or other entity for portfolio investment purposes, and such offer or purchase has not been duly approved by the board of directors of such corporation or the equivalent governing body of such other entity prior to the date on which the Company makes the Request for Purchase of such Note.

"**Hydrocarbon Hedge Agreement**" means a swap, collar, floor, cap, option or other derivative contract which is intended to reduce or eliminate the risk of fluctuations in the price of Hydrocarbons.

"**Hydrocarbons**" means oil, gas, coal seam gas, casinghead gas, drip gasoline, natural gasoline, condensate, distillate, and all other liquid and gaseous hydrocarbons produced or to be produced in conjunction therewith from a well bore and all products, by-products, and other substances derived therefrom or the processing thereof, and all other minerals and substances produced in conjunction with such substances, including, but not limited to, sulfur, geothermal steam, water, carbon dioxide, helium, and any and all minerals, ores, or substances of value and the products and proceeds therefrom.

"**including**" means, unless the context clearly requires otherwise, "including without limitation".

"**INHAM Exemption**" shall have the meaning set forth in paragraph 9B.

"**Intercreditor Agreement**" means the Intercreditor and Collateral Agency Agreement in substantially the form of*Exhibit I* attached hereto, as it may be amended, modified or supplemented from time-to-time in accordance with its terms.

"**Interest Charge Coverage Ratio**" means, for the Company and its Subsidiaries on a Consolidated basis, as of the end of any fiscal quarter, the ratio of (a) EBITDA for the four-fiscal quarter period then ended to (b) Interest Expense for the four-fiscal quarter period then ended.

"**Interest Expense**" means, for the Company and its Subsidiaries determined on a Consolidated basis, for any period, the total interest, letter of credit fees, and other fees incurred in connection with any Debt for such period, whether paid or accrued, including, without limitation, all commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financing, all as determined in conformity with GAAP and on a pro forma basis at any time that EBITDA is being determined on such a basis.

"**Interest Rate Contract**" means an interest rate protection agreement, interest rate future, interest rate option, interest rate swap, interest rate cap, collar or other interest rate hedge arrangement, to or under which the Company or any Subsidiary is or becomes a party.

"**Issuance Period**" shall have the meaning specified in paragraph 2B.

"**Letter of Credit**" means, individually, any letter of credit issued by the issuing Bank which is subject to the Bank Agreement and "Letters of Credit" means all such letters of credit collectively.

"**Leverage Ratio**" means, for the Company and its Subsidiaries on a Consolidated basis, as of the end of any fiscal quarter, the ratio of (a) Funded Debt for the Company and its Subsidiaries on a Consolidated basis as of the end of such fiscal quarter to (b) EBITDA for the four fiscal quarters then ended.

"**Lien**" means, with respect to any Property, (a) any lien, charge, option, claim, deed of trust, mortgage, security interest, pledge or other encumbrance, or any other type of preferential arrangement of any kind, in respect of such Property, including any easement, right of way or other encumbrance on title to real property, or (b) the interest of a vendor or lessor under any conditional-sale agreement, capital lease or other title-retention agreement relating to such Property.

"**Limited Partner**" means Crosstex Energy, L.P., a Delaware limited partnership.

"**Loan Documents**" means, collectively, the Agreement in Principle, this Agreement, the Notes, the Security Documents, the Guaranties, the Intercreditor Agreement, each Confirmation of Acceptance and each other agreement, instrument or document executed at any time in connection with the foregoing documents, as each such Loan Document may be amended, modified or supplemented from time-to-time.

"**Material Adverse Effect**" shall mean a material adverse effect on (a) the business, assets, condition (financial or otherwise), operations, performance, properties or prospects of the Company and its Subsidiaries taken as a whole, or (b) the validity or enforceability of any Loan Document or the rights or remedies of the Holders or the Collateral Agent under any Loan Document.

"**Material Subsidiaries**" means shall mean a Subsidiary of the Company having: (a) assets of $3,000,000 or more or (b) EBITDA (calculated on a separate basis) of $500,000 or more.

"**Maximum Rate**" means the maximum nonusurious interest rate under applicable law.

"**Moody's**" means Moody's Investors Service, Inc. and any successor thereto.

"**Mortgaged Property**" means the aggregate of all of the "**Mortgaged Property**" and "**Trust Property**" as defined in all of the Mortgages.

"**Mortgages**" means, collectively, each mortgage, deed of trust or other similar agreement executed by the Company or any Subsidiary in favor of the Collateral Agent for its benefit and the ratable benefit of the Banks and the Holders, in form and substance reasonably satisfactory to the Collateral Agent and the Required Holder(s), as the same may be amended, modified or supplemented from time-to-time.

"**Multiemployer Plan**" means a "multiemployer plan," as defined in Section 4001(a)(3) of ERISA and subject to Title IV thereof, to which the Company or any ERISA Affiliate is making or accruing an obligation to make contributions, or has within any of the preceding five plan years made or accrued an obligation to make contributions, such plan being maintained pursuant to one or more collective-bargaining agreements.

"**Multiple Employer Plan**" means a "single employer plan," as defined in Section 4001(a)(15) of ERISA and subject to Title IV thereof, that (a) is maintained by the Company or an ERISA Affiliate and at least one Person other than the Company and its ERISA Affiliates or (b) was so maintained previously, but is not currently maintained by the Company or its ERISA Affiliates, and in respect of which the Company or an ERISA Affiliate would still have liability under Section 4063, 4064 or 4069 of ERISA in the event such plan has been or were to be terminated.

"**NAIC Annual Statement**" shall have the meaning set forth in paragraph 9B.

"**Net Income**" means, for any period for which such amount is being determined, the Consolidated net income of the Company and its Subsidiaries, as determined in accordance with GAAP consistently applied, excluding, however, any net gain or loss from extraordinary items, including but not limited to any net gain or loss during such period arising from the sale, exchange, or other disposition of capital assets other than in the ordinary course of business.

"**Notes**" shall have the meaning specified in paragraph 1.

"**Obligations**" means (a) the principal, interest, fees, Yield-Maintenance Amount, charges, expenses, attorneys' fees and disbursements, indemnities and any other amounts payable by the Company and the Guarantors to the Collateral Agent and the Holders under the Loan Documents and (b) any amount in respect to any of the foregoing that the Collateral Agent or any Holder, in its sole discretion, elects to pay or advance on behalf of the Company or any Guarantor after the occurrence and during the continuance of an Event of Default.

"**Officer's Certificate**" means a certificate signed in the name of the Company by an Authorized Officer of the Company.

"**Partners**" means the General Partner and the Limited Partner.

"**PBGC**" means the Pension Benefit Guaranty Corporation.

"**Permitted Investments**" means investments having a maturity of not greater than 3 months from the date of acquisition thereof in (a) obligations issued or unconditionally guaranteed by the United States of America or issued by any agency thereof and backed by the full faith and credit of the United States of America, (b) demand deposits and certificates of deposit (located in the United States of America) of any Bank or any other commercial bank organized under the laws of the United States of America or any state thereof and having combined capital and surplus of at least $500,000,000, (c) commercial paper with a rating of at least "Prime-l" by Moody's or "A-l" by S&P or (d) other investments agreed to from time to time between the Company and the Required Holders.

"**Permitted Liens**" means such of the following as to which no enforcement, collection, execution, levy or foreclosure proceeding has been commenced: (a) Liens for taxes, assessments and governmental charges or levies, to the extent the same are being contested in good faith by proper proceedings and appropriate reserves are being maintained for the same; (b) Liens imposed by law, such as materialmen's, mechanics', carriers', workmen's, repairmen's and bankers' Liens and other similar Liens arising in the ordinary course of business securing obligations that are not overdue for a period of more than 60 days or that are being contested in good faith and by proper proceedings and as to which appropriate reserves are being maintained; (c) pledges or deposits to secure obligations under workers' compensation laws or similar legislation or to secure public or statutory obligations; (d) easements, rights of way, landlord's liens and other encumbrances on title to real property that do not render title to the property encumbered thereby unmarketable or materially and adversely affect the value of such property or the use of such property by the Company or any Subsidiary for its current purposes; (e) deposits to secure the performance of bids, trade contracts (other than for borrowed money), leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of like nature incurred in the ordinary course of business; and (f) Liens arising by reason of any judgment or order of any Governmental Person, referee or arbitrator if appropriate legal proceedings for the review of such judgment or order are being diligently prosecuted and execution or enforcement thereof is stayed pending appeal.

"**Person**" means an individual, partnership, corporation (including a business trust), limited liability partnership, limited liability company, joint stock company, trust, unincorporated association, joint venture or other entity, or a government or any political subdivision or agency thereof or any trustee, receiver, custodian or similar official.

"**PICA**" means The Prudential Insurance Company of America.

"**Pipeline Entities**" means Crosstex Pipeline, LLC, a Texas limited liability company, and Crosstex Pipeline Partners, Ltd., a Texas limited partnership.

"**Plan**" means a Single Employer Plan or a Multiple Employer Plan.

"**Pledge Agreements**" means (a) the Amended and Restated Pledge Agreement among the Partners and the Collateral Agent in substantially the form of*Exhibit J* attached hereto, (b) the Amended and Restated Pledge Agreement between Crosstex Treating Services, GP, LLC and the Collateral Agent in substantially the form of *Exhibit K* attached hereto, each as amended by the respective First Amendments thereto dated as of June 3, 2003, and (c) the Pledge Agreement, dated as of June 3, 2003, between Crosstex Acquisition Management GP and the Collateral Agent in substantially the form of *Exhibit L* attached hereto, in each case as the same may hereafter be amended, modified or supplemented from time-to-time.

"**Property**" of any Person means any property or assets (whether real, personal, or mixed, tangible or intangible) of such Person.

"**Prudential**" means Prudential Investment Management, Inc.

"**Prudential Affiliate**" means (i) any corporation or other entity controlling, controlled by, or under common control with, Prudential either directly or through subsidiaries and (ii) any managed account or investment fund which is managed by Prudential or a Prudential Affiliate described in clause (i) of this definition. For purposes of this definition, the terms "control", "controlling" and "controlled" shall mean the ownership, directly or through subsidiaries, of a majority of a corporation's or other entity's Voting Stock or equivalent voting securities or interests.

"**Purchasers**" means PICA and Pruco Life Insurance Company with respect to the Series A Notes and, with respect to any Accepted Notes, Prudential and/or the Prudential Affiliate(s) which are purchasing such Accepted Notes.

"**QPAM Exemption**" shall have the meaning set forth in paragraph 9B.

"**Renewal Fee**" shall have the meaning specified in paragraph 2I(5).

"**Request for Purchase**" shall have the meaning specified in paragraph 2D.

"**Required Holder(s)**" means the Holder or Holders of at least 50.1% of the aggregate principal amount of the Notes outstanding at such time.

"**Rescheduled Closing Day**" shall have the meaning specified in paragraph 2H(3).

"**Responsible Officer**" means the Chief Executive Officer, President, Chief Financial Officer, any Senior Vice President, any Vice President, Treasurer or Assistant Treasurer of the General Partner.

"**S&P**" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., and any successor thereto.

"**SEC**" means the Securities and Exchange Commission (or any governmental body or agency succeeding to the function of the Securities and Exchange Commission.)

"**Securities Act**" means the Securities Act of 1933, as amended.

"**Security Agreements**" means, collectively, the Company Security Agreement and the Guarantor Security Agreement.

"**Security Documents**" means, collectively, (a) the Pledge Agreements, (b) the Security Agreements, (c) the Mortgages, (d) each other agreement, instrument or document executed at any time in connection with the Pledge Agreements, Security Agreements or the Mortgages, and (e) each other agreement, instrument or document executed at any time in connection with securing the Obligations.

"**Series**" shall have the meaning specified in paragraph 1.

"**Series A Closing**" shall have the meaning specified in paragraph 2H(1).

"**Series A Note(s)**" shall have the meaning specified in paragraph 2H(1).

"**Single Employer Plan**" means a single employer plan, as defined in Section 4001(a)(15) of ERISA and subject to Title IV thereof, that (a) is maintained by the Company or an ERISA Affiliate and no Person other than the Company and its ERISA Affiliates or (b) was so maintained previously, but is not currently maintained by the Company or its ERISA Affiliates, and in respect of which the Company or an ERISA Affiliate would still have liability under Section 4069 of ERISA in the event such plan has been or were to be terminated.

"**Subsidiary**" of a Person means any corporation or other entity of which more than 50% of the outstanding capital stock or other equity ownership interests having ordinary voting power to elect a majority of the board of directors of such corporation (irrespective of whether at such time capital stock of any other class or classes or other equity ownership interests of such corporation shall or might have voting power upon the occurrence of any contingency) is at the time directly or indirectly owned by such Person, by such Person and one or more Subsidiaries of such Person or by one or more Subsidiaries of such Person.

"**Tangible Net Worth**" means the excess of total assets over total liabilities, total assets and total liabilities each to be determined in accordance with GAAP; *excluding, however*, from the determination of total assets (a) goodwill, organizational expenses, research and development expenses, trademarks, trade names, copyrights, patents, patent applications, licenses and rights in any thereof, and other similar intangibles, including the value of contracts for the marketing of natural gas, (b) all unamortized debt discount and expense, (c) all reserves carried and not deducted from assets, (d) treasury stock and capital stock, obligations or other securities of, or capital contributions to, or investments in, any Subsidiary, (e) securities that are not readily marketable (other than securities of the Pipeline Entities and other Person engaged in lines of business in which the Company is engaged), (f) cash held in a sinking or other analogous fund established for the purpose of redemption, retirement or prepayment of capital stock or Debt, (g) any write-up in the book value of any asset resulting from a revaluation thereof, (h) notes receivable from current or former officers, employees or equity-holders of the Company or any Subsidiary, (i) cash pledged or deposited for the purposes described in clauses (c) and (e) of the definition of "**Permitted Liens**" in this paragraph 10B and (j) any items not included in clauses (a) through (i) above that are treated as intangibles in conformity with GAAP.

"**Transferee**" means any direct or indirect transferee of all or any part of any Note purchased by any Purchaser under this Agreement.

"**Voting Stock**" means, with respect to any corporation, any shares of stock of such corporation whose holders are entitled under ordinary circumstances to vote for the election of directors of such corporation (irrespective of whether at the time stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency).

10C. **Computation of Time Periods.** In the Loan Documents in the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including" and the words "to" and "until" each mean "to but excluding".

10D. **Accounting Terms; Changes in GAAP.**

(i) All accounting terms not specifically defined in this Agreement shall be construed in accordance with GAAP applied on a consistent basis with those applied in the preparation of the Financial Statements.

(ii) Unless otherwise indicated, all financial statements of the Company and its Subsidiaries, all calculations for compliance with covenants in this Agreement and all calculations of any amounts to be calculated under the definitions in this Agreement shall be based upon the Consolidated accounts of the Company and its Subsidiaries in accordance with GAAP and consistent with the principles applied in preparing the most recent audited financial statements delivered pursuant to clause (ii) or paragraph 5A or, if no such statements have been so delivered, the most recent audited financial statements referred to in clause (i) of paragraph 8B. If at any time any change in GAAP would affect the computation of any financial ratio or requirement set forth in any Loan Document, and either the Company or the Required Holders shall so request, the Required Holders and the Company shall negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change in GAAP, *provided* that,

until so amended, (i) such ratio or requirement shall continue to be computed in accordance with GAAP prior to such change therein and (ii) the Company shall provide to the Holders financial statements and other documents required under this Agreement or as reasonably requested hereunder setting forth a reconciliation between calculations of such ratio or requirement made before and after giving effect to such change in GAAP.

10E. **Miscellaneous.** Paragraph, Schedule and Exhibit references are to paragraphs of and Schedules and Exhibits to this Agreement, unless otherwise specified.

11. **MISCELLANEOUS.**

11A. **Note Payments.** The Company agrees that, so long as any Purchaser shall hold any Note, it will make payments of principal of, interest on, and any Yield-Maintenance Amount payable with respect to, such Note, which comply with the terms of this Agreement, by wire transfer of immediately available funds for credit (not later than 12:00 noon, New York City local time, on the date due) to the account or accounts of such Purchaser, if any, as are specified in the *Purchaser Schedule*, attached hereto or to the applicable Confirmation of Acceptance, or, in the case of any Purchaser not named in the *Purchaser Schedule* or any Purchaser wishing to change the account specified for it in the *Purchaser Schedule,* such account or accounts in the United States as such Purchaser may from time to time designate in writing, notwithstanding any contrary provision herein or in any Note with respect to the place of payment. Each Purchaser agrees that, before disposing of any Note, it will make a notation thereon (or on a schedule attached thereto) of all principal payments previously made thereon and of the date to which interest thereon has been paid. The Company agrees to afford the benefits of this paragraph 11A to any Transferee which shall have made the same agreement as the Purchasers have made in this paragraph 11A. No Holder shall be required to present or surrender any Note or make any notation thereon, except that upon written request of the Company made concurrently with or reasonably promptly after payment or prepayment in full of any Note, the applicable Holder shall surrender such Note for cancellation, reasonably promptly after any such request, to the Company at its principal executive office.

11B. **Expenses.** The Company agrees, whether or not the transactions contemplated hereby shall be consummated, to pay, and save Prudential, each Purchaser and any Transferee harmless against liability for the payment of, all out-of-pocket expenses arising in connection with such transactions, including:

(i) (A) all stamp and documentary taxes and similar charges, (B) costs of obtaining a private placement number for the Notes and (C) fees and expenses of brokers, agents, dealers, investment banks or other intermediaries or placement agents, in each case as a result of the execution and delivery of this Agreement or the issuance of the Notes;

(ii) document production and duplication charges and the fees and expenses of any special counsel engaged by Prudential or such Purchaser or such Transferee in connection with (A) this Agreement and the transactions contemplated hereby and (B) any subsequent proposed waiver, amendment or modification of, or proposed consent under, this Agreement, whether or not such the proposed action shall be effected or granted;

(iii) the costs and expenses, including attorneys' and financial advisory fees, incurred by Prudential or such Purchaser or such Transferee or the Collateral Agent (a) in enforcing (or determining whether or how to enforce) any rights under the Loan Documents or (b) in responding to any subpoena or other legal process or informal investigative demand issued in connection with the Loan Documents or the transactions contemplated thereby or issued by reason of Prudential or such Purchaser's or such Transferee's having acquired any Note, including without limitation costs and expenses incurred in any workout, restructuring or renegotiation proceeding or bankruptcy case;

(iv) any judgment, liability, claim, order, decree, cost, fee, expense, action or obligation resulting from the consummation of the transactions contemplated by the Loan Documents, including the use of the proceeds of the Notes by the Company; and

(v) the fees and expenses of the Collateral Agent.

The obligations of the Company under this paragraph 11B shall survive the transfer of any Note or portion thereof or interest therein by any Purchaser or Transferee and the payment of any Note.

11C. **Consent to Amendments.** This Agreement may be amended, and the Company may take any action herein prohibited, or omit to perform any act herein required to be performed by it, if the Company shall obtain the written consent to such amendment, action or omission to act, of the Required Holder(s) *except* that, (i) *with* the written consent of the Holders of all Notes of a particular Series, and if an Event of Default shall have occurred and be continuing, of the Holders of all Notes of all Series, at the time outstanding (and not without such written consents), the Notes of such Series may be amended or the provisions thereof waived to change the maturity thereof, to change or affect the principal thereof, or to change or affect the time of payment of, or increase the rate of, interest on or any Yield-Maintenance Amount payable with respect to the Notes of such Series, (ii) *without* the written consent of all of the Holders at the time outstanding, no amendment to or waiver of the provisions of this Agreement shall change or affect the provisions of paragraph 7A or this paragraph 11C insofar as such provisions relate to proportions of the principal amount of the Notes, or the rights of any individual Holder, required with respect to any declaration of Notes to be due and payable or with respect to any consent, amendment, waiver or declaration, (iii) *with* the written consent of Prudential (and not without the written consent of Prudential) the provisions of paragraph 2 may be amended or waived (except insofar as any such amendment or waiver would affect any rights or obligations with respect to the purchase and sale of Notes which shall have become Accepted Notes prior to such amendment or waiver), and (iv) *with* the written consent of all of the Purchasers which shall have become obligated to purchase Accepted Notes of any Series (and not without the written consent of all such Purchasers), any of the provisions of paragraphs 2 and 3 may be amended or waived insofar as such amendment or waiver would affect only rights or obligations with respect to the purchase and sale of the Accepted Notes of such Series or the terms and provisions of such Accepted Notes. Each Holder of any Note at the time or thereafter outstanding shall be bound by any consent authorized by this paragraph 11C, whether or not such Note shall have been marked to indicate such consent, but any Notes issued thereafter may bear a notation referring to any such consent. No course of dealing between the Company and any Holder nor any delay in exercising any rights hereunder or under any Note shall operate as a waiver of any rights of any Holder of such Note. As used herein and in the Notes, the term "**this Agreement**" and references thereto shall mean this Agreement as it may from time to time be amended or supplemented.

11D. **Form, Registration, Transfer and Exchange of Notes; Lost Notes.** The Notes are issuable as registered notes without coupons in denominations of at least $100,000, except as may be necessary to reflect any principal amount not evenly divisible by $100,000. The Company shall keep at its principal office a register in which the Company shall provide for the registration of Notes and of transfers of Notes. Upon surrender for registration of transfer of any Note at the principal office of the Company, the Company shall, at its expense, execute and deliver one or more new Notes of like tenor and of a like aggregate principal amount, registered in the name of such transferee or transferees. At the option of the Holder of any Note, such Note may be exchanged for other Notes of like tenor and of any authorized denominations, of a like aggregate principal amount, upon surrender of the Note to be exchanged at the principal office of the Company. Whenever any Notes are so surrendered for exchange, the Company shall, at its expense, execute and deliver the Notes which the Holder making the exchange is entitled to receive. Each installment of principal payable on each installment date upon each new Note issued upon any such transfer or exchange shall be in the same proportion to the unpaid principal amount of such new Note as the installment of principal payable on such date on the

Note surrendered for registration of transfer or exchange bore to the unpaid principal amount of such Note. No reference need be made in any such new Note to any installment or installments of principal previously due and paid upon the Note surrendered for registration of transfer or exchange. Every Note surrendered for registration of transfer or exchange shall be duly endorsed, or be accompanied by a written instrument of transfer duly executed, by the Holder of such Note or such Holder's attorney duly authorized in writing. Any Note or Notes issued in exchange for any Note or upon transfer thereof shall carry the rights to unpaid interest and interest to accrue which were carried by the Note so exchanged or transferred, so that neither gain nor loss of interest shall result from any such transfer or exchange. Upon receipt of written notice from the Holder of any Note of the loss, theft, destruction or mutilation of such Note and, in the case of any such loss, theft or destruction, upon receipt of such Holder's unsecured indemnity agreement, or in the case of any such mutilation upon surrender and cancellation of such Note, the Company will make and deliver a new Note, of like tenor, in lieu of the lost, stolen, destroyed or mutilated Note.

11E. **Persons Deemed Owners; Participations.** Prior to due presentment for registration of transfer, the Company may treat the Person in whose name any Note is registered as the owner and holder of such Note for the purpose of receiving payment of principal of and interest on, and any Yield-Maintenance Amount payable with respect to, such Note and for all other purposes whatsoever, whether or not such Note shall be overdue, and the Company shall not be affected by notice to the contrary. Subject to the preceding sentence, the Holder of any Note may from time to time grant participations in all or any part of such Note to any Person on such terms and conditions as may be determined by such Holder in its sole and absolute discretion.

11F. **Survival of Representations and Warranties; Entire Agreement.** All representations and warranties contained herein or made in writing by or on behalf of the Company in connection herewith shall survive the execution and delivery of this Agreement and the Notes, the transfer by any Purchaser of any Note or portion thereof or interest therein and the payment of any Note, and may be relied upon by any Transferee, regardless of any investigation made at any time by or on behalf of any Purchaser or any Transferee. Subject to the preceding sentence, this Agreement and the other Loan Documents embody the entire agreement and understanding between the parties hereto with respect to the subject matter hereof and supersede all prior agreements and understandings relating to such subject matter.

11G. **Successors and Assigns.** All covenants and other agreements in this Agreement contained by or on behalf of any of the parties hereto shall bind and inure to the benefit of the respective successors and assigns of the parties hereto (including, without limitation, any Transferee) whether so expressed or not.

11H. **Independence of Covenants.** All covenants hereunder shall be given independent effect so that if a particular action or condition is prohibited by any one of such covenants, the fact that it would be permitted by an exception to, or otherwise be in compliance within the limitations of, another covenant shall not avoid the occurrence of a Default or Event of Default if such action is taken or such condition exists.

11I. **Notices.** All written communications provided for hereunder (other than communications provided for under paragraph 2) shall be sent by first class mail or nationwide overnight delivery service (with charges prepaid) and (i) if to any Purchaser, addressed as specified for such communications in the *Purchaser Schedule* attached hereto (in the case of the Series A Notes) or the *Purchaser Schedule* attached to the applicable Confirmation of Acceptance (in the case of any Notes issued after the date hereof) or at such other address as any such Purchaser shall have specified to the Company in writing, (ii) if to any other Holder of any Note, addressed to it at such address as it shall have specified in writing to the Company, or, if any such Holder shall not have so specified an address, then addressed to such Holder in care of the last Holder of such Note which shall have so specified an

address to the Company and (iii) if to the Company, addressed to it at 2501 Cedar Springs, Suite 600, Dallas, Texas 75201, Attention: William W. Davis;*provided, however*, that any such communication to the Company may also, at the option of the Person sending such communication, be delivered by any other means either to the Company at its address specified above or to any Authorized Officer of the Company. Any communication pursuant to paragraph 2 shall be made by the method specified for such communication in paragraph 2, and shall be effective to create any rights or obligations under this Agreement only if, in the case of a telephone communication, an Authorized Officer of the party conveying the information and of the party receiving the information are parties to the telephone call, and in the case of a telecopier communication, the communication is signed by an Authorized Officer of the party conveying the information, addressed to the attention of an Authorized Officer of the party receiving the information, and in fact received at the telecopier terminal the number of which is listed for the party receiving the communication in the *Purchaser Schedule* or at such other telecopier terminal as the party receiving the information shall have specified in writing to the party sending such information.

11J. **Payments Due on Non-Business Days.** Anything in this Agreement or the Notes to the contrary notwithstanding, any payment of principal of or interest on, or Yield-Maintenance Amount payable with respect to, any Note that is due on a date other than a Business Day shall be made on the next succeeding Business Day. If the date for any payment is extended to the next succeeding Business Day by reason of the preceding sentence, the period of such extension shall not be included in the computation of the interest payable on such Business Day.

11K. **Severability.** Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

11L. **Descriptive Headings.** The descriptive headings of the several paragraphs of this Agreement are inserted for convenience only and do not constitute a part of this Agreement.

11M. **Satisfaction Requirement.** If any agreement, certificate or other writing, or any action taken or to be taken, is by the terms of this Agreement required to be satisfactory to Prudential, any Purchaser, to any Holder or to the Required Holder(s), then (unless stated otherwise) the determination of such satisfaction shall be made by Prudential, such Purchaser, such Holder or the Required Holder(s), as the case may be, in the sole and exclusive judgment (exercised in good faith) of the Person or Persons making such determination.

11N. **Governing Law.** THIS AGREEMENT 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.

11O. **Severalty of Obligations.** The sales of Notes to the Purchasers are to be several sales, and the obligations of Prudential and the Purchasers under this Agreement are several obligations. No failure by Prudential or any Purchaser to perform its obligations under this Agreement shall relieve any other Purchaser or the Company of any of its obligations hereunder, and neither Prudential nor any Purchaser shall be responsible for the obligations of, or any action taken or omitted by, any other such Person hereunder.

11P. **Counterparts.** This Agreement may be executed in any number of counterparts, each of which shall be an original, but all of which together shall constitute one instrument.

11Q. **Binding Agreement.** When this Agreement is executed and delivered by the Company and Prudential, it shall become a binding agreement between the Company and Prudential. This Agreement shall also inure to the benefit of each Purchaser which shall have executed and delivered a

Confirmation of Acceptance, and each such Purchaser shall be bound by this Agreement to the extent provided in such Confirmation of Acceptance.

11R. **Waiver of Jury Trial; Consent to Jurisdiction.**

(i) THE COMPANY, PRUDENTIAL AND EACH HOLDER HEREBY KNOWINGLY, VOLUNTARILY, AND INTENTIONALLY WAIVE ANY RIGHTS THEY MAY HAVE TO A TRIAL BY JURY IN ANY LITIGATION OF ANY CLAIM WHICH IS BASED HEREON, OR ARISES OUT OF, UNDER, OR IN CONNECTION WITH THIS AGREEMENT, THE NOTES OR THE OTHER LOAN DOCUMENTS, OR ANY TRANSACTIONS RELATING HERETO OR THERETO, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER ORAL OR WRITTEN), OR ACTIONS OF THE COMPANY, PRUDENTIAL OR THE HOLDERS. THE COMPANY ACKNOWLEDGES THAT THIS PROVISION IS A MATERIAL INDUCEMENT FOR PRUDENTIAL AND EACH PURCHASER TO BECOME A PARTY TO THIS AGREEMENT AND TO PURCHASE NOTES HEREUNDER.

(ii) ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT, THE NOTES, THE OTHER LOAN DOCUMENTS OR ANY TRANSACTIONS RELATING HERETO OR THERETO, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER ORAL OR WRITTEN), OR ACTIONS OF THE COMPANY, PRUDENTIAL OR THE HOLDERS MAY BE BROUGHT IN THE COURTS OF THE STATE OF NEW YORK OR THE UNITED STATES OF AMERICA FOR THE SOUTHERN DISTRICT OF NEW YORK, AND THE COMPANY HEREBY ACCEPTS FOR ITSELF AND IN RESPECT OF ITS PROPERTY, GENERALLY AND UNCONDITIONALLY, THE NONEXCLUSIVE JURISDICTION OF THE AFORESAID COURTS. THE COMPANY, PRUDENTIAL AND EACH HOLDER HEREBY IRREVOCABLY WAIVE ANY OBJECTIONS, INCLUDING, WITHOUT LIMITATION, ANY OBJECTION TO THE LAYING OF VENUE OR BASED ON THE GROUNDS OF FORUM NON CONVENIENS, WHICH THEY MAY NOW OR HEREAFTER HAVE TO THE BRINGING OF ANY SUCH ACTION OR PROCEEDING IN SUCH RESPECTIVE JURISDICTIONS.

(iii) The Company hereby irrevocably consents to service of process on it at the address provided for notices in paragraph 11I. Any and all service of process and any other notice in any such action, suit or proceeding shall be effective against the Company if given by registered or certified mail, return receipt requested, or by any other means or mail which requires a signed receipt, postage prepaid, mailed to the Company as provided in the preceding sentence.

11S. **Maximum Interest Payable.** The Company, Prudential, each Purchaser and any other Holders specifically intend and agree to limit contractually the amount of interest payable under this Agreement, the Notes, the other Loan Documents and all other instruments and agreements related hereto and thereto to the maximum amount of interest lawfully permitted to be charged under applicable law. Therefore, none of the terms of this Agreement, the Notes, the other Loan Documents or any instrument pertaining to or relating to this Agreement, the Notes or the other Loan Documents shall ever be construed to create a contract to pay interest at a rate in excess of the maximum rate permitted to be charged under applicable law, and neither Company, any guarantor nor any other party liable or to become liable hereunder or under the Notes, any guaranty, any other Loan Document or any other instruments and agreements related hereto and thereto shall ever be liable for interest in excess of the amount determined at such maximum rate, and the provisions of this paragraph 11S shall control over all other provisions of this Agreement, any Notes, the other Loan Documents, any guaranty or any other instrument pertaining to or relating to the transactions herein contemplated. If any amount of interest taken or received by Prudential, any Purchaser or any Holder shall be in excess of said maximum amount of interest which, under applicable law, could lawfully have been collected by Prudential, such Purchaser or such Holder incident to such transactions, then such excess shall be deemed to have been the result of a mathematical error by all parties hereto and shall be refunded

promptly by the Person receiving such amount to the party paying such amount, or, at the option of the recipient, credited ratably against the unpaid principal amount of the Note or Notes held by Prudential, such Purchaser or such Holder, respectively. All amounts paid or agreed to be paid in connection with such transactions which would under applicable law be deemed "interest" shall, to the extent permitted by such applicable law, be amortized, prorated, allocated and spread throughout the stated term of this Agreement and the Notes. "**Applicable law**" as used in this paragraph means that law in effect from time to time which permits the charging and collection of the highest permissible lawful, nonusurious rate of interest on the transactions herein contemplated, and "**maximum rate**" as used in this paragraph means, with respect to each of the Notes, the maximum lawful, nonusurious rates of interest (if any) which under applicable law may be charged to the Company from time to time with respect to such Notes.

If you are in agreement with the foregoing, please sign the form of acceptance on the enclosed counterpart of this letter and return the same to the Company, whereupon this letter shall become a binding agreement between the Company and you.

Very truly yours,

CROSSTEX ENERGY SERVICES, L.P.

By: Crosstex Energy Services GP, LLC,
its general partner

By: ______________________________

Name:
Title:

The foregoing Agreement is hereby accepted
as of the date first above written.

PRUDENTIAL INVESTMENT MANAGEMENT, INC.

By: ______________________________
Vice President

**THE PRUDENTIAL INSURANCE COMPANY
OF AMERICA**

By: ______________________________
Vice President

PRUCO LIFE INSURANCE COMPANY

By: ______________________________
Vice President

FORM OF PURCHASER SCHEDULE

INFORMATION SCHEDULE

	Aggregate Principal Amount of Notes to be Purchased	Note Denomination(s)
THE PRUDENTIAL INSURANCE COMPANY OF AMERICA	**$ 29,000,000**	$ 29,000,000 (RA-1)

(1) All payments on account of Notes held by such purchaser shall be made by wire transfer of immediately available funds for credit to:

Account No.: 890-0304-391
The Bank of New York
New York, NY
(ABA No.: 021-000-018)

Each such wire transfer shall set forth the name of the Company, a reference to "6.95% Senior Secured Notes, Series A, due June 1, 2010, Security No. !INV 8455!, PPN 22767# AA 1", and the due date and application (as among principal, interest and Yield-Maintenance Amount) of the payment being made.

(2) Address for all notices relating to payments:

The Prudential Insurance Company of America
c/o Investment Operations Group
Gateway Center Two, 10th Floor
100 Mulberry Street
Newark, New Jersey 07102-4077

Attention: Manager, Billings and Collections

(3) Address for all other communications and notices:

The Prudential Insurance Company of America
c/o Prudential Capital Group
2200 Ross Avenue, Suite 4200E
Dallas, Texas 75201

Attention: Managing Director

(4) Recipient of telephonic prepayment notices:

Manager, Trade Management Group

Telephone: (973) 367-3141
Facsimile: (800) 224-2278

(5) Tax Identification No.: 22-1211670

(6) Authorized Officers:

Randall M. Kob
Ric E. Abel
Jay D. Squiers
Brian N. Thomas

	Aggregate Principal Amount of Notes to be Purchased	Note Denomination(s)
PRUCO LIFE INSURANCE COMPANY	**$ 1,000,000**	$ 1,000,000 (RA-2)

(1) All payments on account of Notes held by such purchaser shall be made by wire transfer of immediately available funds for credit to:

Account No.: 890-0304-421
The Bank of New York
New York, NY
(ABA No.: 021-000-018)

Each such wire transfer shall set forth the name of the Company, a reference to "6.95% Senior Secured Notes, Series A, due June 1, 2010, Security No. !INV 8455!, PPN 22767# AA 1", and the due date and application (as among principal, interest and Yield-Maintenance Amount) of the payment being made.

(2) Address for all notices relating to payments:

Pruco Life Insurance Company
c/o The Prudential Insurance Company of America
c/o Investment Operations Group
Gateway Center Two, 10th Floor
100 Mulberry Street
Newark, New Jersey 07102-4077

Attention: Manager, Billings and Collections

(3) Address for all other communications and notices:

Pruco Life Insurance Company
c/o Prudential Capital Group
2200 Ross Avenue, Suite 4200E
Dallas, Texas 75201

Attention: Managing Director

(4) Recipient of telephonic prepayment notices:

Manager, Trade Management Group

Telephone: (973) 367-3141
Facsimile: (800) 224-2278

(5) Tax Identification No.: 22-1944557

(6) Authorized Officers:

Randall M. Kob
Ric E. Abel
Jay D. Squiers
Brian N. Thomas

PRUDENTIAL INVESTMENT MANAGEMENT, INC.

(1) All payments to Prudential shall be made by wire transfer of immediately available funds for credit to:

Account No.: 890-0496-916

The Bank of New York
New York, NY
(ABA No.: 021-000-018)

(2) Address for all other communications and notices:

Prudential Investment Management, Inc.
c/o Prudential Capital Group
2200 Ross Avenue, Suite 4200E
Dallas, TX 75201

Attention: Managing Director

(3) Tax Identification No.: 22-2540245

(4) Authorized Officers:

Randall M. Kob
Ric E. Abel
Jay D. Squiers
Brian N. Thomas
or any other Vice President of Prudential

SCHEDULE 6C(2)

EXISTING DEBT

Promissory Note in the amount of $800,000 dated June 7, 2002 made payable by Crosstex Energy Services, Ltd. to the order of Florida Gas Transmission Company

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SCHEDULE 8G

LIST OF AGREEMENTS RESTRICTING DEBT

The Bank Agreement

SCHEDULE 8T

LIST OF SUBSIDIARIES

Subsidiary	Owner(s)	Interest(s)
Crosstex Gulf Coast Transmission Ltd.	Company	99.999% limited partnership interest
	Crosstex Energy Services GP, LLC	..001% general partnership interest

Crosstex Gulf Coast Marketing Ltd.	Company	99.999% limited partnership interest
	Crosstex Energy Services GP, LLC	..001% general partnership interest
Crosstex Pipeline, LLC	Company	100% membership interest
Crosstex CCNG Marketing Ltd.	Company	99.999% limited partnership interest
	Crosstex Energy Services GP, LLC	..001% general partnership interest
Crosstex CCNG Gathering Ltd.	Company	99.999% limited partnership interest
	Crosstex Energy Services GP, LLC	..001% general partnership interest
Crosstex CCNG Processing Ltd.	Company	99.999% limited partnership interest
	Crosstex Energy Services GP, LLC	..001% general partnership interest
Crosstex CCNG Transmission Ltd.	Company	99.999% limited partnership interest
	Crosstex Energy Services GP, LLC	..001% general partnership interest
Crosstex Pipeline Partners, Ltd.	Company	Approximately 21% limited partnership interest
	Crosstex Pipeline, LLC	Approximately 1% general partnership interest
	Various others	Approximately 78% limited partnership interest
Crosstex Treating Services, L.P.	Company	99.999% limited partnership interest
	Crosstex Treating Services GP, LLC	..001% general partnership interest
Crosstex Acquisition Management GP, LLC	Company	100% membership interest
Crosstex Alabama Gathering System, L.P.	Company	99.999% limited partnership interest
	Crosstex Acquisition Management GP, LLC	..001% general partnership interest
Crosstex Mississippi Industrial Gas Sales, L.P.	Company	99.999% limited partnership interest
	Crosstex Acquisition Management GP, LLC	..001% general partnership interest
Crosstex Mississippi Pipeline, L.P.	Company	99.999% limited partnership interest
	Crosstex Acquisition Management GP, LLC	..001% general partnership interest
Crosstex Seminole Gas, L.P.	Company	99.999% limited partnership interest
	Crosstex Acquisition Management GP, LLC	..001% general partnership interest
Crosstex Acquisition Management, L.P.	Company	99.999% limited partnership interest
	Crosstex Acquisition Management GP, LLC	..001% general partnership interest
Crosstex Treating Services GP, LLC	Company	100% membership interests

SCHEDULE 10B(3)

EXISTING GUARANTORS

Crosstex Energy, L.P.
Crosstex Gulf Coast Transmission Ltd.
Crosstex Gulf Coast Marketing Ltd.
Crosstex CCNG Marketing Ltd.
Crosstex CCNG Gathering Ltd.
Crosstex CCNG Processing Ltd.
Crosstex CCNG Transmission Ltd.
Crosstex Treating Services, L.P.
Crosstex Alabama Gathering System, L.P.
Crosstex Mississippi Industrial Gas Sales, L.P.
Crosstex Mississippi Pipeline, L.P.
Crosstex Seminole Gas, L.P.
Crosstex Acquisition Management, L.P.

[FORM OF NOTE]

CROSSTEX ENERGY SERVICES, L.P.

% SENIOR SECURED NOTE, SERIES , DUE 20

No. R-
ORIGINAL PRINCIPAL AMOUNT:
ORIGINAL ISSUE DATE:
INTEREST RATE:
INTEREST PAYMENT DATES:
FINAL MATURITY DATE:
PRINCIPAL INSTALLMENT DATES AND AMOUNTS:

FOR VALUE RECEIVED, the undersigned, CROSSTEX ENERGY SERVICES, L.P. (herein called the "**Company**"), a limited partnership formed and existing under the laws of the State of Delaware, hereby promises to pay to , or registered assigns, the principal sum of DOLLARS **[on the Final Maturity Date specified above] [, payable in installments on the Principal Installment Dates and in the amounts specified above, and on the Final Maturity Date specified above in an amount equal to the unpaid balance of the principal hereof,]** with interest (computed on the basis of a 360-day year—30-day month) (a) on the unpaid balance thereof from the date hereof at the Interest Rate per annum specified above, payable on each Interest Payment Date specified above and on the Final Maturity Date specified above, commencing with the Interest Payment Date next succeeding the date hereof, until the principal hereof shall have become due and payable, and (b) on the occurrence and during the continuance of an Event of Default, at the Default Rate with respect to any outstanding principal hereof, any overdue payment of interest and any overdue payment of any Yield-Maintenance Amount, payable quarterly as aforesaid (or, at the option of the registered holder hereof, on demand).

Payments of principal of, interest on and any Yield-Maintenance Amount payable with respect to this Note are to be made at the main office of The Bank of New York in New York City or at such other place as the holder hereof shall designate to the Company in writing, in lawful money of the United States of America.

This Note is one of a series of Senior Secured Notes (herein called the "**Notes**") issued pursuant to a Master Shelf Agreement, dated as of June 3, 2003 (herein called the "**Agreement**"), between the Company and Prudential Investment Management, Inc. and is entitled to the benefits thereof and of the other Loan Documents. As provided in the Agreement, this Note is subject to prepayment, in whole or from time to time in part, on the terms specified in the agreement. Capitalized terms used and not otherwise defined herein have the meanings specified in the Agreement.

This Note is a registered Note and, as provided in the Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for a like principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company shall not be affected by any notice to the contrary.

[The Company agrees to make required prepayments of principal on the dates and in the amounts specified in the Agreement.] [This Note is [also] subject to optional prepayment, in whole or from time to time in part, on the terms specified in the Agreement.]

In case an Event of Default, as defined in the Agreement, shall occur and be continuing, the principal of this Note may be declared or otherwise become due and payable in the manner and with the effect provided in the Agreement.

The Company and any and all endorsers, guarantors and sureties severally waive grace, demand, presentment for payment, notice of dishonor or default, notice of intent to accelerate, notice of acceleration (to the extent set forth in the Agreement), protest and diligence in collecting.

Should any indebtedness represented by this Note be collected at law or in equity, or in bankruptcy or other proceedings, or should this Note be placed in the hands of attorneys for collection, the Company agrees to pay, in addition to the principal, premium, if any, and interest due and payable hereon, all costs of collecting or attempting to collect this Note, including reasonable attorneys' fees and expenses (including those incurred in connection with any appeal).

The Company, and the purchaser and the registered holder of this Note specifically intend and agree to limit contractually the amount of interest payable under this Note to the maximum amount of interest lawfully permitted to be charged under applicable law. Therefore, none of the terms of this Note shall ever be construed to create a contract to pay interest at a rate in excess of the maximum rate permitted to be charged under applicable law, and neither the Company nor any other party liable or to become liable hereunder shall ever be liable for interest in excess of the amount determined at such maximum rate, and the provisions of paragraph 11S of the Agreement shall control over any contrary provision of this Note.

THIS NOTE IS INTENDED TO BE PERFORMED IN THE STATE OF NEW YORK AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAW OF SUCH STATE.

CROSSTEX ENERGY SERVICES, L.P.

By: Crosstex Energy Services GP, LLC,
its general partner

By: ______________________

Name:
Title:

EXHIBIT A-2

[FORM OF SERIES A NOTE]

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, AND MAY BE TRANSFERRED ONLY PURSUANT TO AN EXEMPTION FROM SUCH REGISTRATION

CROSSTEX ENERGY SERVICES, L.P.

6.95% SENIOR SECURED NOTE, SERIES A, DUE 2010

No. RA- PPN: 22767# AA 1

ORIGINAL PRINCIPAL AMOUNT:	$
ORIGINAL ISSUE DATE:	June 3, 2003
INTEREST RATE:	6.95%
INTEREST PAYMENT DATES:	March 1, June 1, September 1 and December 1 of each year commencing September 1, 2003
FINAL MATURITY DATE:	June 1, 2010

PRINCIPAL INSTALLMENT DATES AND AMOUNTS: As set forth in *Schedule A*

FOR VALUE RECEIVED, the undersigned, CROSSTEX ENERGY SERVICES, L.P. (herein called the "**Company**"), a limited partnership formed and existing under the laws of the State of Delaware, hereby promises to pay to , or registered assigns, the principal sum of DOLLARS, payable in installments on the Principal Installment Dates and in the amounts specified above, and on the Final Maturity Date specified above in an amount equal to the unpaid balance of the principal hereof, with interest (computed on the basis of a 360-day year—30-day month) (a) on the unpaid balance thereof from the date hereof at the Interest Rate per annum specified above, payable on each Interest Payment Date specified above and on the Final Maturity Date specified above, commencing with the Interest Payment Date next succeeding the date hereof, until the principal hereof shall have become due and payable, and (b) on the occurrence and during the continuance of an Event of Default, at the Default Rate with respect to any outstanding principal hereof, any overdue payment of interest and any overdue payment of any Yield-Maintenance Amount, payable quarterly as aforesaid (or, at the option of the registered holder hereof, on demand).

Payments of principal of, interest on and any Yield-Maintenance Amount payable with respect to this Note are to be made at the main office of The Bank of New York in New York City or at such other place as the holder hereof shall designate to the Company in writing, in lawful money of the United States of America.

This Note is one of a series of Senior Secured Notes (herein called the "**Notes**") issued pursuant to a Master Shelf Agreement, dated as of June 3, 2003 (herein called the "**Agreement**"), between the Company and Prudential Investment Management, Inc. and is entitled to the benefits thereof and of the other Loan Documents. As provided in the Agreement, this Note is subject to prepayment, in whole or from time to time in part, on the terms specified in the agreement. Capitalized terms used and not otherwise defined herein have the meanings specified in the Agreement.

This Note is a registered Note and, as provided in the Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney duly authorized in writing, a new Note for a like principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company shall not be affected by any notice to the contrary.

The Company agrees to make required prepayments of principal on the dates and in the amounts specified in the Agreement. This Note is also subject to optional prepayment, in whole or from time to time in part, on the terms specified in the Agreement.

In case an Event of Default, as defined in the Agreement, shall occur and be continuing, the principal of this Note may be declared or otherwise become due and payable in the manner and with the effect provided in the Agreement.

The Company and any and all endorsers, guarantors and sureties severally waive grace, demand, presentment for payment, notice of dishonor or default, notice of intent to accelerate, notice of acceleration (to the extent set forth in the Agreement), protest and diligence in collecting.

Should any indebtedness represented by this Note be collected at law or in equity, or in bankruptcy or other proceedings, or should this Note be placed in the hands of attorneys for collection, the Company agrees to pay, in addition to the principal, premium, if any, and interest due and payable hereon, all costs of collecting or attempting to collect this Note, including reasonable attorneys' fees and expenses (including those incurred in connection with any appeal).

The Company, and the purchaser and the registered holder of this Note specifically intend and agree to limit contractually the amount of interest payable under this Note to the maximum amount of interest lawfully permitted to be charged under applicable law. Therefore, none of the terms of this Note shall ever be construed to create a contract to pay interest at a rate in excess of the maximum rate permitted to be charged under applicable law, and neither the Company nor any other party liable or to become liable hereunder shall ever be liable for interest in excess of the amount determined at such maximum rate, and the provisions of paragraph 11S of the Agreement shall control over any contrary provision of this Note.

THIS NOTE IS INTENDED TO BE PERFORMED IN THE STATE OF NEW YORK AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAW OF SUCH STATE.

CROSSTEX ENERGY SERVICES, L.P.

By: Crosstex Energy Services GP, LLC,
its general partner

By: ____________________

Name:
Title:

Schedule A

Principal Installment Dates and Amounts

Payment Date	Principal Payment
6/1/06	$1,764,706
9/1/06	1,764,706
12/1/06	1,764,706
3/1/07	1,764,706
6/1/07	1,764,706
9/1/07	1,764,706
12/1/07	1,764,706
3/1/08	1,764,706
6/1/08	1,764,706
9/1/08	1,764,706
12/1/08	1,764,706
3/1/09	1,764,706
6/1/09	1,764,706
9/1/09	1,764,706
12/1/09	1,764,706
3/1/10	1,764,706

Note: Each of the principal installment amounts listed above is in the aggregate for all Series A Notes.

EXHIBIT B

[To be placed on Company Letterhead]

[FORM OF REQUEST FOR PURCHASE]

REQUEST FOR PURCHASE

CROSSTEX ENERGY SERVICES, L.P.

Reference is made to the Master Shelf Agreement (the "**Agreement**"), dated as of June 3, 2003, between Crosstex Energy Services, L.P. (the "**Company**") and Prudential Investment Management, Inc. and the Purchasers of Notes thereunder. All terms used herein that are defined in the Agreement have the respective meanings specified in the Agreement.

Pursuant to paragraph 2D of the Agreement, the Company hereby makes the following Request for Purchase:

1. Aggregate principal amount of the Notes covered hereby (the "**Notes**") $

2. Individual specifications of the Notes:

Principal Amount	Final Maturity Date	Principal Installment Dates and Amounts	Interest Payment Period
			Quarterly

3. Use of proceeds of the Notes:

4. Proposed day for the closing of the purchase and sale of the Notes:
5. The purchase price of the Notes is to be transferred to:

Name and Address of Bank	Number of Account	Name and Telephone No. of Bank Officer

6. The Company certifies (a) that the representations and warranties contained in paragraph 8 of the Agreement and in the other Loan Documents are true on and as of the date of this Request for Purchase except to the extent of changes caused by the transactions contemplated in the Agreement and (b) that there exists on the date of this Request for Purchase no Event of Default or Default.

Dated:

CROSSTEX ENERGY SERVICES, L.P.

By: Crosstex Energy Services GP, LLC, its general partner

By:

Authorized Officer

EXHIBIT C

[FORM OF CONFIRMATION OF ACCEPTANCE]

CONFIRMATION OF ACCEPTANCE

CROSSTEX ENERGY SERVICES, L.P.

Reference is made to the Master Shelf Agreement (the **"Agreement"),** dated as of June 3, 2003, between Crosstex Energy Services, L.P. (the "Company") and Prudential Investment Management, Inc. and the Purchasers of Notes thereunder. All terms used herein that are defined in the Agreement have the respective meanings specified in the Agreement.

Each of the undersigned institutions which is named below as a Purchaser of any Accepted Notes hereby confirms the representations as to such Accepted Notes set forth in paragraph 9 of the Agreement, and agrees to be bound by the provisions of paragraphs 2F and 2H of the Agreement relating to the purchase and sale of such Accepted Notes.

Pursuant to paragraph 2F of the Agreement, an Acceptance with respect to the following Accepted Notes is hereby confirmed:

I. Aggregate principal amount $

(A) (a) Name of Purchaser:
(b) Principal amount:
(c) Final maturity date:
(d) Principal installment dates and amounts:
(e) Interest rate:
(f) Interest payment period:
(g) Payment and notice instructions: As set forth on attached Purchaser Schedule
(h) Designated spread:

(B) (a) Name of Purchaser:
(b) Principal amount:
(c) Final maturity date:
(d) Principal installment dates and amounts:
(e) Interest rate:
(f) Interest payment period:
(g) Payment and notice instructions: As set forth on attached Purchaser Schedule
(h) Designated spread:

[(C),(D)....: same information as to any other Purchaser]

II. Closing Day:

III. Facility Fee:

Dated:

CROSSTEX ENERGY SERVICES, L.P.

By: Crosstex Energy Services GP, LLC,
its general partner

By:

Name:
Title:

PRUDENTIAL INVESTMENT
MANAGEMENT, INC.

By:

Vice President

[Signature block for each named Purchaser other than Prudential]

EXHIBIT E

[FORM OF FUNDS DELIVERY INSTRUCTION LETTER]

[Company's Letterhead]

[Names and Addresses of Purchasers]

Re: **Funds Delivery Instruction**

Ladies and Gentlemen:

As contemplated by paragraph 2 of the Master Shelf Agreement, dated as of June 3, 2003, among Prudential Investment Management, Inc., the undersigned and you, the undersigned hereby instructs you to deliver, on the date of closing, the proceeds of the Notes in the manner required by paragraph 2 to the undersigned's account identified below:

Account Name:
Account No.:
Bank:
Bank City & State:
Bank ABA No.:
Reference:

This instruction has been executed and delivered by an authorized representative of the undersigned.

Very truly yours,

CROSSTEX ENERGY SERVICES, L.P.

By: Crosstex Energy Services GP, LLC,
its general partner

By: ____________________

Name:
Title:

QuickLinks

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 10.10

SEMINOLE GAS PROCESSING PLANT

GAINES COUNTY, TEXAS

JOINT OPERATING AGREEMENT

AND RELATED EXHIBITS

JANUARY 1, 1993

JOINT OPERATING AGREEMENT
SEMINOLE GAS PROCESSING PLANT
TABLE OF CONTENTS

JOINT OPERATING AGREEMENT
SEMINOLE GAS PROCESSING PLANT

THIS AGREEMENT dated October 1, 1992, shall be effective on the first day of the month following the approval of the Letter Ballot dated October 1, 1992, by and among the parties hereto, which are identified in Exhibit "A" of this Agreement.

WITNESSETH

WHEREAS, the parties listed on Exhibit "A" directly own undivided interests constituting one hundred percent (100%) ownership of a certain gas processing plant known as the "Seminole Gas Processing Plant" (previously known as the Seminole CO_2 Recovery Plant and hereinafter referred to as the "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; and

WHEREAS, the Plant has been operated heretofore solely as an integral part of the production activities undertaken by the parties under a certain Unit Operating Agreement and Unit Agreement both of which were executed as of May 1, 1968 and cover those certain oil and gas leases in the Seminole-San Andres Unit, Gaines County, Texas (hereinafter referred to as either the "SSAU" or the "Unit"); and

WHEREAS, it is contemplated that there will be substantial excess capacity available in the Plant even during the peak needs of the SSAU; and

WHEREAS, the Unit Operating Agreement and the Unit Agreement never contemplated or provided for the ownership, maintenance, and operation of a gas processing plant other than as an integral part of Unit operations; and

WHEREAS, the parties have agreed (1) to provide for the ownership, maintenance, and operation of the Plant as a co-owned operation, separate and distinct from Unit operations, and (2) to develop and implement a plan for the efficient and optimum economic utilization of the Plant;

NOW, THEREFORE, in consideration of the premises and mutual covenants and agreements herein contained, the parties have agreed and do hereby agree as follows:

I.
DEFINITIONS

A. "Carbon Dioxide" or "CO_2" shall mean a substance primarily composed of molecules containing one (1) atom of carbon and two (2) atoms of oxygen.

B. "Equipment," "Facilities," and "Materials" as used herein shall mean and include all supplies and personal property acquired for use in or in connection with the Plant.

C. "Field Delivery Point" shall mean any point specified in the applicable gas processing agreement at which gas being transported for processing in the Plan is initially measured.

D. "Gas" shall mean gas entering the Plant for processing which shall include casinghead gas produced with crude oil, natural gas produced from gas wells, and Carbon Dioxide.

E. "Liquid Products" shall mean all liquid hydrocarbon components or mixtures thereof separated from or out of Gas processed in the Plant, including, but not by way of limitation, pentane and heavier hydrocarbons (natural gasoline), butanes, propane, and ethane. Definitions and physical characteristics of the components shall be according to the latest publications of the Gas Processors Association.

F. "Non-Operator(s)" shall refer to the Owner(s) of interest(s) in the Plant, other than Operator.

G. "Operator" shall mean Plant Operator and shall refer to the one Owner designated herein to operate the Plant for the account of all Owners.

H. "Overall Operation(s)" or "Operation(s)" shall include the operation, maintenance, alteration and enlargement of the Plant, as herein defined.

I. "Owner(s)" shall refer to any and all parties participating in the ownership, maintenance, operation, enlargement or alteration of the Plant under this Agreement and having the right to so participate hereunder based on their ownership interest in the Plant as shown in Exhibit "A".

J. "Plant Ownership Interest" shall be as set forth in Exhibit "A" of this Agreement and may change from time to time as provided for under this Agreement.

K. "Plant Volume Reduction" (PVR) shall mean the reduction in the Gas volume through processing caused by sweetening, condensation, plant fuel, dehydration, unavoidable plant measurement differences, plant flare (or vent) losses, and extraction of Carbon Dioxide, Liquid Products and Sulfur.

L. "Producer(s)" shall mean any party who has entered into a gas processing agreement with the Operator on behalf of the Owners of the Plant.

M. "Residue Gas" shall mean that portion of the Gas remaining after PVR, as measured at the discharge side of the Plant.

N. "Seminole Gas Processing Plant" or "Seminole Plant" or "Plant" shall mean all buildings, vessels, machinery, equipment, fixtures, appliances, pipes, valves, fittings, gas lines, and material of every nature and kind comprising the Plant and located on the Plant site as shown on the map attached as Exhibit "F"; all easements, servitudes, permits or grants required for the operation of the Plant; and all other facilities and appurtenances deemed by the parties hereto to be necessary for the operation of the Plant and constructed by the parties hereto as a part of the Plant.

O. "SSAU Gas Processing Agreement" shall mean and refer to Exhibit "C" which sets forth the terms and conditions under which the Plant will process Gas produced from the SSAU.

P. "Sulfur" shall mean a naturally occurring element with an atomic number of 16 which is present as a contaminant in natural gas principally as hydrogen sulfide (H_2S).

Q. "Third Party Gas Processing Agreement" shall mean and refer to Exhibit "G" which sets forth the general terms and conditions under which the Plant will process Gas for parties other than the SSAU.

II.
EXHIBITS

The following Exhibits are attached and are made a part of this Agreement for all purposes:

Exhibit "A"—Plant Ownership Interest
Exhibit "B"—Accounting Procedure
Exhibit "C"—SSAU Gas Processing Agreement
Exhibit "D"—Tax Partnership Provisions
Exhibit "E"—Lease Agreement for Plant Site
Exhibit "F"—Survey Showing Plant Site
Exhibit "G"—Standard Form Third Party Gas Processing Agreement
Exhibit "H"—Certificate of Compliance with Federal Contract Requirements
Exhibit "I"—Seminole Gas Processing Plant Accounting Model

III.
PLANT SITE

The Plant is located on the tract of land owned by Amerada Hess Corporation and leased to the Owners under the Lease Agreement attached hereto as Exhibit "E" and as further described on the plat attached hereto as Exhibit "F".

IV.
PLANT OPERATOR

A. Amerada Hess Corporation is hereby designated Operator of the Plant to serve until it resigns or is removed in accordance with the provisions hereinafter set forth.

B. Subject to the limitations imposed herein, and except as otherwise provided, Operator shall have exclusive charge, control and supervision of Overall Operations of the Plant as permitted and required by and under this Agreement.

C. Operator shall supervise the operation, maintenance, alteration or enlargement of the Plant and conduct all operations hereunder in a good and workmanlike manner, and, in the absence of specific instructions from the owners or their representatives, shall have the right and duty to act in accordance with its best judgment of what a prudent operator would do under the same or similar circumstances. Operator shall not be liable to Owners, their successors, assigns or subrogees, for any personal injury, death or property damage arising out of or resulting from the sole or concurrent negligence of Operator in the conduct of Plant Operators unless such damage results from the gross negligence or willful misconduct of Operator. To the extent that Operator is not negligent, but is carrying out the specific directives, authorizations or instructions of any Owner or Owners ("Directing Owner(s)") the benefit of which will accrue only to the Directing Owner or Owners, the Directing Owner or Owners shall indemnify and hold harmless Operator and Non-Directing Owners from any and all liability from claims arising out of personal injury, death or property damage resulting from or arising out of Operator's execution or performance of such directive, authorization or order. In addition, to the extent that Operator is not negligent, but is carrying out the specific directives, authorizations or instructions of any Owner or Owners, Operator shall have no liability for any claims arising under any sales contracts to which Operator is not a party, and such Owner or Owners shall indemnify and hold Operator harmless from any such claims. Notwithstanding the foregoing, Operator shall have the right, to be exercised in its sole discretion and in its capacity as Operator, to refuse to follow any directive, authorization or instruction which it in good faith feels may result in personal injury, death or damage to property, and shall have no liability to Owners for exercise of this right. Operator shall consult freely with Owners and shall keep them informed on all matters arising during the operation, maintenance, alteration or enlargement of the Plant, which Operator, in the exercise of its best judgment, considers important. Any Owner shall have the right of access at all reasonable times, at its sole risk and expense, to observe onsite the operation, maintenance, alteration or enlargement of the Plant.

D. The number of employees, the selection of such employees, the hours of labor, and the compensation to be paid such employees shall be determined by Operator and such employees shall be employees of Operator, and Operator may employ third parties as necessary to conduct its operations all as set out in Exhibit "B".

E. Operator shall submit to Non-Operators, during the term of this Agreement, on or before September 1 of each year, an annual program and budget showing its estimate of the cost of the activities planned for the Plant for the next succeeding calendar year, including generally, the estimated amount of Gas to be processed by the Plant during such period.

F. Operator shall keep an accurate record of its activities hereunder, showing the costs and expenses incurred, the charges made, and all credits and returns made and received for a period of not less than four (4) years, which record shall be available at all reasonable times for the consideration, examination and inspection by the Non-Operators and their authorized representatives as set out in Exhibit "B" for a period of not less than two (2) years following the year in which such accounts and records were prepared.

G. Operator may enter into necessary and reasonable miscellaneous service and supply contracts for a term not to exceed two (2) years with the Operator of the SSAU and/or third parties covering, but not limited to, services such as vehicle maintenance, plant fuel supply, materials warehouse and storage yard, water supply, water disposal and plant utilities.

H. Operator shall obtain Owner approval of all contracts entered into under paragraph G above after the effective date of this Agreement with Operator or affiliates of Operator except the Lease Agreement attached hereto as Exhibit "E" which approval is granted hereby.

I. Operator agrees to comply with all laws and lawful regulations applicable to any activities carried out in the name of or on behalf of any one or more of the parties to this Agreement under the provisions of this Agreement or any amendments to it.

J. Operator agrees that all financial settlements, billings, and reports rendered to any one or more of the parties to this Agreement, as provided for in this Agreement and/or any amendments to it, will, to the best of its knowledge and belief, reflect properly the facts about all activities and transactions handled for the account of such party or parties, which data may be relied upon as being complete and accurate in any further recording and reporting made by such party or parties for whatever purpose.

K. Operator agrees to notify the other parties to this Agreement promptly upon discovery of any instance where Operator fails to comply with the paragraph I above or where Operator has reason to believe data covered by paragraph J above is no longer accurate and complete.

L. Operator shall keep the Plant and related facilities free of all liens and encumbrances occasioned by its operations hereunder, except the lien granted the Operator by the provisions of this Agreement.

M. Operator, in conducting operations hereunder, and any Non-Operator who conducts operations in or relating to the Plant pursuant to the terms and provisions hereof, all agents, contractors, and independent contractors of Operator, and of any such Non-Operator, shall comply with the Fair Labor Standards Act, Equal Employment Opportunity Act and all other applicable Federal and State Laws and applicable rules and regulations of any Federal and State agency having jurisdiction and shall file any and all reports required by same.

V.
OWNER'S REPRESENTATIVE

Each Owner hereto shall designate to Operator, in writing, a representative to whom matters requiring action on the part of the Owners may be addressed and who will act as the representative of each Owner in all matters with respect to operations hereunder. The representative may be changed by written notice to the Operator.

VI.

INTENT OF THE PARTIES

It is the intent of the Owners that this Agreement, all exhibits attached hereto, and the Letter Ballot dated October 1, 1992 embody the full and complete understanding of the parties relating to the ownership, maintenance, operation, enlargement and alteration of the Plant.

VII.
INTERESTS OF OWNERS

Exhibit "A" attached hereto and made a part hereof lists the names and addresses of the Owners and sets forth their respective Plant Ownership Interest in the Plant subject to the terms and provisions of this Agreement. All costs, expenses and liabilities incurred in operations under this Agreement shall be borne and paid for by the Owners as their interests appear in Exhibit "A". The Plant and all property acquired in operations under this Agreement shall be owned by the Owners in the same proportion as their interests appear in Exhibit "A". References herein to interests set forth in Exhibit "A" shall be referring to the latest revision of Exhibit "A" in effect at any given time.

VIII.
GAS PROCESSING AGREEMENTS

A. Operator is authorized to enter into the SSAU Gas Processing Agreement attached hereto as Exhibit "C" on behalf of all Owners.

B. Operator shall have the exclusive right to negotiate and enter into gas processing agreements each covering up to and including 5,000 MCF of Gas per day for no more than ten (10) years, provided that each such agreement shall be substantially in the form set forth in Exhibit "G". Gas processing agreements in excess of such volumes and term (High Volume Agreements) shall be negotiated by Operator on behalf of the Owners; however, such High Volume Agreements, or any renewals or extensions thereof, shall not be executed by Operator without the approval of the Owners pursuant to the voting procedures of Article XXVI. There shall be no Plant capacity warranted in any gas processing agreement.

C. It is understood and agreed that any agreement entered into under the terms hereof for the processing of Gas shall include a clause which provides that the processing of SSAU Gas shall have priority over the processing of any third party Gas.

IX.
DISPOSITION OF CARBON DIOXIDE, LIQUID PRODUCTS, SULFUR AND RESIDUE GAS

Each of the Owners shall have the obligation to take in kind and market individually or through an agent its undivided interest set out in Exhibit "A" hereof in all Carbon Dioxide, Liquid Products, Sulfur and Residue Gas, subject to the applicable gas processing agreement, extracted, separated, and saved by the Plant for the account of the Plant as depicted on Exhibit "I". In the event any Owner fails to take in kind or otherwise provide for the disposition of its share of Carbon Dioxide, Liquid Products, Sulfur and/or Residue Gas, Operator shall have the right, but not the obligation, to dispose of such Carbon Dioxide, Liquid Products, Sulfur and Residue Gas, subject to the applicable gas processing agreement, for the account of said Owner, but Operator shall make no disposition of such products by a contract with a duration in excess of one (1) year. Carbon Dioxide, Liquid Products, Sulfur and/or Residue Gas disposed of by the Operator because of failure of an Owner to take in kind or otherwise dispose of its share may not be taken by Owner during the primary term of the contract entered into by Operator for disposal of said Carbon Dioxide, Liquid Products, Sulfur and/or Residue Gas. Each Owner hereto shall bear its proportionate part of any losses actually suffered due to

evaporation and handling of the Carbon Dioxide, Liquid Products, Sulfur and Residue Gas prior to the delivery of said products from the Plant.

X.
OPERATING COSTS AND EXPENSES

Operator shall set up a Plant account on behalf of the Owners, and all costs and expenses incurred by Operator in the operation, maintenance, enlargement and alteration of the Plan shall be charged to such account upon the cost and expense basis set out in the Accounting Procedure attached hereto, marked Exhibit "B", and made a part hereof. Operator shall initially pay all costs and expenses incurred in the operation, maintenance, enlargement and alteration of the Plant, and each Owner shall reimburse Operator therefor in the proportion of its undivided ownership interest in the Plant as set out in Exhibit "A". Operator shall bill all Owners on or before the twentieth (20th) day of the month following the month in which the expenditures covered by such billing were made. Should any Owner fail to reimburse Operator for such Owner's proportionate part of said costs and expenses within thirty (30) days after the receipt of said billing, the same shall bear interest monthly at the prime rate as published by Chase Manhattan Bank, N.A. or its successors plus one percent (1%) from the end of said thirty (30) day period until paid, and Operator shall have the right, at its option, at any time following thirty (30) days after written notice by registered mail to the Owner thereof, such default continuing, to foreclose its lien provided for upon the ownership interest of such defaulting Owner.

Operator, in lieu of itself advancing such costs and expenses, may, at its election, require the Owners to advance their respective portions of the estimated costs and expenses of operating, maintaining, enlarging and altering the Plant in the following manner.

On or before the last day of each calendar month, Operator may submit to each of the Owners hereto an itemized estimate of such costs and expenses for the next succeeding calendar month. Said itemized estimate of the cost and expenses for the next succeeding calendar month may be mailed to each of the Owners, together with a request for the payment of their proportionate part thereof. Within thirty (30) days of the receipt of the estimate, each of the Owners shall pay to the Operator their proportionate part of the estimate, the same to bear interest monthly at the prime rate as published by Chase Manhattan Bank, N.A. or its successors plus one percent (1%) from the end of said thirty (30) day period until paid, and Operator shall have the right, at its option, at any time following thirty (30) days written notice by registered mail to the Owner thereof, such default continuing, to foreclose its lien herein provided for the interest of such defaulting Owner. Adjustments between the estimates and actual costs shall be made by Operator at the close of each calendar month and the accounts of the Owners adjusted accordingly on the next succeeding calendar month estimate.

In no event will the interest rate charged hereunder be in excess of the maximum contract rate permitted by the usury laws of the jurisdiction governing this Agreement.

Operator may give a Non-Operator written notice by registered mail that unless payment of a continuing default is made within fifteen (15) days of such notice, the Non-Operator shall not be entitled to vote on any matter or otherwise take part in any approval process under Article XXVI until such time as said Non-Operator's payments are made current. The voting interest of such defaulting Non-Operator shall be exercised by the other Owners in the proportion that each of their voting interests bears to the total voting interests held by such other Owners.

XI.

LIMITATIONS UPON EXPENDITURES

Operator shall not make any repairs, replacements, additions, alterations, or enlargements which involve an expenditure in excess of Fifty Thousand Dollars ($50,000) without first obtaining the approval of the Owners. Notwithstanding the foregoing, in the case of explosion, fire, flood, or other

sudden emergency, Operator may immediately make or incur such expenditures as in its opinion are required to deal with the emergency. Operator shall report to all of the Owners, as promptly as possible, the nature of the emergency, the action taken and the expenditures incurred. The Fifty Thousand Dollars ($50,000) limitation referenced hereinabove may be revised under the voting procedures provided for in Article XXVI.

XII.
INSURANCE

Operator shall carry insurance as follows for the protection of the Owners.

A. Insurance which shall comply with all applicable Worker's Compensation and Occupational Disease Laws and which shall cover all employees of Operator engaged in operations under this Agreement. Employers' Liability shall be provided with a limit of Five Hundred Thousand Dollars ($500,000.00) per occurrence.

B. Operator shall not be required to carry any other insurance for the joint account. All losses resulting from operations on or development of the Plant which are not covered by the insurance provided by Operator shall be borne by the parties hereto in the proportions of their respective interests in the Plant at the time of any loss. Each party individually may acquire such insurance as it deems proper to protect itself against such losses. Operator shall require all third party contractors performing work in or on the premises covered hereby to carry insurance in amounts as Operator shall deem necessary.

It is specifically understood and agreed that any Owner may elect to be self-insured except with regard to that insurance which is required to be carried by law. Any Owner that elects to be self-insured shall not be billed for its proportionate part of the costs of any insurance other than that required by law and shall be responsible for the payment of any charges which would otherwise have been paid by such insurance.

XIII.
CLAIMS AND LAWSUITS

If any Owner is sued on an alleged cause of action arising out of operations or ownership of the Plant, then such Owner shall give prompt written notice of the suit to the Operator and all other Owners. The defense of lawsuits shall be under the general direction of Operator's attorney who shall consult with the attorney or attorneys of Non-Operators, as appropriate considering the nature of the lawsuit and the amount at risk. Suits may be settled by Operator during litigation only with the approval of the Owners unless the amount of such settlement does not exceed Twenty-Five Thousand Dollars ($25,000). The Twenty-Five Thousand Dollars limitation referenced hereinabove may be revised under the voting procedures provided for in Article XXVI. No charge shall be made for services performed by the staff attorneys for any of the Owners unless authorized by the Owners but otherwise all expenses incurred in the defense of suits, together with amount paid to effect a settlement of any suit or to discharge any final judgment, shall be considered a Plant expense and charged to and paid by Owners proportionate to their interest in the Plant. Attorneys other than staff attorneys for the Owners shall be employed in lawsuits only with the approval of Owners, but if outside counsel is employed, legal fees and expenses shall be considered Plant expense and shall be paid by the Operator and charged to all of the Owners in proportion to their interest in the Plant.

Damage claims (including those which result from a lawsuit) caused by and arising out of operations, or ownership of the Plant, shall be handled by Operator and its attorneys for the joint account of all Owners, and the settlement of claims and lawsuits shall be within the discretion of the Operator so long as the amount paid in settlement of any one claim or lawsuit does not exceed Twenty-

five Thousand Dollars ($25,000) and, if settled, the sums paid in settlement shall be charged as a Plant expense and paid by all Owners in proportion to their interest in the Plant.

XIV.
FORCE MAJEURE

The term "Force Majeure", as employed herein, shall mean acts of God, strikes, lockouts, or other industrial disturbances, acts of the public enemy, wars, blockades, insurrections, riots, epidemics, floods, washouts, arrests and restraints of governments and people, governmental actions, civil disturbances, explosions, breakage or accident to machinery or lines of pipe, the necessity for making repairs to or alterations of machinery or lines of pipe, freezing of wells or lines of pipe, partial or entire failure of wells, and any other causes, whether of the kind herein enumerated or otherwise, not within the reasonable control of the party claiming suspension and which by the exercise of due diligence such party is unable to prevent or overcome; such term shall likewise include (a) in those instances where any party hereto is required to obtain servitudes, rights of way grants, permits or licenses to enable such party to fulfill its obligations hereunder, the inability of such party to acquire, or the delays on the part of such party in acquiring, at reasonable cost and after the exercise of reasonable diligence such servitudes, rights of way, grants, permits or licenses, and (b) in those instances where any party hereto is required to furnish materials and supplies for the purpose of construction or maintaining facilities or is required to secure permits or permissions from any governmental agency to enable such party to fulfill its obligations hereunder, the inability of such party to acquire, or the delays on the part of such party in acquiring, at reasonable cost and after the exercise of reasonable diligence, such materials and supplies, permits and permissions.

In the event that any party hereto is rendered unable, wholly or in part, by Force Majeure to carry out its obligations under this Agreement, other than the obligation to make payments due, such party, having given notice and full particulars of such Force Majeure in writing or by telefax to the other parties as soon as practicable after the occurrence of the cause relied on, shall be relieved of the obligations imposed hereunder so far as they are affected by such Force Majeure, and they shall be suspended during the continuance of any inability so caused, but for no longer period, and such cause shall as far as possible be remedied with all reasonable dispatch. The settlement of strikes or lockouts shall be entirely within the discretion of the party having the difficulty, and the requirement that any Force Majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes or lockouts by acceding to the demands of the opposing party when such course is inadvisable in the discretion of the party having the difficulty.

XV.
NOTICES

All notices authorized or required between the Owners by any of the provisions of this Agreement shall, unless otherwise specifically provided or agreed to by the Owners in writing, be given in writing by United States mail with postage or charges prepaid and addressed to the Owner to whom the notice is given at the address of the Owner set forth in Exhibit "A" attached hereto, or by courier service, telegram, telex, telefax or any other form of facsimile. Notice shall be deemed given as follows: (i) if given by mail, when deposited in the United States mail with postage or charges prepaid; (ii) if by courier service, when such notice is delivered to the courier service; or (iii) if by telegram, telex, telefax or other form of facsimile, at the time of transmission of the notice as provided for herein. Each Owner shall have the right to change its address at any time and from time to time by mailing written notice thereof to Operator.

XVI.
TAX PARTNERSHIP STATUS

This Agreement shall constitute a partnership solely for Federal and certain state income tax purposes pursuant to the provisions of Exhibit "D" attached hereto, and all parties agree that the cost of outside preparation fees, if any, of the partnership return of income tax each year shall be charged to the Joint Account in accordance with the Accounting Procedure attached hereto as Exhibit "B".

XVII.
LIABILITY OF THE OWNERS

The liability of the Owners hereto shall be several and not joint or collective. Each Owner shall be responsible only for its own obligations and shall be liable only for its proportionate part of the cost of maintenance and operation of the Plant and related facilities and other Plant expense. Except as set forth in Article XVI, it is not the intention of the Owners to create nor shall this instrument be construed as creating a legal, mining or other partnership or joint venture or an association so as to render the Owners liable as partners or joint venturers.

XVIII.
REMOVAL OR RESIGNATION OF OPERATOR

The removal of the Operator may be accomplished by an affirmative vote of Non-Operators having at least eighty percent (80%) of the voting interest remaining after excluding the voting interest of the Operator. Operator may resign his duties and obligations as Operator at any time upon written notice of not less than ninety (90) days given to all of the Owners. In either of the above events, a successor Operator shall be elected by a vote of those Owners (including Operator, who may not, however, vote to succeed itself) owning a combined interest of not less than fifty-one percent (51%) in the Plant.

The new operator shall assume, at an agreed time, the responsibilities and duties of and have and possess the rights and powers of the retiring Operator. The retiring Operator shall deliver to its successor all records and information necessary to the new Operator to discharge its duties and obligations.

XIX.
MAINTENANCE OF UNIFORM OWNERSHIP

For the purpose of maintaining uniformity between the ownership of the Plant and the ownership of the Plant share of Gas to be processed under any gas processing agreement(s) covered by this Agreement, and notwithstanding any other provision herein to the contrary, it is agreed that any sale, encumbrance, transfer or other disposition made by any Owner of an interest in the Plant shall be made expressly subject to the terms and provisions of this Agreement and without prejudice to the rights of the other Owners and shall be accompanied by a uniform disposition of its ownership interest throughout the Plant and in the Plant share of Gas to be processed under any gas processing agreement.

XX.
TRANSFER OF PLANT INTEREST

All sales, transfers, assignments, mortgages and other conveyances of the interest of any Owner in said Plant shall be made expressly subject to this Agreement and any gas processing agreements entered into by Operator on behalf of Owners but shall not be binding on any of the Owners other than the Owner(s) selling, transferring, assigning, mortgaging or conveying the same, unless and until Operator is furnished with satisfactory evidence thereof. All such sales, transfers, assignments or

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conveyances of any interest in the Plant, whether expressly so stated or not, shall operate to impose upon the party acquiring such interest its proportionate part of all costs and expenses and other obligations chargeable hereunder to such interest, and shall likewise operate to give and grant to the party acquiring such interest its proportionate part of all benefits accruing hereunder. Transferee/assignee and transferor/assignor shall both be liable for all costs and expenses incurred by transferor/assignor prior to the effective date of the subject sale, transfer, assignment or conveyance of interest in the Plant.

XXI.
WITHDRAWAL PROVISION

An Owner may withdraw from this Agreement by transferring, without warranty of title either express or implied, to the Owner(s) who do not desire to withdraw all its interest in the Plant provided that such transfer shall not relieve such Owner from any obligation or liability incurred prior to the first day of the month following receipt by Operator of notice of such transfer. The delivery of the transfer shall be made to Operator for the transferee(s). The transfer interest shall be owned by the transferee(s) in proportion to their respective Plant Ownership Interest. The transferee(s), in proportion to the respective interests so acquired, shall pay the transferor for its interest in the Plant, the net salvage value thereof less its share of the estimated cost of salvaging, dismantling and cleanup of Plant and Plant Site as determined by seventy percent (70%) of the Plant Ownership Interest of the non-transferring Owners. In the event such withdrawing Owner's interest in the aforesaid net salvage value is less than such Owner's share of such estimated costs, the withdrawing Owner, as a condition precedent to withdrawal, shall pay the Operator, for the benefit of non-transferring Owners succeeding to its interest, a sum equal to the deficiency. Within sixty (60) days after receiving notice of the transfer, Operator shall render a final statement to the withdrawing Owner for its share of Plant costs and expenses, including any deficiency in net salvage value, as determined by the non-transferring Owners, incurred as of the first day of the month following the date of receipt of the transfer. Provided all Plant costs and expenses including any deficiency hereunder, due from the withdrawing Owner have been paid in full within thirty (30) days after the rendering of such final statement by the Operator, the transfer shall be effective the first day of the month following receipt of Notice by Operator and, as of such effective date, withdrawing Owner shall be relieved from all further obligations and liabilities hereunder and under this Agreement, and the rights of the withdrawing Owner hereunder and under this Agreement shall cease insofar as they existed by virtue of the interest transferred.

XXII.
ACCESS TO PLANT AND FACILITIES

Each Owner or Owner's representative shall have access to the Plant at all reasonable times, at its sole risk, to inspect or observe operations and shall have access at all reasonable times to information pertaining to the maintenance and operation thereof, including Operator's books and records relating thereto.

XXIII.
AUDITS

The Non-Operators may cause a joint audit to be made of the accounts and records which Operator keeps pertaining to the operation of the Plant not more often than once each year in accordance with the accounting procedures described in Exhibit "B".

XXIV.
RIGHTS-OF-WAY AND EASEMENTS

The Owners insofar as they have the right and power to do so hereby grant, convey and assign unto the Operator for the account of the Owners, all necessary pipeline rights-of-way and easements in, on and across their respective lands and leases for the purpose of laying, maintaining, operating, repairing, changing and removing any facilities and equipment for purposes under this Agreement. Operator shall take in its own name for the account of the Owners, such other and additional necessary pipeline rights-of-way and easements for Plant operation, and the cost and expense thereof shall be borne as an item of Plant expense.

XXV.
LIEN OF PLANT OPERATOR

Each of the Owners hereto, in order to secure the payment of all amounts due or to become due by such Owner to Operator, hereby give and grants to Operator a first and prior lien upon its undivided interest in the Plant, Residue Gas, Liquid Products, Carbon Dioxide, Sulfur and gas processing fees and all other property tangible or intangible, of every kind and character used in connection with the Plant. Such lien may be enforced at the option of Operator as a mortgage lien or as any other lien afforded by the law of the State of Texas in such cases, provided that each Owner may at its option, forestall the affixing of said lien by paying to Operator in advance of lien foreclosure its proportionate part of the cost of operating, maintaining, altering, and enlarging the Plant.

In the event Operator forecloses the lien herein provided and acquires the property or interest subject thereto at foreclosure sale, then the remaining Owners hereto shall have the right, but not the obligation, to purchase a proportionate part of such acquired interest or property from Operator at Operator's acquisition cost thereof. Operator shall promptly submit to the remaining Owners hereto in writing a statement of the amount of its acquisition cost in such acquired interest or property and the said remaining Owners electing to participate in the purchase shall have a period of thirty (30) days after receipt of said statement to pay a proportionate part of same; such proportionate part being in the ratio that the percentage of ownership of each remaining Owner prior to such foreclosure, bears to the total percentage of ownership of all remaining Owners electing to participate in the purchase prior to such foreclosure. However, the other Owners, in participating in such acquisition, shall not be required to pay more than their respective proportionate parts of the amount of indebtedness covered by such foreclosure lien plus the reasonable cost to Operator of foreclosing such lien and of acquiring such interest.

XXVI.
VOTING PROCEDURE

A. Owners shall hold such meetings as may be called from time to time by Operator. Operator shall call a meeting whenever requested to do so by any Owner or Owners having at least ten percent (10%) of the total Plant voting interest and at such other times as Operator may deem it advisable. Operator shall advise all Owners, in writing or by telefax at least ten (10) days in advance of the meeting, of the time and place of the meeting and of the matters affecting operations under this Agreement to be considered at the meeting. Nonattending Owners may vote on such matters by mail or telefax addressed to Operator provided such vote is received prior to the time of the meeting. Voting shall be confined to matters described in the agenda. However, when any matter requiring action by the parties arises under such urgent circumstances as to convince Operator that the delays incident to a formally called meeting might be prejudicial to the welfare of operations hereunder or when any question arises for determination by the parties that in the opinion of Operator may be disposed of by letter, telefax or telephone poll of the parties, Operator is authorized to poll all of the

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parties by letter, telefax or telephone and thereby secure the vote of each party; provided, however, Operator shall, as soon thereafter as practicable, report in writing to each Owner the results of any such poll. A written record shall be made by Operator of the results of all polls taken at Owners' meetings, and a report of each poll (ordinarily in the form of minutes of the meeting) shall be made by Operator as soon as practicable after the poll is taken.

B. Unless otherwise provided herein, all matters shall be decided by an affirmative vote of four or more Owners having a combined voting interest of at least seventy percent (70%); provided that should any one Owner own more than twenty-five percent (25%) voting interest, it negative vote or failure to vote shall not defeat a motion and such motion shall pass and shall be controlling on all parties if such motion is approved by a majority of the voting interest unless such motion is approved by a majority of the voting interest unless such negatively voting or non-voting Owner's vote is supported by the vote of one or more negatively voting or non-voting Owners having a combined voting interest of at least five percent (5%).

C. Except to the extent herein provided to the contrary, each Owner shall have a voting interest equal to its percentage of ownership in the Plant at the time the vote is taken.

D. Unless otherwise specifically provided, whenever in this Agreement, approval of Owners is required or contemplated or referred to, such approval shall mean the approval obtained in accordance with the provisions of this Article XXVI. Specific matters with respect to which Operator shall obtain the approval of Owners, as above provided, are:

(a) For any item of expenditure not in excess of Fifty Thousand Dollars ($50,000) Operator shall furnish to Owners an information copy of any AFE which it prepares for its own use.

(b) Any proposed item of expenditure which in itself is in excess of Fifty Thousand Dollars ($50,000) but less than Ten Million Dollars ($10, 000,000) shall require the approval as provided in paragraph B.

(c) Any proposed item of expenditure which in itself amounts to Ten Million Dollars ($10,000,000) or over shall require the approval of seventy-five percent (75%) of the total voting interest at the time of such vote. The dollar amount referenced in subparagraphs (a) and (b) of this paragraph may be revised under the voting procedures provided for in this Article XXVI.

E. Notwithstanding the foregoing provisions of this Article XXVI, it is particularly agreed that in the case of explosion, fire, flood, or other sudden emergency, the prior approval of Owners shall not be a prerequisite to Operator's taking such steps and incurring such expenses as, in its opinion, are required to deal with the emergency and to safeguard life and property if, in its opinion, the securing of such prior approval would tend to jeopardize the interests of Owners; provided that Operator shall, as promptly as possible, report the emergency to the other Owners and endeavor to secure from the parties any sanction which might otherwise have been required for its emergency action.

F. Any Owner who is not represented at a meeting may vote by letter addressed to the representative of the Operator or by courier service, telegram, telefax or any other form of facsimile, if its vote is received prior to the time of the meeting.

XXVII.
TERM

Unless terminated by approval of the Owners, this Agreement shall continue in full force and effect as to the Plant and all facilities and property relating thereto as long as such Plant or any facilities or property relating thereto remains, in whole or in part, owned and operated by the Owners, and thereafter until all operating facilities, material, equipment, supplies and property of every kind

relating to the Plant has been salvaged or disposed of and final settlement has been made by and among the Owners.

XXVIII.
LIQUIDATION OF THE PLANT

If, at any time, future operation of the Plant is considered to be uneconomic by eighty percent (80%) of the Plant Ownership Interest, then Operator shall offer, in writing, to transfer the Plant intact to the working interest owners in the SSAU for the net salvage value as reasonably determined by seventy percent (70%) of the Plant Ownership Interest. The working interest owners in the SSAU must accept or reject such offer within ninety (90) days of receipt of said offer. If the working interest owners in the SSAU reject such offer to transfer the Plant, Operator shall shut down the operation of the Plant and shall either sell the Plant intact to the bidder offering the best terms or sell it in parts under a salvage operation, whichever appears to eighty percent (80%) of the Plant Ownership Interest, to be the more profitable, and shall distribute the proceeds to the Owners in proportion to their interest in the Plant at that time; provided that, if any Owners do not desire to close down the Plant and do desire to purchase the Plant intact and take over the operation of it, they shall notify all other Owners in writing to that effect within thirty (30) days after notice that the Plant is to be sold and shall submit a cash bid for the value of the Plant, and if said bid is acceptable to eighty percent (80%) of the Plant Ownership Interest, then the Plant shall be sold intact to said purchasing Owners, and they shall have the right thereafter to own and operate the Plant, but if said bid is not acceptable to eighty percent (80%) of the Plant Ownership Interest, then Operator shall proceed to sell the Plant in the manner provided above. It is expressly understood and agreed that, for so long as the SSAU Gas Processing Agreement is in effect the terms of this Article shall be subject to the right of Producer thereunder to acquire the Plant for the net salvage value thereof as provided in Article XVII.B of said Gas Processing Agreement, and that the thirty (30) day period required for any Owners to notify the other Owners of their desire to take over the Plant shall not commence running until the expiration of the ninety (90) day period provided for in said Article XVII.B. Any transfer or sale of the Plant intact under the provisions of this Article shall be made subject to the Lease Agreement for Plant Site, all gas processing agreements with the Plant, and all other applicable agreements.

XXIX.
MISCELLANEOUS

A. Except when comprising a part of a sentence, the headings and subheadings used in this instrument are provided for reference purposes only and shall not be construed to interpret or amend any part of the text thereof.

B. This Agreement may be executed in as many counterparts as deemed necessary and, when so executed, shall have the same effect as if all parties had executed the same instrument.

C. This Agreement shall be governed by the law of the State of Texas.

D. In connection with operations hereunder, Operator agrees to comply with all federal and state laws, rules and regulations, including but not limited to the applicable Federal Contract Requirements set forth in Exhibit "H", attached hereto and made a part hereof.

XXX.
PARTIES BOUND

This Agreement shall be binding upon the Owners and their successors and assigns.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date opposite their respective signatures.

OWNERS

Date:		AMERADA HESS CORPORATION	
Attest:		By	
Date:		AMOCO PRODUCTION COMPANY	
Attest:		By	
Date:		ADA A. ANDERSON	
Attest:		By	
Date:		R. S. ANDERSON	
Attest:		By	
Date:		ESTATE OF W. D. ANDERSON	
Attest:		By	
Date:		ARCO OIL & GAS COMPANY	
Attest:		By	
Date:		HARRY W. BASS, JR.	
Attest:		By	

Signature Page to that certain Joint Operating Agreement dated October 1, 1992

QuickLinks

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 10.11

PURCHASE AND SALE AGREEMENT

between

Duke Energy Field Services, LP

and

Crosstex Energy Services, L.P.

April 29, 2003

TABLE OF CONTENTS

EXHIBITS

SCHEDULES

PURCHASE AND SALE AGREEMENT

THIS PURCHASE AND SALE AGREEMENT (this "*Agreement*") dated April 29, 2003 is between Duke Energy Field Services, LP, a Delaware limited partnership ("*DEFS*") and Crosstex Energy Services, L.P., a Delaware limited partnership ("*BUYER*"). BUYER and DEFS are sometimes referred to collectively herein as the "*Parties*" and individually as a "*Party*".

RECITALS

A. DEFS owns outright or through one or more subsidiaries, 100% of the assets of the Operated Systems and a 12.42% undivided interest in the assets of Seminole;

B. DEFS has agreed to sell to BUYER, and BUYER has agreed to purchase from DEFS, all of DEFS' and the Selling Subsidiaries' interest in the Assets on the terms and subject to the conditions set forth in this Agreement.

FOR AND IN CONSIDERATION of the premises and of the mutual covenants contained herein, the Parties agree as follows:

ARTICLE I

CERTAIN DEFINITIONS

1.1 *Certain Defined Terms.* Capitalized terms used herein and not defined elsewhere in this Agreement shall have the meanings given such terms as is set forth below.

"*Affiliate*" shall mean, when used with respect to a specified Person, any other Person controlling, directly controlled by or under common control with the specified Person. For purposes of this definition, "control", when used with respect to any specified Person, means the power to direct the management and policies of the Person whether through the ownership of voting securities or by contract; and the term "controlled" has the meanings correlative to the foregoing. Notwithstanding the foregoing, the term "Affiliate" when applied to DEFS shall not include Duke Energy Corporation, a Delaware corporation or ConocoPhillips, a Delaware corporation, or any entities owned, directly or indirectly, by Duke Energy Corporation or ConocoPhillips, other than Duke Energy Field Services, LLC, a Delaware limited liability company and its subsidiaries (but excluding Texas Eastern Products Pipeline Company, LLC, a Delaware limited liability company, TEPPCO Partners L.P., a Delaware limited partnership, and any Person owned, directly or indirectly, by Texas Eastern Products Pipeline Company, LLC or TEPPCO Partners, L.P.).

"*AIM System*" shall mean the System described on the Systems Maps as the AIM Pipeline System.

"*Arbitrable Dispute*" shall mean any dispute, claim, counterclaim, demand, cause of action, controversy and other matters in question arising out of or relating to this Agreement or the alleged breach hereof, or in any way relating to the subject matter of this Agreement or the relationship between the Parties created by this Agreement, regardless of whether (a) allegedly extra-contractual in nature, (b) sounding in contract, tort, or otherwise, (c) provided for by applicable Law or otherwise, or (d) seeking damages or any other relief, whether at Law, in equity, or otherwise.

"*Arbitration Rules*" shall have the meaning given such term in *Section 12.8*.

"*Assets*" shall mean all of the following assets and properties, but excluding the Excluded Assets:

(a) *Plants and Stations.* The gas processing plants, treaters, dehydration units, compressor stations, warehouses, field offices, control buildings and other associated plant facilities described on *Exhibit A-2(a) (Other Operated Systems), Exhibit A-2(b) (Conroe) and Exhibit A-2(c) (Seminole)* (collectively, the "*Plant Facilities*");

(b) *Real Property.* All fee property, rights-of-way, easements, surface use agreements, licenses and leases described on *Exhibit A-3(a) (Other Operated Systems), Exhibit A-3(b) (Conroe)* and *Exhibit A-3(c) (Seminole)*, and all other real property on or under which any of the Assets are

located (collectively, the "*Real Property Interests*"), and all fixtures, buildings and improvements located on such Real Property Interests;

(c) *Permits.* All Permits which are necessary for, used or held for use exclusively for or in connection with, the ownership, use, operation or maintenance of the Assets, to the extent assignable to BUYER, including, to the extent so assignable, those Permits more particularly described on *Exhibit A-4(a) (Other Operated Systems), Exhibit A-4(b) (Conroe) and Exhibit A-4(c) (Seminole)*;

(d) *Personal Property.* All tangible personal property of every kind and nature which is necessary for, or which is used or held for use exclusively for or in connection with, the ownership, operation or maintenance of the Assets, including field equipment, office equipment, fixtures, tools, motor vehicles, instruments, spare parts, machinery, computer equipment, telecommunications equipment, supplies and materials, including those items of personal property more particularly described on *Exhibit A-5*, and all hydrocarbon inventory of the Systems, including linefill (collectively, the "*Personal Property*");

(e) *Contract Rights.* Those gas and liquids purchase and sales agreements, gas storage agreements, gas and liquids transportation agreements, equipment and vehicle leases, rental contracts, gathering, treating and processing agreements, interconnect agreements, compression service and other service agreements described on *Exhibit A-6*, as amended or supplemented from time to time, and, when executed and delivered, the ExxonMobil Agreement, the Hattiesburg Agreement and the Conroe Environmental Agreements (collectively, the "*Assumed Contracts*").

(f) *Intellectual Property.* All technical information, shop rights, designs, plans, manuals, specifications and other proprietary and nonproprietary technology and data used primarily in connection with the operation of the Assets (collectively, the "*Intellectual Property*").

(g) *Imbalance Receivables.* The Assumed Imbalance Receivables.

(h) *Books and Records.* All contract, land, title, engineering, environmental, operating, accounting, business, marketing, and other data, files, documents, instruments, notes, papers, ledgers, journals, reports, abstracts, surveys, maps, books, records and studies which relate to the Assets or which are used, useful, or held for use in connection with, the ownership, operation or maintenance of the Assets (collectively, the "*Records*").

(i) *Incidental Rights.* All of the following insofar as the same are attributable or relate to any of the Assets described in clauses (a) through (h): (i) all purchase orders, invoices, storage or warehouse receipts, bills of lading, certificates of title and documents, (ii) all keys, lock combinations, computer access codes and other devices or information necessary to gain entry to and/or take possession of such Assets, and (iii) to the extent arising out of any period of time in which BUYER is liable to Third Persons in respect of the Assets, the benefit of and right to enforce all covenants, warranties, indemnities, guarantees and suretyship agreements running in favor of DEFS, any of its Affiliates or any previous owner, but only to the extent of any rights thereunder which are assignable by DEFS to BUYER and relate to the Assets, and excluding any such indemnities, guaranties and suretyship agreements provided by any previous owner of the Systems.

"*Assumed Contracts*" shall have the meaning given such term in the definition of Assets.

"*Assumed Imbalance Payables*" shall mean those Imbalance Payables described on *Schedule 1.1(a)*.

"*Assumed Imbalance Receivables*" shall mean those Imbalance Receivables described on *Schedule 1.1(a)*.

"*Assumed Obligations*" shall have the meaning given such term in *Section 4.1*.

"*Assumed Suspense Account Obligations*" shall mean the obligation to pay the Suspense Accounts Funds described on *Schedule 1.1(b)* to the Person ultimately determined to be entitled thereto.

"*Benefit Plan*" shall mean any of the following that is sponsored, maintained or adopted by DEFS, or with respect to which DEFS has any liability with respect to DEFS' ownership or operation of the Assets: (a) any employee welfare benefit plan or employee pension benefit plan as defined in Sections 3(1) and 3(2) of ERISA, and (b) any other material employee benefit agreement or arrangement, including a deferred compensation plan, incentive plan, bonus plan or arrangement, stock option plan, stock purchase plan, stock award plan, golden parachute agreement, severance plan, dependent care plan, cafeteria plan, employee assistance program, scholarship program, employment contract, retention incentive agreement, non-competition agreement, consulting agreement, vacation policy, and other similar plan, agreement and arrangement.

"*Business Day*" shall mean any day, other than Saturday and Sunday, on which federally-insured commercial banks in Denver, Colorado are generally open for business and capable of sending and receiving wire transfers.

"*Business Employee*" shall have the meaning given such term in *Section 7.14(a)*.

"*BUYER*" shall mean Crosstex Energy Services, L.P., a Delaware limited partnership.

"*BUYER Indemnitees*" shall have the meaning given such term in *Section 11.2*.

"*BUYER's Knowledge*" or the "*Knowledge of BUYER*" or any similar term, shall mean the actual knowledge of (i) any officer of BUYER or any of its Affiliates having a title of vice president or higher, or (ii) any of the individuals named on *Exhibit B-1*.

"*BUYER Required Consents*" shall have the meaning given in *Section 6.4*.

"*Capital Projects*" shall have the meaning given such term in *Section 7.13*.

"*Casualty Loss*" shall mean, with respect to all or any portion of the Assets, any destruction by fire, storm or other casualty, or any condemnation or taking or threatened condemnation or taking, of all or any portion of the Assets.

"*Claim*" shall mean any demand, demand letter, claim or notice of noncompliance or violation or Proceeding.

"*Claim Notice*" shall have the meaning given such term in *Section 11.3(c)*.

"*Closing*" shall have the meaning given such term in *Section 9.1*.

"*Closing Date*" shall have the meaning given such term in *Section 9.1*.

"*Code*" shall mean the U.S. Internal Revenue Code of 1986, as amended.

"*Confidentiality Agreement*" shall mean the Confidentiality Agreement between DEFS and BUYER dated February 4, 2003.

"*Conroe*" shall mean the natural gas processing facility and gathering system described as the "Conroe System" on the Systems Maps.

"*Conroe Environmental Agreements*" shall mean the agreement with TRC Companies, Inc. in substantially the form of *Exhibit G* and the endorsement to DEFS' existing policy of environmental insurance in respect of Conroe having the terms described on *Schedule 1.1(d)*.

"*Continuing Employee*" shall have the meaning given such term in *Section 7.14(c)*.

"*Cost Effective Environmental Remedy*" shall mean (i) with respect to any Environmental Defect over which any Governmental Authority has asserted jurisdiction, the most cost effective remedy

available for all curative, investigative, remedial and corrective action requirements with respect to an Environmental Defect that is satisfactory to such Governmental Authority, and (ii) with respect to any other Environmental Defect, a reasonable remedy (determined by taking into account all relevant factors, including cost) for all curative, investigative, remedial and corrective action requirements, which meets the requirements of applicable Environmental Law, and in the case of either clause (i) or (ii), that is consistent with reasonable operating practices of, and takes into account the facts, circumstances or conditions that would be acceptable to, a similarly situated reasonable and prudent operator engaged in the business of ownership, development and operation of gathering and transmission pipelines and processing plants.

"*Cost Effective Title Remedy*" shall mean a reasonable remedy (determined by taking into account all relevant factors, including cost) to obtain Defensible Title, that is consistent with reasonable operating practices of, and takes into account the facts, circumstances or conditions that would be acceptable to, a similarly situated reasonable and prudent operator engaged in the business of ownership, development and operation of gathering and transmission pipelines and processing plants.

"*Defensible Title*" shall mean, as to the Assets, such title to the Assets that vests BUYER with indefeasible title in and to the Assets free and clear of Liens other than Permitted Encumbrances.

"*DEFS*" shall mean Duke Energy Field Services, LP, a Delaware limited partnership.

"*DEFS Companies*" shall have the meaning given such term in *Section 12.14*.

"*DEFS Indemnitees*" shall have the meaning given such term in *Section 11.1*.

"*DEFS' Knowledge*" or the "*Knowledge of DEFS*" or any similar term, shall mean the actual knowledge of (i) any officer of DEFS or any Selling Subsidiary having a title of Vice President or higher, or (ii) any of the individuals named on *Exhibit B-2*.

"*DEFS Property Tax*" shall have the meaning given such term in *Section 12.3(a)*.

"*DEFS Required Consents*" shall have the meaning given such term in *Section 5.4(a)*.

"*DOJ*" shall mean the Department of Justice of the federal government of the United States of America.

"*Effective Time*" shall mean 12:01 A.M. Subject Time on the first day of the month immediately following the Closing Date.

"*Environmental Corrective Costs*" shall mean the reasonable estimate of the net present value of the cost of the Cost Effective Environmental Remedy for Remediating an Environmental Defect and potential Third Person Claims with respect thereto.

"*Environmental Defect*" shall mean (a) any pollution, contamination, degradation, damage or injury caused by, related to, arising from, or in connection with the presence, generation, handling, use, treatment, storage, transportation, disposal, discharge, release or emission of any Hazardous Materials occurring prior to the Effective Time and for which remedial action is required (or if such defect were known, would be required) under Environmental Laws in effect at the Effective Time, (b) any Third Person Claim which is brought against DEFS or BUYER and is based on the release or migration of Hazardous Materials in violation of Environmental Law prior to the Effective Time on or from any of the Assets, or (c) any conditions that could reasonably be expected to result in a Third Person Claim being brought against DEFS or BUYER and which is based on the release or migration of Hazardous Materials in violation of Environmental Law prior to the Effective Time on or from any of the Assets.

"*Environmental Defect Notice*" shall mean a notice delivered to DEFS pursuant to *Section 7.4* that (a) reasonably details the nature and description of an alleged Environmental Defect and the Assets to which it relates (including, to the extent applicable, a citation to the specific provision of Environmental

Law that is alleged to have been violated, but failure to provide the correct citation or citations shall not invalidate any Environmental Defect Notice), (b) includes BUYER's calculation of the net present value of the cost of Remediating the Environmental Defect using the Cost Effective Environmental Remedy, and (c) includes documentation reasonably substantiating the existence of the Environmental Defect and supporting the estimate of the Cost Effective Environmental Remedy.

"*Environmental Law*" shall mean any and all Laws, statutes, ordinances, rules, regulations, or orders of any Governmental Authority in existence and as amended at the Effective Time pertaining to the protection of the environment, health or natural resources or to Hazardous Materials in any and all jurisdictions in which the party in question owns property or conducts business, including the Clean Air Act, the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 ("CERCLA"), the Federal Water Pollution Control Act, the Occupational Safety and Health Act of 1970 (to the extent relating to environmental matters), the Resource Conservation and Recovery Act of 1976 ("RCRA"), the Safe Drinking Water Act, the Toxic Substances Control Act, the Hazardous & Solid Waste Amendments Act of 1984, the Superfund Amendments and Reauthorization Act of 1986, the Hazardous Materials Transportation Act, the Oil Pollution Act of 1990, any state or local Laws implementing or substantially equivalent to the foregoing federal Laws, and any state or local Laws pertaining to the handling of oil and gas exploration, production, gathering, and processing wastes or the use, maintenance, and closure of pits and impoundments.

"*Environmental Matter*" shall have the meaning given such term in *Section 5.4(b)*.

"*ERISA*" shall mean the Employee Retirement Income Security Act of 1974, as amended.

"*ERISA Affiliate*" shall mean any Person, who is, on or before the Effective Time, under common control with DEFS within the meaning of section 414 of the Code.

"*Exception Schedules*" shall mean *Schedules 5.4*, *5.5*, *5.7*, *5.8*, *5.9*, *5.10*, and *5.13*.

"*Excess Inventory*" shall mean all natural gas liquids included in the Assets above the minimum operating inventory and all natural gas that is part of the Assets to the extent that it is held in storage.

"*Excluded Assets*" shall mean all of the following:

(a) All deposits, cash, checks, funds and accounts receivable and other rights to payment arising from or relating to the operation of the Systems with respect to any period of time prior to the Effective Time, including all Suspense Account Funds and all Imbalance Receivables other than the Assumed Imbalance Receivables;

(b) Claims of DEFS for refund of or loss carry forwards with respect to (i) Taxes attributable to any period prior to the Effective Time or (ii) any Taxes attributable to the Excluded Assets;

(c) All work product of DEFS' attorneys, records relating to the negotiation and consummation of the transactions contemplated hereby and documents that are subject to a valid attorney-client privilege;

(d) All real property, personal property, contracts, intellectual property, Permits, rolling stock, field vehicles, office computers or other equipment (or any leases or licenses of the foregoing) that are listed on *Exhibit C*;

(e) All computer software that either cannot be assigned to BUYER pursuant to the terms of any license therefore or requires a consent to transfer;

(f) All contracts or agreements other than the Assumed Contracts;

(g) All swaps, futures or other similar derivative-based transactions;

(h) All office equipment and accessories (including computers) that are located at offices other than the field offices included in the Assets; and

(i) Except as otherwise contemplated by *Section 7.2*, rights to claim coverage or benefits under DEFS or its Affiliates' insurance policies or coverage.

"*Exhibits*" shall mean any and/or all of the exhibits attached to and made a part of this Agreement.

"*ExxonMobil Agreement*" shall mean the agreement between DEFS and ExxonMobil in substantially the form of *Schedule 1.1(g)*.

"*Final Settlement Statement*" shall have the meaning given such term in *Section 3.4*.

"*FTC*" shall mean the Federal Trade Commission of the United States of America.

"*Georgia Pacific Agreement*" shall mean an agreement between DEFS and Georgia Pacific having the terms described on *Schedule 1.1(e)*.

"*Governmental Authorities*" shall mean (a) the United States of America or any state or political subdivision thereof within the United States of America and (b) any court or any governmental or administrative department, commission, board, bureau or agency of the United States of America or of any state or political subdivision thereof within the United States of America.

"*Hattiesburg Agreement*" shall mean an agreement between DEFS and Duke Energy Trading and Marketing LLC having the terms described on *Schedule 1.1(f)*.

"*Hazardous Materials*" shall mean: (a) any chemicals, materials or substances defined or included in the definition of "hazardous substances," "hazardous materials," "toxic substances," "solid wastes," "pollutants," "contaminants," or words of similar import, under any Environmental Law, (b) any radioactive materials (other than naturally occurring radioactive materials), friable asbestos, and polychlorinated biphenyls, (c) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any Governmental Authority; or (d) any regulated constituents or substances in concentrations or levels that exceed numeric or risk-based standards established pursuant to Environmental Laws.

"*HSR Act*" shall mean the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations thereunder.

"*Imbalances*" shall mean all hydrocarbon imbalances between DEFS and a Third Person relating to or arising out of the operation of the Assets that exist at the Effective Time.

"*Imbalance Payable*" shall mean an Imbalance owed by DEFS to a Third Party.

"*Imbalance Receivable*" shall mean an Imbalance owed by a Third Party to DEFS.

"*Indemnified Party*" or "*Indemnitee*" shall have the meaning given such term in *Section 11.4(a)*.

"*Indemnifying Party*" or "*Indemnitor*" shall have the meaning given such term in *Section 11.4(a)*.

"*Independent Accountants*" shall mean Ernst & Young.

"*Interest Rate*" shall mean a per annum rate of interest equal to the lesser of (a) the prime rate of interest by Citibank, N.A. plus one percent (1%), which rate shall change when and as such prime rate changes, or (b) the maximum non-usurious rate of interest permitted to be charged under applicable Law.

"*Laws*" shall mean all applicable statutes, laws, regulations, rules, rulings, ordinances, orders, restrictions, requirements, writs, judgments, injunctions, decrees and other official acts of or by any Governmental Authority.

"*Lien*" shall mean any lien, mortgage, pledge, claim, charge, security interest or other encumbrance, option or defect on title.

"*Limited Financials*" shall have the meaning given such term in *Section 7.18*.

"*Loss*" or "*Losses*" shall mean any and all damages, demands, payments, obligations, penalties, assessments, disbursements, claims, costs, liabilities, losses, causes of action, and expenses, including interest, awards, judgments, settlements, fines, costs of Remediation, fees, costs of defense and reasonable attorneys' fees, costs of accountants, expert witnesses and other professional advisors and costs of investigation and preparation of any kind or nature whatsoever.

"*Material Adverse Effect*" shall mean a single event, occurrence or fact, or series of events, occurrences or facts, that, alone or together with all other adverse events, occurrences or facts (a) would have an effect that is materially adverse to the operations or value of the Assets, taken as a whole, or (b) would result in the prohibition of or material delay in the consummation of, or other material adverse effect on, the transactions contemplated by this Agreement, excluding (in each case) matters that are generally industry-wide developments or changes or effects resulting from general economic, regulatory or political conditions.

"*NGL Agreements*" shall mean the two natural gas liquids purchase and sale agreements dated the Closing Date between BUYER and Duke Energy NGL Services, LP in substantially the form of *Exhibit H*.

"*Notice Deadline*" shall mean forty-five (45) days after the date of this Agreement.

"*Notice Period*" shall have the meaning given such term in *Section 11.4(c)*.

"*Operated Systems*" shall mean Conroe, and the gas gathering systems and transmission pipelines described on the Systems Maps as the AIM Pipeline System, the Leaf River Pipeline System, the Black Warrior Pipeline System, the Cadeville Gathering System and the Aurora Centana Gathering System.

"*Operating Statements*" shall mean the FYE ECON/STATS and Operating Cost Detail for calendar years 2001 and 2002 covering the Operated Systems, the financial information for such years prepared by Amarada Hess covering Seminole and any similar monthly financial information covering months in calendar year 2003, in each case provided by DEFS to BUYER.

"*Permits*" shall mean all permits, licenses, orders, approvals, authorizations, grants, consents, warrants, franchises and similar rights and privileges granted by any Governmental Authority.

"*Permitted Encumbrances*" shall mean the following:

(a) the terms, conditions, restrictions, exceptions, reservations, limitations, and other matters contained in any document creating or transferring the Real Property Interests, or in any Permit or Contract, other than terms granting or creating preferential purchase rights or which prohibit or require consent to assignment or transfer;

(b) Liens for property Taxes and assessments that are not yet due and payable (or that are being contested in good faith by appropriate Proceedings);

(c) mechanic's, materialmen's, repairmen's and other statutory Liens arising in the ordinary course and securing obligations incurred prior to the Effective Time and (i) for which DEFS or a Third Person is responsible for payment, and (ii) that are not delinquent and that will be paid and discharged in the ordinary course of business or, if delinquent, that are being contested in good faith with any action to foreclose on or attach any Assets on account thereof properly stayed;

(d) utility easements, restrictive covenants, minor defects and other minor irregularities in title, that, singularly or in the aggregate, will not interfere with the ownership, use or operation of the Assets to which such matters relate and which are of a nature that would be reasonably acceptable to a prudent pipeline operator;

(e) required Third Person consents to assignment, preferential purchase rights and other similar agreements with respect to which consents or waivers are obtained from the appropriate Person for the sale contemplated hereby or, as to which the appropriate time for asserting such rights has expired as of the Closing without an exercise of such rights;

(f) any Post-Closing Consent;

(g) Liens created by BUYER or its successors or assigns; and

(h) Any Title Defects waived by BUYER pursuant to the terms of this Agreement.

"*Person*" shall mean any natural person, corporation, company, partnership (general or limited), limited liability company, trust, joint venture, joint stock company, unincorporated organization, or other entity or association.

"*Personal Property*" shall have the meaning given such term in the definition of Assets.

"*Post-Closing Consents*" shall mean notices to, consents or approvals from or filings with Governmental Authorities or other Persons customarily obtained following the closing of a transaction similar to the transaction contemplated hereby (such as consents or approvals to transfer railroad crossing rights or rights under licenses to locate pipelines in or under streets or roads), including those listed on *Schedule 1.1(c)*.

"*Preliminary Settlement Statement*" shall have the meaning given such term in *Section 3.3*.

"*Proceeding*" shall mean any action, suit, claim, investigation, review or other judicial or administrative proceeding, at Law or in equity, before or by any Governmental Authority or arbitration proceeding.

"*Qualified Environmental Claim*" shall have the meaning given such term in *Section 7.4*.

"*Real Property Interests*" shall have the meaning given such term in the definition of Assets.

"*Records*" shall have the meaning given such term in the definition of Assets.

"*Remediate*," "*Remediating*" or "*Remediation*" shall mean the removal, abatement, response, investigative, cleanup, monitoring and related activities undertaken to address Environmental Defects, including excavation, landfarming, and installation and operation of remediation systems.

"*Remediation Activities*" shall mean those activities in order to Remediate any Environmental Defects.

"*Retained Liabilities*" shall mean:

(a) all wages, benefits and equal opportunity employment obligations to or in respect of any employees of DEFS or any of its ERISA Affiliates, including any such obligations arising under or in respect of any Benefit Plan;

(b) all Imbalance Payables other than the Assumed Imbalance Payables and all liability in respect of the Suspense Account Funds other than the Assumed Suspense Account Obligations;

(c) all administrative, civil and criminal fines and penalties assessed by any Governmental Authority to the extent attributable or assessed with respect to periods prior to the Effective Time;

(d) all Taxes of DEFS or any of its Affiliates in respect of periods prior to the Effective Time;

(e) all tort obligations arising from or related to Third Person personal injury or Third Person property damages in respect of the Assets or the business to which to Assets relate, to the extent (i) such injury, property loss or damages arises out of or was caused by events solely occurring prior to the Effective Time and for which causes or events occurring on or after the Effective Time are not contributing causes, and (ii) which are not caused by or the result or effect of any Environmental Defect or Title Defect or any Third Person Claim with respect to any Environmental Defect or Title Defect;

(f) all obligations arising from or relating to the treatment or disposal of any Hazardous Materials at any off-site location prior to the Effective Time;

(g) all obligations or liabilities with respect to any Excluded Assets or any other assets or properties not included in the Assets, including, without limitation, assets or properties used in the same business as the Assets but in which DEFS or any of the Selling Subsidiaries had no right, title or interest at the Effective Time; and

(h) all obligations or liabilities with respect to the litigation matters described on *Schedule 5.7* as items 5 and 6.

"*Schedules*" shall mean any and/or all of the schedules attached to and made a part of this Agreement.

"*Securities Act*" shall mean the Securities Act of 1933, as amended.

"*Selling Subsidiaries*" shall mean AIM Pipeline, LLC, a Delaware limited liability company, Duke Energy Intrastate Pipeline, LLC, a Delaware limited liability company and Duke Energy Field Services Marketing, LLC, a Delaware limited liability company.

"*Settlement Notice*" shall have the meaning given such term in *Section 3.5*.

"*Seminole*" shall mean the gas processing plant and related pipeline and gathering facilities described as the "Seminole Plant" on the Systems Maps.

"*Special Liabilities*" shall mean all amounts payable or other obligations with respect to any Assumed Contracts and all amounts payable or other obligations with respect to goods delivered or services rendered in respect of the Assets or the business to which the Assets relate, but only to the extent such amounts or obligations relate to periods prior to the Effective Time and to the extent not caused by or the result of any Environmental Defect or Title Defect.

"*Subject Time*" shall mean the current local time then in effect in Denver, Colorado.

"*Suspense Account Funds*" shall have the meaning given such term in *Section 7.12(a)*.

"*Systems*" shall mean the Operated Systems and Seminole.

"*Systems Maps*" shall mean the maps describing the Systems attached to this Agreement as *Exhibit A-1*.

"*Tax*" or "*Taxes*" shall mean any tax, assessment, duty, fee, levy or other similar charges assessed by any Governmental authority, including any income tax, ad valorem tax, excise tax, sales tax, use tax, franchise tax, real or personal property tax, transfer tax, gross receipts tax or employment tax, together with and including, any and all interest, fines, penalties, assessments, and additions to Tax resulting from, relating to, or incurred in connection with any of those or any contest or dispute thereof.

"*Tax Return*" shall mean any report, statement, form, return or other document or information required to be supplied to a taxing authority in connection with Taxes.

"*Third Person*" shall mean (i) any Person other than a Party or its Affiliates and (ii) any Governmental Authority.

"*Third Person Claim*" shall have the meaning given such term in *Section 11.4(c)*.

"*Title Corrective Costs*" shall mean the reasonable estimate of the net present value of the cost of the Cost Effective Title Remedy for curing a Title Defect, which amount shall be limited to the cost of obtaining any replacement right of way and potential Third Person Claims with respect thereto.

"*Title Defect*" shall mean, with respect to a particular Asset, the reason or reasons that cause DEFS or the applicable Selling Subsidiary to have less than Defensible Title.

"*Title Defect Notice*" shall mean a notice delivered to DEFS pursuant to *Section 7.5* that (a) reasonably details the nature and description of an alleged Title Defect and the Assets to which they relate, (b) includes BUYER's calculation of the net present value of the cost of curing the Title Defect using the Cost Effective Title Remedy, and (c) includes documentation reasonably substantiating the existence of the Title Defect and supporting the estimate of the Cost Effective Title Remedy.

"*Transaction Documents*" shall mean this Agreement, the Transition Services Agreement, and the assignments and conveyances, and any other document related to the sale, transfer, assignment or conveyance of the Assets to BUYER to be delivered at Closing.

"*Transition Services Agreement*" shall mean the Transition Services Agreement in substantially the form of *Exhibit F*.

1.2 *Other Definitional Provisions.* As used in this Agreement, unless expressly stated otherwise or the context requires otherwise, (a) all references to an "Article," "Section," or "subsection" shall be to an Article, Section, or subsection of this Agreement, (b) the words "this Agreement," "hereof," "hereunder," "herein," "hereby," or words of similar import shall refer to this Agreement as a whole and not to a particular Article, Section, subsection, clause or other subdivision hereof, (c) the words used herein shall include the masculine, feminine and neuter gender, and the singular and the plural, (d) the word "including" means "including, without limitation" and (e) the word "day" or "days" means a calendar day or days, unless otherwise denoted as a Business Day.

1.3 *Headings.* The headings of the Articles and Sections of this Agreement and of the Schedules and Exhibits are included for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction or interpretation hereof or thereof.

1.4 *Other Terms.* Other terms may be defined elsewhere in the text of this Agreement and shall have the meaning indicated throughout this Agreement.

ARTICLE II

THE TRANSACTION

2.1 *The Transaction.* Effective for all purposes as of the Effective Time, DEFS shall sell, transfer and convey to BUYER, and shall cause the Selling Subsidiaries to sell, assign, transfer and convey to BUYER, all of its and each Selling Subsidiary's right, title and interest in and to the Assets and BUYER shall assume the Assumed Liabilities pursuant to *Section 4.1*. The sale, transfer and conveyance of the Assets to BUYER shall be free and clear of all Liens other than Permitted Encumbrances created by, through or under DEFS or any of its Affiliates, and all bills of sale or other assignment or conveyance documents transferring or conveying the Assets to BUYER shall contain such a special warranty of title excepting only Permitted Encumbrances.

2.2 *Purchase Price.* In consideration for the sale, assignment, transfer and conveyance of the Assets to BUYER, BUYER shall pay to DEFS the amount of Sixty Six Million Three Hundred Fifty Thousand and No/100 Dollars ($66,350,000.00) (the "*Purchase Price*"). The Purchase Price shall be paid by wire transfer of immediately available funds in the amount set forth in the Preliminary Settlement Statement to the account designated in the Preliminary Settlement Statement.

2.3 *Purchase Price Allocation.* For the purpose of making the requisite filings, if any, under Section 1060 of the Code and the regulations thereunder, DEFS and BUYER hereby agree that they will report the federal, state, and other Tax consequences of the transactions contemplated by this Agreement in a manner consistent with the purchase price allocation set forth on *Schedule 2.3*, and in particular to report the information required by Section 1060(b) of the Code, and will not take any position inconsistent with it upon examination of any tax return, in any refund claim, in any income tax litigation, investigation, or other income tax matter. The Parties acknowledge that the purchase price allocation pursuant to *Schedule 2.3* is solely for income tax purposes.

ARTICLE III

ADJUSTMENTS, PRORATIONS AND SETTLEMENT

3.1 *Adjustments.* At Closing, BUYER shall pay to DEFS the Purchase Price; provided, however, in order that only one wire transfer will be necessary, the Purchase Price shall be netted against certain other payment obligations of DEFS and the BUYER, and the actual amount paid at Closing will equal the net obligation of BUYER determined in accordance with *Section 3.2*.

3.2 *Prorations of Property Taxes, Expenses, Capital Projects, Suspense Funds, Excess Inventory and Imbalances.*

(a) The amount payable to DEFS will be reduced by the amount of any general property Tax assessed against or pertaining to the Assets for periods before the Effective Time with respect to any taxable period that includes the Effective Time, prorated in accordance with *Section 12.3(a)*.

(b) The amount payable to DEFS will be adjusted up or down by the amount of any utility charges and other items of expense and the amount of any deposits or pre-paid items attributable to the operation of the Assets prior to the Effective Time. Such amounts shall be prorated as of the Effective Time.

(c) The amount payable to DEFS will be reduced by any amount which DEFS has agreed to pay pursuant to *Sections 7.4* or *7.5*, or if any such amounts have not been agreed by the Parties, by an estimate equal to the numerical average of BUYER's and DEFS' good faith estimates of such amounts, which amounts shall remain subject to adjustment until finally agreed by the Parties or determined pursuant to *Section 12.8*.

(d) The amount payable to DEFS will be reduced by the amount of the Assumed Suspense Account Funds.

(e) The amount payable to DEFS will be adjusted up or down by the net difference amount of the Assumed Imbalance Receivables and the Assumed Imbalance Payables.

(f) The amount payable to DEFS will be increased by the value of BUYER's purchase of the Excess Inventory determined in accordance with *Section 7.10*.

(g) The amount payable to DEFS will be increased by the amount of BUYER's reimbursement obligation in respect of the Capital Projects in accordance with *Section 7.13*.

3.3 *Preliminary Settlement Statement.* Not later than five (5) days before the Closing Date, DEFS shall deliver to BUYER a written statement (the "*Preliminary Settlement Statement*") setting forth the Purchase Price, and the description and amount of each item to be netted against the Purchase Price that are described in *Section 3.2*, with DEFS' calculation of such items in reasonable detail, based on information then available to DEFS. Prior to delivery of the Preliminary Settlement Statement, DEFS shall consult with BUYER as to the contents thereof and shall negotiate with BUYER in good faith as to any modifications thereto proposed by BUYER. The Preliminary Settlement Statement shall also set forth wire transfer instructions for the Closing payments. The payment at the Closing shall be the amount set forth in the Preliminary Settlement Statement.

3.4 *Final Settlement Statement.* No later than ninety (90) days after the Closing Date, DEFS shall deliver to BUYER a revised settlement statement showing in reasonable detail its calculation of the items described in *Section 3.2* along with any other amounts that are payable or are to be prorated hereunder prior to the Effective Time (said revised statement and the calculation thereof shall be referred to as the "*Final Settlement Statement*"). If DEFS does not deliver the Final Settlement Statement when required, BUYER may prepare and deliver it to DEFS, and in such case, DEFS shall have BUYER's objection rights under *Section 3.5*.

3.5 *Dispute Procedures.* The Final Settlement Statement shall become final and binding on DEFS and BUYER on the 20th day following the date the Final Settlement Statement is received by BUYER, unless prior to such date BUYER delivers written notice to DEFS of its disagreement with the Final Settlement Statement (a "*Settlement Notice*"). Any Settlement Notice shall set forth BUYER's proposed changes to the Final Settlement Statement, including an explanation in reasonable detail of the basis on which BUYER proposes such changes. If BUYER has timely delivered a Settlement Notice, BUYER and DEFS shall use good faith efforts to reach written agreement on the disputed items. If the disputed items have not been resolved by BUYER and DEFS by the 30th day following DEFS' receipt of a Settlement Notice, any remaining disputed items shall be submitted to the Independent Accountants for resolution within five (5) Business Days after the end of the foregoing 30-day period. The fees and expenses of the Independent Accountants shall be borne fifty percent (50%) by DEFS and fifty percent (50%) by BUYER. The Independent Accountants' determination of the disputed items shall be final and binding upon BUYER and DEFS and the Parties hereby waive any and all rights to dispute such resolution in any manner, including in court, before an arbiter or appeal. The Independent Accountants shall only have the right to determine the amounts of any items that are to be reflected on the Final Settlement Statement and not to interpret any other provision of this Agreement.

3.6 *Payments.* If the final amount as set forth in the Final Settlement Statement exceeds the estimated amount as set forth in the Preliminary Settlement Statement, then BUYER shall pay to DEFS the amount of such excess, with interest at the Interest Rate. If the final calculated amount as set forth in the Final Settlement Statement is less than the estimated calculated amount as set forth in the Preliminary Settlement Statement, then DEFS shall pay to BUYER the amount of such excess, with interest at the Interest Rate. Any payment shall be made within three (3) Business Days of the

date the Final Settlement Statement becomes final pursuant to *Section 3.5*. Nothing contained in this Article III shall relieve any Party from any obligation to make any other payments required by this Agreement.

3.7 *Special Provisions with Respect to Georgia Pacific.* The Parties acknowledge that execution of the Georgia Pacific Agreement is not a condition to Closing. Certain understandings concerning the Georgia Pacific Agreement are set out in Schedule 3.7.

ARTICLE IV

ASSUMED OBLIGATIONS

4.1 *Assumption of Assumed Obligations.* Effective on the Effective Date, BUYER shall assume all rights, liabilities, duties, obligations, risk of loss, Claims, Losses and any related responsibility for the ownership, operation or use of the Assets and the business related thereto and any condition of or on the Assets attributable to any period of time, whether before, on or after the Effective Time; excluding, however, the Retained Liabilities (collectively, the "*Assumed Obligations*"). Notwithstanding anything contained in this Agreement to the contrary, the assumption by BUYER of the Assumed Obligations shall not excuse or otherwise limit DEFS' obligations under *Sections 7.4* or *7.5* or DEFS' indemnity obligations under Article XI.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF DEFS

Except as set forth in any of the Exception Schedules delivered to BUYER, DEFS represents and warrants to BUYER as follows:

5.1 *Organization, Good Standing, and Authority.*

(a) DEFS is a limited partnership duly formed, validly existing and in good standing under the Laws of the State of Delaware and has all requisite limited partnership power and authority to operate the Assets operated by it and to own or otherwise hold the Assets owned or held by it, and is duly qualified as a foreign organization in good standing in each State in which the Assets are located. The execution and delivery of this Agreement and the Transaction Documents to which DEFS is a party and the consummation by DEFS of the transactions contemplated herein and therein have been duly and validly authorized by all necessary limited partnership action by DEFS. This Agreement has been duly executed and delivered by DEFS. DEFS has all requisite limited partnership power and authority to enter into and perform this Agreement and the Transaction Documents to which it is a party, to perform its obligations hereunder and thereunder and to carry out the transactions contemplated herein and therein.

(b) Each of the Selling Subsidiaries is a limited liability company, duly formed, validly existing and in good standing under the laws of the State of Delaware and has all requisite limited liability company power and authority to operate the Assets operated by it and to own or otherwise hold the Assets owned or held by it, and is duly qualified as a foreign organization in good standing in each state in which such Assets are located. The consummation by each of the Selling Subsidiaries of the transactions contemplated by this Agreement have been duly and validly authorized by all necessary limited liability company action by such Selling Subsidiary.

5.2 *Enforceability.* This Agreement constitutes and, upon execution and delivery of the Transaction Documents to which DEFS is a party, such Transaction Documents will constitute, valid and binding obligations of DEFS, enforceable against DEFS in accordance with their terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and other similar Laws affecting creditor's rights generally and general principles of equity.

5.3 *No Conflicts.* The execution, delivery and performance by DEFS of this Agreement and the Transaction Documents, the execution, delivery and performance by each Selling Subsidiary of the Transaction Documents to which it is a party and the consummation of the transactions contemplated hereby or thereby by DEFS and the Selling Subsidiaries, will not:

(a) Provided all of the DEFS Required Consents and Post Closing Consents have been obtained, conflict with, constitute a breach, violation or termination of, give rise to any right of termination, cancellation or acceleration of or result in the loss of any right or benefit under, any agreement to which DEFS or any Selling Subsidiary is a party or by which any of them or the Assets are bound;

(b) Conflict with or violate the organizational documents of DEFS or any Selling Subsidiary, including the limited partnership agreement of DEFS; and

(c) Provided that all of the DEFS Required Consents and Post Closing Consents have been obtained, violate any Law applicable to DEFS or any Selling Subsidiary or the Assets.

5.4 *Consents, Approvals, Authorizations and Governmental Regulations; Permits.*

(a) Except (i) for Post-Closing Consents, (ii) as may be required under the HSR Act, and (iii) as set forth in *Schedule 5.4(a)* (the items described in clauses (ii) and (iii) being collectively referred to as the "*DEFS Required Consents*"); no order, consent, waiver, permission, authorization or approval of, or exemption by, or the giving of notice to or the registration or filing with any Governmental Authority or Third Person, is necessary for DEFS to execute, deliver and perform this Agreement or the Transaction Documents to which it is a party or for any Selling Subsidiary to sell, assign or transfer its interest in the Assets to BUYER or to execute, deliver and perform any of the Transaction Documents to which it is a party.

(b) Except as set forth in *Schedule 5.4(b)*, (i) the Permits described on *Exhibits A-4(a)*, *A-4(b)* and *A-4(c)* constitute all of the Permits required or necessary for DEFS or any of the Selling Subsidiaries (as applicable) to own its interests in the Assets, and operate the Operated Systems, in the places and in the manner currently owned or operated (other than Permits, the absence of which will not adversely affect BUYER's ability to own or operate the Assets) and each such Permit is in full force and effect, (ii) either DEFS nor any Selling Subsidiary has received written notification concerning, and there are no violations that are in existence with respect to such Permits and (iii) no Proceeding is pending, or to DEFS' Knowledge, threatened with respect to the revocation, limitation or otherwise relating to any of such Permits. Notwithstanding anything herein to the contrary, the provisions of this *Section 5.4(b)* shall not relate to or cover any matter relating to or arising out of any Environmental Laws (an "*Environmental Matter*").

5.5 *Taxes.* Except as set forth in *Schedule 5.5*:

(a) All Taxes payable by or imposed against DEFS or any Selling Subsidiary relating to the Assets or the operation thereof have been fully paid on or before the due date thereof for payment without penalty or is being contested in good faith (subject, however, to the possibility of audit adjustments in respect of open years). DEFS and each Selling Subsidiary has duly complied with all withholding Tax and Tax deposit requirements imposed on it in respect of the Assets. *Schedule 5.5* describes all Taxes currently being contested by DEFS or any Selling Subsidiary.

(b) Except for those not yet due or those which are being contested in good faith, all Tax Returns that are required to have been filed for, by, on behalf of or with respect to DEFS or any of the Selling Subsidiaries relating to the Assets, or the operation of the Operated Systems have been filed with the appropriate Governmental Authority and all Taxes shown to be due and payable on such Tax Returns have been paid in full;

(c) To DEFS' Knowledge, (i) neither DEFS nor any Selling Subsidiary is under audit or examination by any Governmental Authority, (ii) there are no Claims or Proceedings now pending or threatened against DEFS or any Selling Subsidiary with respect to any Tax or any matters under discussion with any Governmental Authority relating to any Tax, and (iii) there are no Claims for any additional Tax asserted by any Governmental Authority against DEFS or any Selling Subsidiary relating to the Assets or the operation of Conroe and the Operated Systems; and

(d) None of the Assets: (i) is "tax-exempt use property" within the meaning of Section 168(h) of the Code or (ii) directly or indirectly secures any debt the interest on which is tax-exempt under the Code.

5.6 *Operating Statements.* The Operating Statements for the Operated Systems were prepared by DEFS or a Selling Subsidiary using accounting practices and procedures ordinarily used by DEFS or such Selling Subsidiary in the preparation of internally prepared operating statements, consistently applied, and, except for the effect of any adjustments to the Operating Statement for Conroe as a result of the reallocation of interests by ExxonMobil, fairly present the costs and results of operations of the Operated Systems for the periods covered thereby. To DEFS' Knowledge, the Operating Statements for Seminole fairly present the costs and results of operation of Seminole for the periods covered thereby.

5.7 *Litigation; Compliance with Laws.* Except as described in *Schedule 5.7*:

(a) There is no injunction, restraining order or Proceeding pending, or to the Knowledge of DEFS, threatened against DEFS or any Selling Subsidiary that restrains or prohibits the consummation of the transactions contemplated by this Agreement.

(b) There is no Claim or Proceeding pending, or to DEFS' Knowledge, threatened, against or affecting the Assets, or DEFS' or any Selling Subsidiary's ownership of the Assets or the operation of the Operated Systems by DEFS or any Selling Subsidiary, before or by any Governmental Authority.

(c) The Operated Systems are, and DEFS and its Affiliates are currently operating, and for the past two years have operated, the Operated Systems, in compliance with applicable Laws. To DEFS' Knowledge, Seminole is currently being operated, and for the past two years has been operated, in compliance with applicable Laws. Notwithstanding anything herein to the contrary, the provisions of this *Section 5.7(c)* shall not relate to or cover Environmental Laws or any Environmental Matters.

5.8 *Assumed Contracts.* As of the date of this Agreement, the Assumed Contracts include all of the contracts or agreements relating to the Operated Systems and Seminole under which natural gas or natural gas liquids are purchased, sold, processed or transported, and all other contracts or agreements which relate primarily to the Assets or the business to which the Assets relate. Except as listed on *Schedule 5.8*, neither DEFS nor any Selling Subsidiary is in default and there is no event or circumstance that with notice, or lapse of time or both, would constitute an event of default by DEFS or any Selling Subsidiary under the terms of any of the Assumed Contracts. To DEFS' Knowledge and except as listed on *Schedule 5.8*, (i) all of the Assumed Contracts (other than those to be entered into in the future) are enforceable and in full force and effect, (ii) no counter-party to any of the Assumed Contracts is in default under the terms of such Assumed Contract, and (iii) DEFS has no Knowledge of any facts or circumstances that with the passage of time, the giving of notice, or both, would constitute a default under any Assumed Contract or would excuse performance under any Assumed Contract by reason of force majeure.

5.9 *Intellectual Property.* Except as described in *Schedule 5.9*, neither DEFS nor any Selling Subsidiary has received any written notice of infringement, misappropriation or conflict with respect to Intellectual Property from any Person with respect to the operation of the Operated Systems. To DEFS'

Knowledge, (i) the operation of the Operated Systems has not infringed, misappropriated or otherwise conflicted with any patents, patent applications, patent rights, trademarks, trademark applications, service marks, service mark applications, copyrights, trade names, unregistered copyrights, trade secrets of any other Person.

5.10 *Preferential Rights to Purchase.* Except as listed in *Schedule 5.10*, there are no preferential or similar rights to purchase any portion of the Assets.

5.11 *Broker's or Finder's Fees.* No investment banker, broker, finder or other Person is entitled to any brokerage or finder's fee or similar commission in respect thereof based in any way on agreements, arrangements or understandings made by or on behalf of DEFS or any Selling Subsidiary or any of DEFS' Affiliates which is, or following the Closing would be, an obligation of BUYER.

5.12 *Condemnation.* Except for litigation matters in which DEFS and all Selling Subsidiaries have been dismissed and the litigation and Claims identified on *Schedule 5.7*, as of the date hereof, there has been no taking (whether permanent, temporary, whole or partial) of any part of the Assets by reason of condemnation against DEFS or any Selling Subsidiary, and to DEFS' Knowledge no such taking has been threatened.

5.13 *Environmental Matters.* Except as set forth in *Schedule 5.13*.

(a) To DEFS' Knowledge, neither DEFS nor any other Person has caused or allowed the generation, use, treatment, storage, or Disposal of Hazardous Materials at the Operated Systems, except in accordance with all applicable Environmental Laws;

(b) To DEFS' Knowledge, there has been no release of any Hazardous Materials at, on, or underlying any of the Assets or the Operated Systems other than in the ordinary course of business and all such releases have been reported to the appropriate Governmental Authority or were in compliance with applicable Environmental Law;

(c) DEFS or a Selling Subsidiary has secured and holds all Permits required under Environmental Laws for the operation of the Operated Systems and DEFS or the Selling Subsidiary holding such Permit is in compliance with such Permits;

(d) Neither DEFS nor any Selling Subsidiary has received written inquiry or notice of any actual or threatened Claim related to or arising under any Environmental Law relating to the Assets;

(e) Neither DEFS nor any Selling Subsidiary has at any time within the past two (2) years operated or been required to operate any of the Operated Systems under any compliance order, a decree or agreement, any consent decree or order, or corrective action decree or order issued by or entered into with any Governmental Authority under any Environmental Law or any Law regarding health or safety in the work place;

(f) To DEFS' Knowledge, DEFS and each Selling Subsidiary is currently operating the Operated Systems in compliance with all applicable Environmental Laws; and

(g) DEFS has offered BUYER access at DEFS' headquarters in Denver, Colorado to copies of the final drafts of all written environmental reports and assessments in respect of the Assets in its possession or under its control, and to DEFS' Knowledge, there are no other written environmental reports or assessments in respect of the Assets which are not in its possession or under its control.

5.14 *Benefit Plan Liabilities.* At the Effective Time, BUYER shall have no liability with respect to any Benefit Plans except for liabilities, if any, encumbering the Assets arising from DEFS' or a Selling Subsidiary's status prior to the Closing as an ERISA Affiliate of Duke Energy Corporation, which liabilities are included as Retained Liabilities.

5.15 *No Foreign Person.* Neither DEFS nor any Selling Subsidiary is a "foreign person" as defined in Section 1445 of the Code and in any regulations promulgated thereunder.

5.16 *Bankruptcy.* There are no bankruptcy, reorganization or receivership proceedings pending, planned or being contemplated by DEFS or any Selling Subsidiary with respect to DEFS, any Selling Subsidiary or the Assets, or to the Knowledge of DEFS, being threatened against DEFS or any Selling Subsidiary.

5.17 *Advance Receipts/Purchases.* Other than Imbalances, neither DEFS nor any Selling Subsidiary has, other than in a manner consistent with the normal cycle of billing (A) received any quantity of natural gas or liquids under any Assumed Contract for which payment will be due in the future, or (B) received prepayments, advance payments or loans that will require BUYER to perform services or provide natural gas or gas liquids under any Assumed Contract after the Effective Time without payment.

5.18 *Diligence Materials.* All documents, agreements or instruments provided to BUYER by DEFS to enable BUYER to evaluate the transaction contemplated by this Agreement were either the originals of such documents, agreements or instruments or true and correct copies of the originals of such documents, agreements or instruments. Except for policy or contract limits (which have been reduced to reflect the fact that the Conroe Environmental Agreements cover only Conroe), the Conroe Environmental Agreements provide the same or greater coverages for Conroe as DEFS has under the existing agreements providing for environmental remediation and insurance at Conroe.

5.19 *Regulatory Filings.* DEFS has offered BUYER access at DEFS' headquarters in Denver, Colorado, to true and complete copies of all currently effective reports, tariffs and rate schedules relating to the Assets or the Operated Systems filed by DEFS or any Selling Subsidiary with any Governmental Authority, and such reports, tariffs and rate schedules are true and correct and were prepared in substantial conformity with applicable regulations and were filed in the appropriate offices.

ARTICLE VI

REPRESENTATIONS AND WARRANTIES OF BUYER

BUYER hereby represents and warrants to DEFS:

6.1 *Organization, Good Standing, and Authorization.* BUYER is a limited partnership duly formed, validly existing and in good standing under the Laws of the State of Delaware. BUYER has all requisite power and authority to enter into and perform this Agreement and the Transaction Documents to which it is a party, to perform its obligations hereunder and thereunder and to carry out the transactions contemplated herein and therein. The execution and delivery of this Agreement and the Transaction Documents to which it is a party and the consummation by BUYER of the transactions contemplated herein have been duly and validly authorized by all necessary action by BUYER. This Agreement has been duly executed and delivered by BUYER.

6.2 *Enforceability.* This Agreement constitutes, and upon execution and delivery of the Transaction Documents to which BUYER is a party, such Transaction Documents will constitute, valid and binding obligations of BUYER, enforceable against BUYER in accordance with their terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium and other similar Laws affecting creditor's rights generally and general principles of equity.

6.3 *No Conflicts.* The execution, delivery and performance by BUYER of this Agreement and the Transaction Documents to which it is a party and the consummation of the transactions contemplated hereby or thereby, will not:

(a) Provided that any BUYER Required Consents and Post Closing Consents have been obtained, conflict with, constitute a breach, violation or termination of, give rise to any right of

termination, cancellation or acceleration of or result in the loss of any right or benefit under, any agreement to which BUYER is a party;

(b) Conflict with or violate the organizational documents of BUYER, including its limited partnership agreement, and

(c) Provided that all of BUYER Required Consents and Post Closing Consents have been obtained, violate any Law applicable to BUYER or its properties or assets.

6.4 *Consents, Approvals, Authorizations and Governmental Regulations.* Except (i) for Post-Closing Consents, (ii) as may be required under the HSR Act and (iii) as set forth in *Schedule 6.4* (the items described in clauses (ii) and (iii) being collectively referred to as the "*BUYER Required Consents*"); no order, consent, waiver, permission, authorization or approval of, or exemption by, or the giving of notice to or registration or filing with, any Governmental Authority or Third Person, is necessary for BUYER to execute, deliver and perform this Agreement or the Transaction Documents to which it will be a party.

6.5 *Litigation.* There is no injunction, restraining order or Proceeding pending against BUYER that restrains or prohibits the consummation of the transactions contemplated by this Agreement.

6.6 *Independent Investigation.* BUYER is knowledgeable in the business of owning and operating natural gas, natural gas liquids, condensate and refined product facilities. In making the decision to enter into this Agreement and consummate the transaction contemplated hereby, BUYER has relied solely on its own independent due diligence investigations and inspection of the Assets, and the representations, warranties, covenants and undertakings of DEFS in this Agreement and the Transaction Documents. **BUYER ACKNOWLEDGES THAT IT IS ACQUIRING THE ASSETS IN THEIR "AS IS, WHERE IS" CONDITION AND STATE OF REPAIR, AND WITH ALL FAULTS AND DEFECTS, AND THAT EXCEPT AS EXPRESSLY SET OUT IN THIS AGREEMENT OR THE TRANSACTION DOCUMENTS, DEFS HAS MADE NO REPRESENTATION, WARRANTY OR COVENANT OF ANY KIND OR NATURE, EXPRESS, IMPLIED OR STATUTORY, INCLUDING, BUT NOT LIMITED TO, WARRANTIES OF MARKETABILITY, QUALITY, CONDITION, CONFORMITY TO SAMPLES, MERCHANTABILITY, AND/OR FITNESS FOR A PARTICULAR PURPOSE, ALL OF WHICH ARE, EXCEPT AS OTHERWISE SET OUT IN THIS AGREEMENT OR THE TRANSACTION DOCUMENTS, EXPRESSLY DISCLAIMED BY DEFS AND WAIVED BY BUYER. BUYER FURTHER ACKNOWLEDGES THAT: (I) THE ASSETS HAVE BEEN USED FOR NATURAL GAS, NATURAL GAS LIQUIDS, CONDENSATE AND/OR REFINED PRODUCT OPERATIONS AND PHYSICAL CHANGES IN THE ASSETS AND IN THE LANDS BURDENED THEREBY MAY HAVE OCCURRED AS A RESULT OF SUCH USES AND (II) THE ASSETS MAY INCLUDE BURIED PIPELINES AND OTHER EQUIPMENT, THE LOCATIONS OF WHICH MAY NOT BE READILY APPARENT BY A PHYSICAL INSPECTION OF THE ASSETS OR THE LANDS BURDENED THEREBY. EXCEPT AS EXPRESSLY SET OUT IN THIS AGREEMENT, DEFS MAKES NO REPRESENTATION, COVENANT OR WARRANTY, EXPRESS, IMPLIED OR STATUTORY, AS TO (A) THE ACCURACY OR COMPLETENESS OF ANY DATA OR RECORDS DELIVERED TO BUYER WITH RESPECT TO THE ASSETS, INCLUDING, WITHOUT LIMITATION, ANY DESCRIPTION OF THE ASSETS, PRICING ASSUMPTIONS, QUALITY OR QUANTITY OF THE INTERESTS, FREEDOM FROM PATENT OR TRADEMARK INFRINGEMENT OR (B) FUTURE VOLUMES OF HYDROCARBONS OR OTHER PRODUCTS GATHERED, TRANSPORTED, TREATED, STORED OR PROCESSED THROUGH OR AT THE ASSETS.** With respect to any projection or forecast delivered by or on behalf of DEFS or its Affiliates to BUYER, BUYER acknowledges that (i) there are uncertainties inherent in attempting to make such projections and forecasts, (ii) BUYER is familiar with such uncertainties, and (iii) BUYER is taking full responsibility for making its own evaluation of the adequacy and accuracy of all such projections and forecasts furnished to BUYER. BUYER acknowledges that DEFS only holds a 12.42% undivided interest in the Assets comprising Seminole.

6.7 *Broker's or Finder's Fees.* No investment banker, broker, finder or other Person is entitled to any brokerage or finder's fee or similar commission in respect thereof based in any way on agreements, arrangements or understandings made by or on behalf of BUYER or any of its Affiliates which is, or following the Closing would be, an obligation of DEFS or any of its Affiliates.

6.8 *Available Funds.* BUYER will have at Closing, sufficient cash to enable it to make payment in immediately available funds of the Purchase Price when due and any other amounts to be paid by it hereunder.

ARTICLE VII

COVENANTS AND ACCESS

7.1 *Conduct of Business.*

(a) Without the prior written consent of BUYER, which consent shall not be unreasonably withheld or delayed, DEFS covenants and agrees that from and after the execution of this Agreement and until the Closing:

(i) DEFS will not, and will cause each of the Selling Subsidiaries not to, sell, transfer, assign, convey or otherwise dispose of any Assets other than the sale of Inventory in the ordinary course of business or the sale or other disposition of equipment or other Personal Property which is replaced with equipment or other Personal Property of comparable or better value and utility. Notwithstanding the foregoing, DEFS will use and will cause the Selling Subsidiaries to use, commercially reasonable efforts to minimize the amount of Excess Inventory at the Closing;

(ii) DEFS will not, and will cause each of the Selling Subsidiaries not to, create or allow the creation of any Lien other than Permitted Encumbrances on any Asset;

(iii) DEFS will, and will cause each of the Selling Subsidiaries not to, amend any Contract in any material respect, or terminate any Contract, or enter into any new contracts or agreements in respect of the Assets performable after the Effective Time other than in the ordinary course of business, and BUYER agrees that any such new contracts or agreement entered into in compliance with this *Section 7.1(a)(iii)* shall be added to *Exhibit A-6* and shall be deemed to be an Assumed Contract;

(iv) DEFS will not, and will cause each of the Selling Subsidiaries not to, incur, or commit to incur any liability or obligation to make capital expenditures that will become the obligations of BUYER pursuant to *Section 7.13* or which will be payable by BUYER after the Effective Time, other than those Capital Projects described on *Schedule 7.13* on the date of this Agreement and other capital expenditures which do not exceed $30,000 in the aggregate for any project;

(b) DEFS will give BUYER written notice of (i) any breach of any representation or warranty under this Agreement, or (ii) any event or development that it believes is reasonably likely to have a Material Adverse Effect, promptly upon DEFS obtaining Knowledge thereof.

(c) Unless BUYER otherwise agrees in writing, which agreement shall not be unreasonably withheld or delayed, DEFS shall:

(i) except in the case of Seminole which is operated by a Third Person, cause the Assets to be maintained and operated in the ordinary course of business in accordance with the past operating and maintenance practices of DEFS and the Selling Subsidiaries, including regular

scheduled maintenance plans and capital expenditures, and pay or cause to be paid all costs and expenses in connection therewith when due; provided, however, that if DEFS believes that it is desirable to depart from its ordinary course of business with respect to the Assets, it will promptly advise BUYER of the reasons therefore;

(ii) carry on, and cause each Selling Subsidiaries to carry on, its business in respect of the Assets in substantially the same manner as it has heretofore; and

(iii) except in the case of Seminole which is operated by a Third Person, use reasonable efforts, and cause each Selling Subsidiary to use reasonable efforts (A) to preserve its business in respect of the Assets intact, (B) to keep available the services of the employees involved in the conduct of such business and (C) to preserve the goodwill of customers having business relations with DEFS or such Selling Subsidiary in respect of the Assets, in each case, consistent with past practice.

7.2 *Casualty Loss.*

(a) DEFS shall promptly notify BUYER of any Casualty Loss of which DEFS becomes aware prior to the Closing. If a Casualty Loss occurs that could reasonably be expected to have a Material Adverse Effect, DEFS or BUYER shall have the right to extend the Closing Date for up to 45 days for the purpose of repairing or replacing the Assets destroyed or damaged by the Casualty Loss. If DEFS does not repair or replace the Assets destroyed or damaged by the Casualty Loss prior to the Closing and the Parties are unable to agree on a reduction to the Purchase Price to compensate BUYER for the Casualty Loss, BUYER may terminate this Agreement upon fifteen (15) days written notice to DEFS.

(b) If this Agreement is not terminated by BUYER as provided in subsection (a), BUYER's sole remedy with respect to any Casualty Loss in respect of Assets which are not repaired or replaced prior to the Closing is to (i) reduce the Purchase Price by an amount estimated by DEFS and agreed to by BUYER to be equal to the repair or replacement cost of the Assets affected by the Casualty Loss; provided that, if the Parties cannot agree, then the Closing shall occur and either Party may submit the determination of the costs of the Casualty Loss for resolution pursuant to *Section 12.8*, in which case any insurance, condemnation or taking proceeds with respect to such Casualty Loss shall be the sole property of DEFS, or (ii) accept the Assets with no adjustment to the Purchase Price, but with BUYER being entitled to receive as BUYER's sole property all insurance, condemnation or taking proceeds, on account of such Casualty Loss.

7.3 *Access, Information and Access Indemnity.*

(a) Commencing on signing and continuing until Closing, DEFS will make available at DEFS' offices to BUYER and BUYER's authorized representatives for examination as BUYER may reasonably request, all land files, regulatory files, abstracts, title opinions, engineering data, environmental data or information, reports, maps, drawings, surveys, books, records, and agreements in DEFS' or its Affiliates' possession or control relating to the Assets; provided, however, such material shall not include (i) any proprietary data which relates to another business of DEFS and is not related to the continued operation of the Assets, (ii) any information described on *Schedule 7.3* subject to Third Person confidentiality agreements for which a consent or waiver cannot be secured by DEFS after reasonable efforts, or (iii) the information described on *Schedule 7.3* which, if disclosed, would violate an attorney-client privilege or might constitute a waiver of rights as to attorney work product or attorney-client privileged communications.

(b) Subject to subsection (a) above, DEFS shall permit BUYER and BUYER's authorized representatives to consult with DEFS' employees during the business hours of 8:00 a.m. to 5:00 p.m. (local time), Monday through Friday and to conduct, at BUYER's sole risk and expense, inspections and inventories of the Assets and to examine all Records at the Plant Facilities over

which DEFS has control. DEFS shall also coordinate, in advance, with BUYER to allow site visits and inspections at the field sites on Saturdays unless operational conditions would reasonably prohibit such access.

(c) **BUYER SHALL PROTECT, DEFEND, INDEMNIFY AND HOLD THE DEFS INDEMNITEES HARMLESS FROM AND AGAINST ANY AND ALL CLAIMS AND LOSSES OCCURRING ON OR TO THE ASSETS CAUSED BY THE ACTS OR OMISSIONS OF BUYER, BUYER'S AFFILIATES OR ANY PERSON ACTING ON BUYER'S OR ITS AFFILIATE'S BEHALF IN CONNECTION WITH ANY DUE DILIGENCE CONDUCTED PURSUANT TO OR IN CONNECTION WITH THIS AGREEMENT, INCLUDING ANY SITE VISITS AND ENVIRONMENTAL SAMPLING.** BUYER shall comply fully with all rules, regulations, policies and instructions issued by DEFS or any Third Person operator regarding BUYER's actions while upon, entering or leaving any property included in the Assets, including any insurance requirements that DEFS may impose on contractors authorized to perform work on any property owned or operated by DEFS. Notwithstanding the foregoing, DEFS shall not impose rules, regulations or instructions that unreasonably impede or delay any of BUYER's activities permitted by this *Section 7.3*.

7.4 *Environmental Matters.*

(a) BUYER shall be entitled to perform, at its sole cost, risk and expense, any non-invasive or invasive environmental diligence (Phase I or Phase II environmental analysis) on the Operated Systems other than Conroe in compliance with the procedures attached hereto as *Exhibit E* during the period ending forty-five (45) days after the date of this Agreement. BUYER shall have no right of access to Seminole and shall not be permitted to conduct any invasive environmental analysis (or other invasive activity) at Conroe, but shall be entitled to perform, at its sole cost, risk and expense, any non-invasive environmental analysis thereof.

(b) BUYER shall furnish DEFS copies of all environmental materials obtained by, or prepared by or for BUYER or its Affiliates and their respective agents in connection with any of the foregoing inspections. All such environmental reports will be held in confidence in accordance with the terms thereof and, if the transactions contemplated herein are not consummated, will be delivered to DEFS in accordance with the terms of the Confidentiality Agreement.

(c) If in the course of its environmental diligence, BUYER discovers any Environmental Defects that it desires DEFS to redress (other than any matters described on the Exception Schedules), BUYER shall provide DEFS with an Environmental Defect Notice therefore by the Notice Deadline and DEFS shall, in its sole discretion, elect any one of the following by written notice prior to the Closing:

(i) Agree to Remediate the Environmental Defect at its sole cost, risk and expense in accordance with the Cost Effective Environmental Remedy before or after the Closing and may, in its discretion, extend the Closing for up to 45 days in order to attempt to effect such Remediation prior to the Closing;

(ii) Agree to pay to BUYER an amount for the Environmental Defect equal to the Environmental Corrective Cost thereof as agreed to between DEFS and BUYER; provided that if the Parties are unable to agree, the Closing shall occur and such amount shall be determined by arbitration pursuant to the procedure in *Section 12.8*; or

(iii) If such Environment Defect is of the kind or nature that a prudent operator of assets like the Assets affected by such Environmental Defect would not currently undertake Remediation, agree to indemnify BUYER against Claims and Losses related to the Environmental Defect in accordance with *Section 11.2(e)*, in which case such item shall be set forth on *Schedule 11.2(e)*.

(d) Notwithstanding anything in this *Section 7.4* to the contrary, BUYER shall not be entitled to assert any Environmental Defect under this Agreement, and hereby waives all Claims against DEFS with respect to any Environmental Matters, unless the reasonably estimated Environmental Corrective Costs of such Environmental Defect exceed $5,000 (a "*Qualified Environmental Claim*") and then only to the extent that the sum of all such Qualified Environmental Claims exceeds $250,000 in the aggregate.

(e) In connection with any Environmental Defect that DEFS is required to Remediate or indemnify BUYER under this Agreement, (i) BUYER shall make available, and DEFS shall have the right, from time to time, to review, all environmental materials related to the Assets to the extent related to any Pre-Closing environmental issues, and to have access to the Assets and BUYER's utility services from time to time to effect Remediation, (ii) BUYER shall in good faith fully cooperate with DEFS with respect thereto and (iii) DEFS shall have the sole and exclusive right to conduct any Remediation; provided, however, BUYER shall be entitled to participate with DEFS in any discussions, negotiations and Proceedings with any Governmental Authorities in connection therewith. DEFS shall reimburse BUYER for actual Third Person costs incurred by BUYER outside of its normal operations and to the extent necessary for DEFS' to conduct Remediation activities and for the reasonable cost of supervision and monitoring services requested from BUYER by DEFS. DEFS shall PROTECT, DEFEND, INDEMNIFY AND HOLD THE BUYER INDEMNITIES HARMLESS FROM AND AGAINST ANY AND ALL CLAIMS AND LOSSES OCCURRING ON OR TO THE ASSETS CAUSED BY THE ACTS OR OMISSIONS OF DEFS, DEFS' AFFILIATES OR ANY PERSON ACTING ON DEFS' OR DEFS' AFFILIATES BEHALF IN CONNECTION WITH ANY REMEDIATION CONDUCTED PURSUANT TO THIS AGREEMENT. DEFS shall comply fully with all rules, regulations, policies and instructions issued by BUYER or any Third Person operator regarding DEFS' actions while upon, entering or leaving any property included in the Assets, including any insurance requirements to the extent set forth on *Schedule 7.4(e)*. Notwithstanding the foregoing, BUYER shall not impose rules, regulations or instructions that unreasonably impede or delay DEFS' Remediation activities.

(f) If (i) Environmental Corrective Costs with respect to any Environmental Defects affecting the AIM System exceeds $3,500,000, and (ii) notwithstanding that such Environmental Defects would be Remediated by DEFS pursuant to this Agreement, such Environmental Defects could reasonably be expected to have a material adverse effect on the value of the AIM System, BUYER shall have the right to terminate this Agreement upon ten (10) days written notice to DEFS, which notice shall describe in reasonable detail BUYER's basis for concluding that such a material adverse effect exists notwithstanding that such Environmental Defect would be Remediated by DEFS.

(g) Notwithstanding anything in this Agreement to the contrary, (i) BUYER shall accept all liability and obligations with respect to any ground coverage conditions on the following segments of the AIM System: the Ray Braswell-Pineywoods 20" line located in the Springwood Subdivision, the Vicksburg (Halls Ferry Road) 12" line and the Baxterville 16" line, and (ii) DEFS shall accept all liability and obligations with respect to, and use commercially reasonably efforts to remedy prior to Closing, the ground coverage conditions on the Redwood line comprising part of the AIM System existing prior to the Closing and those matters described in items 3(c), (d) and (e) of Schedule 5.13 and item 3(b) on *Schedule 5.7*. If DEFS is unable to remedy such matters prior to Closing, DEFS shall treat such matters as if they were Environmental Defects that DEFS had agreed to Remediate, provided, however, that BUYER shall make its field personnel available to DEFS to assist in the remediation of the Redwood line ground coverage condition at no cost and DEFS shall have no liability to BUYER for ground coverage gas loss or for disruption to BUYER's operations as a result of remediation of such ground coverage conditions. DEFS shall

consult with BUYER with respect to its proposed remediation of the Redwood line washout conditions.

(h) Except only to the extent of Retained Liabilities, the remedies for breaches of DEFS' representations and warranties set out in *Section 5.13* and DEFS' indemnity obligations under *Section 11.2(e) (which shall not be limited by the provisions of this Section 7.4)*, this *Section 7.4* sets out BUYER's sole and exclusive remedies against DEFS, any Selling Subsidiary or any other DEFS Indemnitee in respect of Environmental Laws or Environmental Matters affecting the Operated Systems.

7.5 *Title Defects.*

(a) BUYER shall have a period of forty-five (45) days from the date of this Agreement to examine title to the Assets. If in the course of such examination, BUYER discovers any Title Defects (other than any matter described in an Exception Schedule), it may provide DEFS with a Title Defect Notice with respect to such Title Defect prior to the Notice Deadline.

(b) With respect to Title Defects that are described in a Title Defect Notice delivered to DEFS by the Title Notice Deadline, DEFS shall, in its sole discretion, elect either one of the following by written notice prior to the Closing:

(i) Agree to cure the Title Defect at its sole cost, risk and expense in accordance with the Cost Effective Title Remedy before or after the Closing, and may, in its discretion, extend the Closing for up to 45 days in order to effect such cure prior to Closing; or

(ii) Agree to pay to BUYER an amount for a Title Defect equal to the Title Corrective Cost thereof as agreed to between DEFS and BUYER; provided that if the Parties are unable to agree, the Closing shall occur and such amount shall be determined by arbitration pursuant to the procedure in *Section 12.8*.

(c) Notwithstanding anything in this *Section 7.5* to the contrary, BUYER shall not be entitled to assert any Title Defect under this Agreement, and hereby waives all Claims against DEFS in respect of any Title Defects, unless the Claim is timely made in accordance with the provisions of this *Section 7.5* and then only to the extent that the Title Corrective Costs with respect to all such Title Defects exceed $100,000 in the aggregate. The provisions of this *Section 7.5(c)* shall not apply to Claims made in respect of DEFS' special warranty of title described in *Section 2.1* and contained in each bill of sale or other conveyance document transferring or conveying the Assets to BUYER.

(d) In connection with any Title Defect that DEFS is required to cure, (i) BUYER shall make available, and DEFS shall have the right, from time to time, to review, all title reports and records relating to such Title Defect, and (ii) BUYER shall in good faith fully cooperate with DEFS with respect thereto. DEFS' cure of such defect shall be evidenced by DEFS delivery of written notice to BUYER that the Title Defect has been cured, and if BUYER disputes that any such Title Defect has been properly cured and the Parties are unable to reach agreement with respect thereto, such matter shall be submitted to arbitration in accordance with *Section 12.8*.

(e) Except as a result of the special warranty of title described in *Section 2.1* and contained in each bill of sale or other conveyance document transferring or conveying the Assets to BUYER and DEFS' indemnity obligations under Section 11.2(e) (which shall not be limited by the provisions of this Section 7.5), this *Section 7.5* sets forth BUYER's sole and exclusive remedy with respect to Title Defects or any other title conditions or other title matters affecting the Assets.

7.6 *DEFS' Limitation on Due Diligence Defects and Other Matters.* Notwithstanding any provision herein to the contrary, in the event that DEFS' reasonably anticipated aggregate cost to Remediate, cure or correct or pay BUYER for Environmental Defects or Title Defects as asserted by BUYER,

together with any reductions in the Purchase Price as a result of any Casualty Losses and DEFS' good faith estimate of its liability with respect to breaches of representations and warranties of which DEFS has received notice from BUYER, exceeds 5% of the Purchase Price, then DEFS shall have the right to terminate this Agreement upon ten (10) days written notice to BUYER.

7.7 *Names.* As soon as reasonably possible, but in no event later than sixty (60) days after Closing, BUYER shall remove the names of DEFS and its Affiliates, including "*Duke*" or "*DEFS*" and all variations thereof, from the Assets. As soon as reasonably possible after the Closing, BUYER shall make the requisite filings with, and provide the requisite notices to, the appropriate Governmental Authorities to reflect that BUYER has title to the Assets.

7.8 *Regulatory Filings; Hart-Scott-Rodino Filing.*

(a) BUYER and DEFS will take all commercially reasonable actions necessary or desirable, and proceed diligently and in good faith and use all commercially reasonable efforts, as promptly as practicable to obtain all consents, approvals or actions of, to make all filings with, and to give all notices to, Governmental Authorities required to accomplish the transactions contemplated by this Agreement.

(b) This Agreement is subject in all respects to and conditioned upon compliance by the Parties with the HSR Act, to the extent that the HSR Act is applicable to the transactions contemplated by this Agreement. The Parties shall make any filings required under the HSR Act on or prior to fifteen (15) days after the date hereof and provide such information to the FTC as is required in connection with the HSR Act as soon as practicable after a request therefor.

(c) Notwithstanding any provision herein to the contrary, each of the Parties will (i) use reasonable efforts to comply as expeditiously as possible with all lawful requests of Governmental Authorities for additional information and documents pursuant to the HSR Act, (ii) not (A) extend any waiting period under the HSR Act or (B) enter into any voluntary agreement with any Governmental Authority not to consummate the transactions contemplated by this Agreement, except with the prior consent of the other Party, and (iii) cooperate with each other and use reasonable efforts to obtain the requisite approval of the FTC and DOJ; provided, however, that neither Party shall be obligated to accept any conditional approval or divest any of its properties (including, in the case of the BUYER, any of the Assets).

(d) BUYER will be responsible for paying the filing fees required with respect to any filing under the HSR Act.

7.9 *Preservation of Records.* For a period of seven (7) years after the Closing Date, the Party in possession of the originals of the Records will retain such Records at its sole cost and expense and will make such Records available to the other Party upon reasonable notice for inspection and/or copying, at the expense of the requesting Party, at the headquarters of the Party in possession (or at such other location in the United States as the Party in possession may designate in writing to the other Party) at reasonable times and during regular office hours. If BUYER, at any time, transfer(s) the Assets directly or indirectly, to a Third Person, then BUYER will provide notice of such transfer to DEFS within a reasonable period after such transfer and obligate the transferee to maintain the Records as herein required and will retain access to the Records for the benefit of itself and DEFS. BUYER agrees that DEFS may retain a copy of the Records.

7.10 *Accounting for Excess Inventory.* As of the Effective Time, representatives of the Parties shall jointly calculate the quantity and value of Excess Inventory in accordance with the procedures, and based on the market value of the Excess Inventory determined as of the date five (5) days prior to the Closing Date using the indices, described on *Schedule 7.10*.

7.11 *Imbalances.*

(a) *Schedule 1.1(a)* sets out the actual amounts of the Assumed Imbalance Receivables and the Assumed Imbalance Payables as of the date set forth in such schedule. DEFS shall use commercially reasonable efforts to minimize the amount of the Assumed Imbalance Receivables and the Assumed Imbalance Payables outstanding as of the Effective Time. DEFS shall make a good faith estimate of the Assumed Imbalance Receivables and Assumed Imbalance Payables as of the date five (5) days prior to the Closing Date and update *Schedule 1.1(a)* to reflect such estimate. The Assumed Imbalance Receivables as set out in the final*Schedule 1.1(a)* shall be for the sole benefit of BUYER and it shall be the sole obligation of BUYER to discharge the Assumed Imbalance Payables as set out in the final *Schedule 1.1(a)*. Such amounts shall be cashed out as between the Parties based upon the formula used to value the Excess Inventory. BUYER and DEFS agree to cooperate and to make available to each other all information necessary to calculate and to confirm and verify the actual volume and value of Imbalances.

(b) DEFS shall retain any and all such Imbalances other than the Assumed Imbalance Receivables and the Assumed Imbalance Payables. BUYER shall use reasonable good faith efforts to assist DEFS (as DEFS may reasonably request) in collecting such amounts and pay to DEFS any such amounts (and the market value of any Imbalance delivered in kind) that BUYER collects or receives. Until the earlier of (i) the collection of the Imbalance Receivables in respect of Conroe in full, (ii) the date two years from the Effective Time, or (iii) DEFS providing written notice to BUYER directing otherwise; BUYER shall continue to suspend payments to Third Persons to the extent attributable to production proceeds at Conroe, pay such amount to DEFS and use reasonable good faith efforts to assist DEFS in the collection of the Imbalance Receivables, subject to full indemnification and defense by DEFS.

7.12 *Suspense Account Funds and Division Orders.*

(a) Certain funds otherwise payable to operators and/or working, royalty or other interest owners in wells connected, or other owners delivering natural gas or liquid hydrocarbons to certain facilities have been or may be placed in suspense pending resolution of questions of title, execution of division or transfer orders, or for similar reasons (the "*Suspense Account Funds*"). DEFS shall retain any and all Suspense Account Funds and related obligations other than with respect to the Assumed Suspense Account Obligations.

(b) *Schedule 1.1(b)* sets out the actual liability in respect of the Assumed Suspense Account Obligations as of the date set forth in such Schedule. DEFS shall make a good faith estimate of its liability in respect of the Assumed Suspense Account Obligations as of the date five (5) days prior to the Closing Date, shall update *Schedule 1.1(b)* to reflect such estimate, and in exchange for a payment in an amount equal to such estimated liability, BUYER shall assume and agree to be solely responsible for such scheduled liabilities. BUYER and DEFS agree to cooperate and to make available to each other all information necessary to calculate and to confirm and verify the actual amount of the liability with respect to the Assumed Suspense Account Obligations.

7.13 *Capital Projects.* *Schedule 7.13* as supplemented from time to time sets out those capital projects ("*Capital Projects*") for which BUYER shall have financial responsibility. DEFS shall have the right to supplement *Schedule 7.13* to add non-maintenance related capital projects approved by BUYER pursuant to*Section 7.1(a)(iv)* or for which BUYER does not have approval rights because they do not meet the size to require approval pursuant thereto. BUYER shall reimburse DEFS at the Closing for DEFS' actual costs paid in connection with the Capital Projects identified in *Schedule 7.13*, whether or not DEFS has received an invoice therefore. All costs and expenses in respect of the Capital Projects incurred after the Effective Time shall be solely for the account of and payable by BUYER.

7.14 *Employees.*

(a) Within ten (10) days from the date of this Agreement, DEFS will provide BUYER with a list of all field employees and commercial and administrative support employees of DEFS and its Affiliates who are assigned on a full time or primary basis to any of the Assets (the "*Business Employees*") and, with respect to each Business Employee, the Business Employee's name, title, and compensation.

(b) BUYER, at its sole option and discretion, may make offers of employment to those Business Employees selected by BUYER. Subject to the terms of this Agreement, BUYER's offers of employment shall be on such terms and conditions (including levels of compensation) as BUYER may determine in its sole discretion.

(c) BUYER may conduct pre-employment interviews with the Business Employees and DEFS shall provide reasonable access to such employees to BUYER to conduct such interviews. No later than thirty-five (35) days after the date hereof, BUYER will deliver to DEFS a written list containing the name and proposed offer (including base pay and benefits) of all of the Business Employees to whom BUYER intends to offer employment. The Business Employees who accept and actually commence employment with BUYER on the Closing Date (unless DEFS and BUYER mutually agree to a later commencement date) are hereinafter collectively referred to as the "*Continuing Employees*."

(d) With respect to any employees of DEFS or its Affiliates who perform services with respect to any of the Assets and whose employment relationship with DEFS or any of its Affiliates is terminated by DEFS, DEFS shall comply with all applicable Laws in connection therewith, including the Worker Adjustment and Retraining Notification Act.

(e) With respect to the Continuing Employees:

(i) If BUYER terminates the employment of any Continuing Employee within one (1) year after the Closing Date under circumstances that would have entitled such Continuing Employee to a severance benefit under DEFS' severance formula in effect for such employee on the Effective Time, as described on *Schedule 7.14(e)(i)*, BUYER will pay such Continuing Employee severance based on such severance benefit plan taking into account years of service recognized by DEFS and years of service with BUYER. DEFS shall provide BUYER prior to Closing with a schedule setting out the severance benefits payable under the DEFS severance benefit plan for each Continuing Employee.

(ii) The Continuing Employees shall be eligible to participate in BUYER's benefit plans in accordance with the terms thereof. To the extent permitted by Law and BUYER's benefit plans, and without regard to whether such employees are located outside of the region of any network providing coverage under any such plans, (A) BUYER shall grant all Continuing Employees credit for their service with DEFS or its Affiliates for purposes of eligibility to participate in and vesting credits in BUYER's severance, long term disability, service award, vacation programs and policies, and retirement plans, (B) for the year during which such coverage begins, BUYER shall credit under any medical and/or dental benefit plan maintained by BUYER all Continuing Employees with any deductibles and co-payments already incurred during such year under DEFS' (or its Affiliate's) group health plan, and waive any pre-existing conditions exclusions or limitations as to coverage, any evidence-of-insurability provisions, and any waiting-period requirements under such plans, and (C) BUYER shall apply towards any deductible requirements and out-of-pocket maximum limits under such BUYER welfare benefit plans that are applicable for the plan year in which the Closing occurs, any amounts paid by a Continuing Employee toward such requirements and limits under any similar DEFS welfare Benefit Plan. As soon as reasonably practicable

after the Closing, DEFS shall prepare and deliver to each Continuing Employee and request such Continuing Employee to deliver to BUYER a schedule setting forth the amount of the deductible and out-of-pocket maximum limits satisfied by such Continuing Employee under DEFS welfare Benefit Plans as of the Closing.

(iii) As soon as administratively feasible after the Closing, and subject to reasonable requirements, BUYER shall cause the trustee of BUYER's 401(k) plan trust to accept direct rollovers from DEFS' 401(k) plan trust for each Continuing Employee electing the same with respect to a distribution of his or her vested account thereunder. In addition, participant promissory notes for any outstanding loans of Continuing Employees under DEFS' 401(k) plan shall be rolled over to BUYER's 401(k) plan trust, to the extent permitted by Law, DEFS' 401(k) plan and BUYER's 401(k) plan. If any Continuing Employee does not rollover his or her account to BUYER's 401(k) plan, such Continuing Employee may continue to participate in DEFS' 401(k) plan as a terminated participant in accordance with the terms thereof, and DEFS shall retain all responsibility for the management and administration of such Continuing Employee's account balances under DEFS' 401(k) plan.

(iv) The number of vacation days that each Continuing Employee shall be entitled under BUYER's vacation policies for calendar year 2003 shall not exceed the number of remaining vacation days to which such employee has been granted for calendar year 2003 under DEFS' vacation policies determined as of the Effective Time, which such employee has not used and for which such employee has not been paid by DEFS. Promptly following the Closing, DEFS shall provide BUYER with a written exhibit showing the number of remaining vacation days for each Continuing Employee.

(f) For the one-year period following the Closing Date, if BUYER or any of its Affiliates directly or indirectly (including as an employee, a contractor or an employee of a contractor or subcontractor) retains the services of any of any Business Employee to whom DEFS paid severance payments or benefits because the employment of such Business Employee with DEFS was terminated within 60 days of the Effective Time, BUYER shall immediately reimburse DEFS the actual amount or value of severance pay that DEFS paid to such Business Employee. Notwithstanding the foregoing, this Section 7.14(f) shall not apply to employees of contractors or subcontractors of BUYER who are performing similar services for customers other than BUYER and its Affiliates.

7.15 *Like-kind Exchange.* So long as it does not delay the Closing and DEFS pays the transaction costs for such exchange, DEFS shall have the right at any time prior to Closing to assign all or a portion of its rights (but not its obligations) under this Agreement to a qualified intermediary in order to accomplish the transactions contemplated by this Agreement in a manner that would comply, either in whole or in part, with the requirements of a like-kind exchange pursuant to Section 1031 of the Code. If DEFS assigns its rights under this Agreement for this purpose, DEFS shall provide BUYER with prior written notice and BUYER agrees that, if so requested by DEFS, it will (a) provide a written consent to DEFS' assignment of its rights in this Agreement for the sole purpose herein described, and (b) pay the Purchase Price into a qualified escrow or qualified trust account at Closing as directed in writing by DEFS. Any assignment of this Agreement to a qualified intermediary shall not release DEFS from any of its liabilities or obligations to BUYER under this Agreement. DEFS shall be solely responsible to designate and obtain exchange property and to otherwise comply with Section 1031 of the Code. The rights of the Parties shall not be affected by any determination that the transaction does not qualify as a like-kind exchange.

7.16 *Credits and Receipts.* Subject to the terms hereof (including the indemnification provisions hereof), all monies, proceeds, receipts, credits and income attributable to the Assets (as determined in accordance with GAAP) (i) for all periods of time at and after the Effective Time, shall be the sole

property and entitlement of BUYER, and, to the extent received by DEFS or one of its Affiliates, shall be promptly accounted for and transmitted to BUYER and (ii) for all periods of time prior to the Effective Time, shall be the sole property and entitlement of DEFS and, to the extent received by BUYER, shall be promptly accounted for and transmitted to DEFS. After Closing, regardless of when and by whom the actual invoice or demand for payment is received, (a) DEFS shall pay and be responsible for all Retained Liabilities and (b) BUYER shall pay and be responsible for all Assumed Liabilities.

7.17 *Cooperation and Reasonable Efforts.* The Parties agree to cooperate with each other and to use commercially reasonable efforts to cause all of the conditions precedent to Closing to be satisfied as soon as practicable.

7.18 *Financial Statements.* As soon as practicable after the execution of this Agreement, BUYER shall seek approval from the Securities Exchange Commission to file limited audited financial statements for the Assets consisting solely of a statement of revenue and direct operating expenses for the years ending December 31, 2000, December 31, 2001 and December 31, 2002 and the three month period ended March 31, 2003 and 2002, and, if necessary, the six month period ended June 30, 2003 and 2002 ("Limited Financials"). A public accounting firm of BUYER's choice will perform an audit of the Limited Financials and DEFS shall undertake reasonable efforts to facilitate (and shall cause the Selling Subsidiaries to undertake reasonable efforts to facilitate) such audit as requested by BUYER. In the event that BUYER is unable to obtain the consent of the Securities Exchange Commission to file the Limited Financials, then the parties shall negotiate in good faith a resolution that will allow BUYER to file that required by the Securities Exchange Commission and compensate DEFS for all associated internal and external costs.

ARTICLE VIII

CONDITIONS TO CLOSING

8.1 *DEFS' Conditions.* The obligation of DEFS to close is subject to the satisfaction of the following conditions, any of which may be waived in its sole discretion:

(a) The representations of BUYER contained in Article VI hereof are true on and as of the Closing, except for breaches that individually or in the aggregate are not reasonably expected to cause a Material Adverse Effect;

(b) BUYER shall have performed in all material respects the obligations, covenants and agreements of BUYER contained herein and required to be performed prior to the Closing.

(c) No Proceeding shall be pending or threatened which seeks to restrain, enjoin or otherwise prohibit the consummation of the transactions contemplated by this Agreement.

(d) The Required DEFS Consent described under the heading "Required Regulatory Authorizations" in *Schedule 5.4* has been obtained.

(e) BUYER shall have made all deliveries in accordance with *Section 9.2*.

(f) DEFS shall have received BUYER's wire transfer of the amount due with respect to the Purchase Price (as set forth in the Preliminary Settlement Statement).

8.2 *BUYER's Conditions.* The obligation of BUYER to close is subject to the satisfaction of the following conditions, any of which may be waived in its sole discretion:

(a) The representations of DEFS contained in Article V shall be true on and as of the Closing (except for representations and warranties that, in accordance with their terms speak only as of an earlier date, in which case such representations and warranties shall be true as of such earlier date) except for breaches that individually or in the aggregate are not reasonably expected to cause a Material Adverse Effect;

(b) DEFS shall have performed, in all material respects, the obligations, covenants and agreements of DEFS contained herein and required to be performed prior to the Closing;

(c) No Proceeding shall be pending or threatened which would restrain, enjoin or otherwise prohibit, the consummation of the transactions contemplated by this Agreement.

(d) All of the DEFS' Required Consents and the BUYER's Required Consents shall have been obtained.

(e) There shall have been no event or occurrence that has had or could reasonably be expected to have a Material Adverse Effect.

(f) DEFS shall have delivered all documents in accordance with *Section 9.2*.

ARTICLE IX

CLOSING

9.1 *Time and Place of Closing.* The consummation of the transactions contemplated by this Agreement (the "*Closing*") shall take place at 10:00 a.m. Subject Time in the offices of DEFS in Denver, Colorado, on June 30, 2003, or on the last Business Day of the month following the satisfaction or waiver of the conditions set forth in *Sections 8.1* and *8.2*, or such other time and place as the Parties agree to in writing (the "*Closing Date*"), and shall be effective as of the Effective Time.

9.2 *Deliveries at Closing.* At the Closing,

(a) DEFS will deliver or cause to be delivered to BUYER:

(i) Each of the Transaction Documents to which DEFS or any of its Affiliates are a party duly executed by DEFS or such Affiliates, it being agreed that the assignment and conveyance of the Assets shall be in substantially the form of *Exhibit I*;

(ii) Certificates issued by appropriate Governmental Authorities evidencing the good standing and existence of DEFS and each of the Selling Subsidiaries in Delaware, as of a date not more than thirty (30) days prior to the Closing Date;

(iii) A certificate of a corporate officer or other authorized person dated the Closing Date, certifying on behalf of DEFS that the conditions in *Sections 8.2(a) 8.2(b)* have been fulfilled;

(iv) Legal opinions rendered by DEFS' outside corporate counsel in substantially the form attached as *Exhibit D-1*;

(v) The Transition Services Agreement duly executed by DEFS;

(vi) The ExxonMobil Agreement duly executed by the parties thereto;

(vii) The Hattiesburg Agreement duly executed by the parties thereto;

(viii) The Conroe Environmental Agreements duly executed by the parties thereto;

(ix) The NGL Agreements duly executed by Duke Energy NGL Services, LP; and

(x) A FIRPTA Affidavit in customary form.

(b) BUYER will deliver or cause to be delivered to DEFS:

(i) Each of the Transaction Documents to which BUYER or BUYER's Affiliates are a party duly executed by BUYER or such Affiliates, it being agreed that the assignment and conveyance of the Assets shall be in substantially the form of *Exhibit I*;

(ii) Certificates issued by appropriate Governmental Authorities evidencing the good standing and existence of BUYER in Delaware, as of a date not more than thirty (30) days prior to the Closing Date;

(iii) A certificate of a corporate officer or other authorized person dated the Closing Date certifying on behalf of BUYER that the conditions in *Sections 8.1(a)* and *8.1(b)* have been fulfilled;

(iv) A legal opinion rendered by BUYER's outside corporate counsel in substantially the form attached as *Exhibit D-2*.

(v) A wire transfer to DEFS of the amount due with respect to the Purchase Price (as set forth in the Preliminary Settlement Statement);

(vi) The Transition Services Agreement duly executed by BUYER; and

(vii) The NGL Agreements duly executed by BUYER.

ARTICLE X

TERMINATION

10.1 *Termination at or Prior to Closing.* This Agreement may be terminated and the transactions contemplated hereby abandoned as follows:

(a) DEFS and BUYER may elect to terminate this Agreement at any time prior to the Closing by mutual written consent of the Parties;

(b) Either Party by written notice to the other Party may terminate this Agreement if the Closing shall not have occurred on or before August 31, 2003; provided, however, that a Party may not terminate this Agreement if such Party is at such time in material breach of any provision of this Agreement;

(c) Either Party may terminate this Agreement at any time on or prior to the Closing if the other Party shall have materially breached any representations, warranties or covenants of such other Party herein contained and the same is not cured within thirty (30) days after receipt of written notice thereof from the non-breaching Party; and

(d) Either Party may terminate this Agreement to the extent such termination is expressly authorized by another provision of this Agreement.

10.2 *Effect of Termination.* In the event that Closing does not occur as a result of either Party exercising its right to terminate pursuant to *Section 10.1*, then neither Party shall have any further rights or obligations under this Agreement, except that (i) nothing herein shall relieve either Party from any liability for any willful breach of this Agreement, and (ii) the provisions of *Section 7.3(c)* and Article XII shall survive any termination of this Agreement.

ARTICLE XI

INDEMNIFICATION

11.1 *Indemnification by BUYER.* Effective upon Closing, BUYER shall defend, indemnify and hold harmless DEFS and its Affiliates, and all of its and their directors, officers, employees, partners, members, contractors, agents, and representatives (collectively, the "*DEFS Indemnitees*") from and against any and all Losses asserted against, resulting from, imposed upon or incurred by any of the DEFS Indemnitees as a result of or arising out of:

(a) the breach of any of the representations, warranties, covenants, or agreements of BUYER contained in this Agreement;

(b) to the extent that DEFS is not required to indemnify BUYER pursuant to *Section 11.2*, the Assumed Liabilities; and

(c) all liabilities or obligations of any kind or nature resulting from or arising out of the ownership, use or operation of the Assets by BUYER, arising out of or relating to periods on and after the Effective Time.

(d) All liabilities or obligations of any kind or nature resulting from or arising out of the failure to obtain any DEFS Required Consents.

11.2 *Indemnification by DEFS.* Effective upon Closing, DEFS shall defend, indemnify and hold harmless BUYER and its Affiliates, and all of its and their directors, officers, employees, partners, members, contractors, agents, and representatives (collectively, the "*BUYER Indemnitees*") from and

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against any and all Losses asserted against, resulting from, imposed upon or incurred by any of the BUYER Indemnitees as a result of or arising out of:

(a) the breach of any of the representations or warranties of DEFS contained in Article 5 of this Agreement;

(b) Any Retained Liabilities and the breach of any of the covenants or agreements of DEFS contained in this Agreement;

(c) Any Special Liabilities;

(d) Environmental Defects and Third Person Claims related thereto with respect to Seminole;

(e) Any Environmental Defect for which DEFS has agreed to provide indemnity pursuant to *Section 7.4(c)(iii)* and any other matter for which DEFS has agreed to indemnify BUYER and which is described on *Schedule 11.2(e)*; and

(f) The failure of any Selling Subsidiary to sell, transfer or convey any of such Selling Subsidiary's interest in the Assets to BUYER or as a result of the breach by any Selling Subsidiary of a Transaction Document to which it is a party or by Duke Energy NGL Services, LP under the NGL Agreements, including, without limitation, any breach of the special warranty of title provided by such Selling Subsidiary in any Transaction Document.

11.3 *Deductibles, Caps, Survival and Certain Limitations.*

(a) Subject to this *Section 11.3*, all representations, warranties, covenants and indemnities made by the Parties in this Agreement or pursuant hereto shall survive the Closing as hereinafter provided, and shall not be merged into any instruments or agreements delivered at Closing.

(b) With respect to the obligations of DEFS:

(i) Under *Section 11.2(a)*:

(A) none of the BUYER Indemnitees shall be entitled to assert any right to indemnification after two (2) years from the Effective Time;

(B) none of the BUYER Indemnitees shall be entitled to assert any right to indemnification unless the individual claim or series of related claims which arise out of substantially the same facts and circumstances exceed $25,000;

(C) none of the BUYER Indemnitees shall be entitled to assert any right to indemnification unless such claims in the aggregate exceed $500,000, and then only to the extent that all such claims exceed said amount; and

(D) none of the BUYER Indemnitees shall be entitled to assert any right to indemnification to the extent such claims exceed in the aggregate 50% of the Purchase Price.

(ii) None of the BUYER Indemnitees shall be entitled to assert any right to indemnification under *Section 11.2(c)* or *Section 11.2(d)* after two (2) years from the Effective Time.

(c) The claim for indemnity under this Agreement made by a Party Indemnitee shall be in writing, be based upon a Claim that is actually asserted (and, with respect to a BUYER Indemnitee, be delivered in good faith prior to the respective survival period under *Section 11.3(b)*), and specify in reasonable detail the specific nature of the Claim for indemnification hereunder ("*Claim Notice*"). Any such claim that is described in a timely delivered Claim Notice (and substantially related claims arising out of the same facts or circumstances) shall survive with respect to the specific matter described therein; provided, however, that any such

claim by any BUYER Indemnitee involving an Environmental Defect or any Environmental Matter shall terminate at the earlier of:

(i) the time that DEFS receives closure from a Governmental Authority of the respective Environmental Defect; or

(ii) 365 days have lapsed after DEFS provided notice of completion of such cleanup activity to the Governmental Authority that has actually asserted jurisdiction over such matter.

(d) Notwithstanding anything contained herein to the contrary, in no event shall DEFS be obligated under this Agreement to indemnify (or be otherwise liable hereunder in any way whatsoever to) any of the BUYER Indemnitees with respect to a breach of any representation or warranty, if BUYER had Knowledge thereof at Closing and failed to notify DEFS of such breach prior to Closing pursuant to *Section 7.17*.

(e) Notwithstanding anything contained herein to the contrary, all of BUYER's covenants, representations, warranties, indemnity obligations and other obligations under this Agreement shall be perpetual.

11.4 *Notice of Asserted Liability; Opportunity to Defend.*

(a) All claims for indemnification hereunder shall be asserted and handled pursuant to this *Section 11.4*. Any person claiming indemnification hereunder is referred to herein as the "*Indemnified Party*" or "*Indemnitee*" and any person against whom such claims are asserted hereunder is referred to herein as the "*Indemnifying Party*" or "*Indemnitor*."

(b) In the event that any Claim is asserted against or any Loss is sought to be collected from an Indemnifying Party, the Indemnified Party shall with reasonable promptness provide to the Indemnifying Party a Claim Notice. The failure to give any such Claim Notice shall not otherwise affect the rights of the Indemnified Party to indemnification hereunder unless the Indemnified Party has proceeded to contest, defend or settle the Claim or remedy a Loss with respect to which it has failed to give a Claim Notice to the Indemnifying Party. Additionally, to the extent the Indemnifying Party is prejudiced thereby, the failure to provide a Claim Notice to the Indemnifying Party shall relieve the Indemnifying Party from liability for such Claims and Losses that it may have to the Indemnified Party, but only to the extent the liability for such Claims or Losses is directly attributable to such failure to provide the Claim Notice.

(c) The Indemnifying Party shall have thirty (30) days from the personal delivery or receipt of the Claim Notice (the "*Notice Period*") to notify the Indemnified Party (i) whether or not it disputes the liability to the Indemnified Party hereunder with respect to the Claim or Loss, and in the event of a dispute, such dispute shall be resolved in the manner set forth in *Section 12.8* hereof, (ii) in the case where Losses are asserted against or sought to be collected from an Indemnified Party by the Indemnified Party, whether or not the Indemnifying Party desires at its own sole cost and expense to attempt to remedy such Losses or (iii) in the case where Claims are asserted against or sought to be collected from an Indemnified Party by a Third Person ("*Third Person Claim*"), whether or not the Indemnifying Party desires at its own sole cost and expense to defend the Indemnified Party against such Third Person Claim; provided, however, that any Indemnified Party is hereby authorized prior to and during the Notice Period to file any motion, answer or other pleading that it shall deem necessary or appropriate to protect its interests or those of the Indemnifying Party (and of which it shall have given notice and opportunity to comment to the Indemnifying Party) and not prejudicial to the Indemnifying Party.

(d) If the Indemnifying Party does not give notice to the Indemnified Party of its election to contest and defend any such Third Person Claim within the Notice Period, then the Indemnifying

Party shall be bound by the result obtained with respect thereto by the Indemnified Party and shall be responsible for all costs incurred in connection therewith.

(e) If the Indemnifying Party is obligated to defend and indemnify the Indemnified Party, and the Parties have a conflict of interest with respect to any such Third Person Claim, then the Indemnified Party may, in its sole discretion, separately and independently contest and defend such Third Person Claim, and the Indemnifying Party shall be bound by the result obtained with respect thereto by the Indemnified Party and shall be responsible for all costs incurred in connection therewith.

(f) In the event that the Indemnifying Party notifies the Indemnified Party within the Notice Period that it desires to defend the Indemnified Party against Third Person Claim, the Indemnifying Party shall have the right to defend all appropriate Proceedings, and with counsel of its own choosing (but reasonably satisfactory to the Indemnified Party) and such Proceedings shall be promptly settled or prosecuted by it to a final conclusion. If the Indemnified Party desires to participate in, but not control, any such defense or settlement it may do so at its sole cost and expense. If the Indemnified Party joins in any such Third Person Claim, the Indemnifying Party shall have full authority to determine all action to be taken with respect thereto.

(g) If requested by the Indemnifying Party, the Indemnified Party agrees to cooperate with the Indemnifying Party and its counsel in contesting any Third Person Claim and in making any counterclaim against the Third Person asserting the Third Person Claim, or any cross-complaint against any person. No Third Person Claim may be settled or otherwise compromised without the prior written consent of the Indemnifying Party.

(h) At any time after the commencement of defense of any Third Person Claim, the Indemnifying Party may request the Indemnified Party to agree in writing to the abandonment of such contest or to the payment or compromise by the Indemnifying Party of the asserted Third Person Claim, but only if the Indemnifying Party agrees in writing to be solely liable for such Third Person Claim; whereupon such action shall be taken unless the Indemnified Party determines that the contest should be continued and notifies the Indemnifying Party in writing within fifteen (15) days of such request from the Indemnifying Party. In the event that the Indemnified Party determines that the contest should be continued, the amount for which the Indemnifying Party would otherwise be liable hereunder shall not exceed the amount which the Indemnifying Party had agreed to pay to compromise such Third Person Claim; provided that, the other Person to the contested Third Person Claim had agreed in writing to accept such amount in payment or compromise of the Third Person Claim as of the time the Indemnifying Party made its request therefor to the Indemnified Party, and further provided that, under such proposed compromise, the Indemnified Party would be fully and completely released from any further liability or obligation with respect to the matters which are the subject of such contested Third Person Claim.

11.5 *Exclusive Remedy.* **AS BETWEEN THE BUYER INDEMNITEES AND THE DEFS INDEMNITEES, AFTER CLOSING (A) THE EXPRESS INDEMNIFICATION PROVISIONS SET FORTH IN THIS AGREEMENT AND THE TRANSACTION DOCUMENTS WILL BE THE SOLE AND EXCLUSIVE RIGHTS, OBLIGATIONS AND REMEDIES OF THE PARTIES WITH RESPECT TO SAID AGREEMENTS, THE EVENTS GIVING RISE THERETO, AND THE TRANSACTIONS PROVIDED FOR THEREIN OR CONTEMPLATED THEREBY AND (B) NEITHER PARTY NOR ANY OF ITS RESPECTIVE SUCCESSORS OR ASSIGNS SHALL HAVE ANY RIGHTS AGAINST THE OTHER PARTY OR ITS AFFILIATES OTHER THAN AS IS EXPRESSLY PROVIDED IN THIS AGREEMENT AND THE TRANSACTION DOCUMENTS.**

11.6 *Negligence and Strict Liability Waiver.* **WITHOUT LIMITING OR ENLARGING THE SCOPE OF THE INDEMNIFICATION OBLIGATIONS SET FORTH IN THIS AGREEMENT, AN INDEMNIFIED PARTY SHALL BE ENTITLED TO INDEMNIFICATION UNDER THIS**

AGREEMENT IN ACCORDANCE WITH THE TERMS HEREOF, REGARDLESS OF WHETHER THE LOSS OR CLAIM GIVING RISE TO SUCH INDEMNIFICATION OBLIGATION IS THE RESULT OF THE SOLE, CONCURRENT OR COMPARATIVE NEGLIGENCE, STRICT LIABILITY, OR VIOLATION OF ANY LAW OF OR BY SUCH INDEMNIFIED PARTY.

11.7 *DTPA Waiver.* **TO THE EXTENT APPLICABLE TO THE INTERESTS OR ANY PORTION THEREOF, BUYER HEREBY WAIVES ITS RIGHTS UNDER THE PROVISIONS OF THE TEXAS DECEPTIVE TRADE PRACTICES ACT, CHAPTER 17, SUBCHAPTER E, SECTIONS 17.41 THROUGH 17.63, INCLUSIVE (OTHER THAN SECTION 17.555, WHICH IS NOT WAIVED), OF THE TEXAS BUSINESS & COMMERCIAL CODE (A LAW THAT GIVES CONSUMERS SPECIAL RIGHTS AND PROTECTIONS). AFTER CONSULTATION WITH AN ATTORNEY OF ITS CHOICE, BUYER VOLUNTARILY CONSENTS TO THIS WAIVER.**

11.8 *Limitation on Damages.* **NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THIS AGREEMENT, IN NO EVENT SHALL EITHER DEFS OR BUYER BE LIABLE TO THE OTHER, OR TO THE OTHER'S INDEMNITEES, UNDER THIS AGREEMENT FOR ANY EXEMPLARY, PUNITIVE, REMOTE, SPECULATIVE DAMAGE, AND EXCEPT FOR REMEDIES EXPRESSLY PROVIDED PURSUANT TO THE TERMS OF THIS AGREEMENT, ANY CONSEQUENTIAL (INCLUDING ANY LOSS OF THROUGHPUT ON THE ASSETS), SPECIAL OR INCIDENTAL DAMAGES OR LOSS OF PROFITS; *PROVIDED THAT,* IF ANY OF THE DEFS INDEMNITEES OR BUYER INDEMNITEES IS HELD LIABLE TO A THIRD PERSON FOR ANY SUCH DAMAGES AND THE INDEMNITOR IS OBLIGATED TO INDEMNIFY SUCH DEFS INDEMNITEES OR BUYER INDEMNITEES FOR THE MATTER THAT GAVE RISE TO SUCH DAMAGES, THE INDEMNITOR SHALL BE LIABLE FOR, AND OBLIGATED TO REIMBURSE SUCH INDEMNITEES FOR SUCH DAMAGES.**

11.9 *Bold and/or Capitalized Letters.* **THE PARTIES AGREE THAT THE BOLD AND/OR CAPITALIZED LETTERS IN THIS AGREEMENT CONSTITUTE *CONSPICUOUS LEGENDS*.**

ARTICLE XII

MISCELLANEOUS PROVISIONS

12.1 *Expenses.* Each of DEFS and BUYER will bear its own costs and expenses (including legal fees and expenses) incurred in connection with the negotiation of this Agreement and the transactions contemplated hereby.

12.2 *Further Assurances.* From time to time, and without further consideration, each Party will execute and deliver to the other Party such documents and take such actions as the other Party may reasonably request in order to more effectively implement and carry into effect the transactions contemplated by this Agreement.

12.3 *Apportionment of Property Taxes; Transfer Taxes; and Recording Fees.*

(a) Prior to the Closing, DEFS shall determine, in accordance with this *Section 12.3*, the portion of general property Tax attributable to the period from January 1 (of the year in which Closing occurs) to the Effective Time (the "*DEFS Property Tax*"). DEFS shall pay the amount of the DEFS Property Tax to BUYER at Closing pursuant to the adjustment provisions of *Section 3.2*. The DEFS Property Tax shall be an amount equal to the product of (i) the amount of such general property Tax for the entire taxable period that includes the Effective Time (or, with respect to any property Tax, the amount of such general property Tax for the immediately preceding taxable period in the case of those Assets, if any, for which such general property Tax for the current period cannot be determined), times (ii) a fraction, the numerator of which is the number of days from January 1 (of the year in which Closing occurs) to the Effective Time and the denominator

of which is the total number of days in the entire taxable period. Notwithstanding anything in this Agreement to the contrary, no further adjustment shall be made for such general property Tax, BUYER hereby agreeing to assume the payment of all such general property Tax effective upon the Closing.

(b) DEFS and BUYER believe that this purchase and sale of the Assets is exempt from or is otherwise not subject to any and all sales, use, transfer, or similar Taxes. If any such sales, transfer, use or similar Taxes are due or should hereafter become due (including penalty and interest thereon) by reason of this transaction, DEFS shall timely pay and solely bear all such type of Taxes.

(c) BUYER shall record all assignments and of the conveyances of Real Property Interests with the appropriate Governmental Authorities. BUYER shall pay all documentary, filing, and recording fees incurred in connection with the filing and recording of the instruments of conveyance. As soon as practicable after Closing, BUYER shall provide DEFS with recorded copies of all documents conveying the Assets to BUYER.

12.4 *Assignment.* Except as specifically permitted by *Section 7.15*, neither Party may assign this Agreement or any of its rights or obligations arising hereunder without the prior written consent of the other Party; provided, however, that after written notice to DEFS, BUYER may assign its rights and obligations under this Agreement to an Affiliate without the consent of DEFS, but no such assignment shall release BUYER of its liability hereunder.

12.5 *Entire Agreement, Amendments and Waiver.* This Agreement, together with the Transaction Documents, the Confidentiality Agreement and all certificates, documents, instruments and writings that are delivered pursuant hereto and thereto contain the entire understanding of the Parties with respect to the transactions contemplated hereby and supersede all prior agreements, arrangements and understandings relating to the subject matter hereof; provided that the Confidentiality Agreement shall terminate upon Closing. This Agreement may be amended, superseded or canceled only by a written instrument duly executed by the Parties specifically stating that it amends, supersedes or cancels this Agreement. Any of the terms of this Agreement and any condition to a Party's obligations hereunder may be waived only in writing by that Party specifically stating that it waives a term or condition hereof. No waiver by either Party of any one or more conditions or defaults by the other in performance of any of the provisions of this Agreement shall operate or be construed as a waiver of any future conditions or defaults, whether of a like or different character, nor shall the waiver constitute a continuing waiver unless otherwise expressly provided.

12.6 *Severability.* Each portion of this Agreement is intended to be severable. If any term or provision hereof is illegal or invalid for any reason whatsoever, such illegality or invalidity shall not affect the validity of the remainder of this Agreement.

12.7 *Counterparts.* This Agreement may be executed simultaneously in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

12.8 *Governing Law, Dispute Resolution and Arbitration.*

(a) *Governing Law.* This Agreement shall be governed by, enforced in accordance with, and interpreted under, the Laws of the State of Texas, without reference to conflicts of Laws principles.

(b) *Negotiation.* In the event of any Arbitrable Dispute, the Parties shall promptly seek to resolve any such Arbitrable Dispute by negotiations between senior executives of the Parties who have authority to settle the Arbitrable Dispute. When a Party believes there is an Arbitrable Dispute under this Agreement, that Party will give the other Party prompt written notice of the Arbitrable Dispute. Within thirty (30) days after receipt of such notice, the receiving Party shall

submit to the other a written response. Both the notice and response shall include (i) a statement of each Party's position and a summary of the evidence and arguments supporting such position, and (ii) the name, title, fax number, and telephone number of the executive or executives who will represent that Party. In the event the Arbitrable Dispute involves a claim arising out of the actions of any Person not a signatory to this Agreement, the receiving Party shall have such additional time as necessary, not to exceed an additional thirty (30) days, to investigate the Arbitrable Dispute before submitting a written response. The executives shall meet at a mutually acceptable time and place within fifteen (15) days after the date of the response and thereafter as often as they reasonably deem necessary to exchange relevant information and to attempt to resolve the Arbitrable Dispute. If one of the executives intends to be accompanied at a meeting by an attorney, the other executive shall be given at least five (5) Business Days' notice of such intention and may also be accompanied by an attorney.

(c) *Failure to Resolve.* If the Arbitrable Dispute has not been resolved within sixty (60) days after the date of the response given pursuant to *Section 12.8(b)* above, or such additional time, if any, that the Parties mutually agree to in writing, or if the Party receiving such notice denies the applicability of the provisions of *Section 12.8(b)* or otherwise refuses to participate under the provisions of *Section 12.8(b)*, either Party may initiate binding arbitration pursuant to the provisions of *Section 12.8(d)* below.

(d) *Arbitration.* Any Arbitrable Disputes not settled pursuant to the foregoing provisions shall be resolved through the use of binding arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association ("*Arbitration Rules*"), as supplemented to the extent necessary to determine any procedural appeal questions by the Federal Arbitration Act (Title 9 of the United States Code) and in accordance with the following provisions:

(i) If there is any inconsistency between this *Section 12.8(d)* and the Arbitration Rules or the Federal Arbitration Act, the terms of this *Section 12.8(d)* will control the rights and obligations of the Parties.

(ii) Arbitration shall be initiated by a Party serving written notice, via certified mail, on the other Party that the first Party elects to refer the Arbitrable Dispute to binding arbitration, along with the name of the arbitrator appointed by the Party demanding arbitration and a statement of the matter in controversy. Within fifteen (15) days after receipt of such demand for arbitration, the receiving Party shall name its arbitrator. If the receiving Party fails or refuses to name its arbitrator within such fifteen (15) day period, the second arbitrator shall be appointed, upon request of the Party demanding arbitration, by the Chief U.S. District Court Judge for the District of Texas, or such other person designated by such judge. The two arbitrators so selected shall within fifteen (15) days after their designation select a third arbitrator; provided, however, that if the two arbitrators are not able to agree on a third arbitrator within such fifteen (15) day period, either Party may request the Chief U.S. District Court Judge for the District of Texas, or such other person designated by such judge to select the third arbitrator as soon as possible. In the event the Judge declines to appoint an arbitrator, appointment shall be made, upon application of either Party, pursuant to the Commercial Arbitration Rules of the American Arbitration Association. If any arbitrator refuses or fails to fulfill his or her duties hereunder, such arbitrator shall be replaced by the Party which selected such arbitrator (or if such arbitrator was selected by another Person, through the procedure which such arbitrator was selected) pursuant to the foregoing provisions.

(iii) The hearing will be conducted in Houston, Texas, no later than sixty (60) days following the selection of the arbitrators or thirty (30) days after all prehearing discovery has been completed, whichever is later, at which the Parties shall present such evidence and

witnesses as they may choose, with or without counsel. The Parties and the arbitrators should proceed diligently and in good faith in order that the award may be made as promptly as possible.

(iv) Except as provided in the Federal Arbitration Act, the decision of the arbitrators will be binding on and non-appealable by the Parties. Any such decision may be filed in any court of competent jurisdiction and may be enforced by any Party as a final judgment in such court.

(v) The arbitrators shall have no right or authority to grant or award damages that are precluded by *Section 11.8*.

(vi) The Federal Rules of Civil Procedure, as modified or supplemented by the local rules of civil procedure for the U.S. District Court of Texas, shall apply in the arbitration. The Parties shall make their witnesses available in a timely manner for discovery pursuant to such rules. If a Party fails to comply with this discovery agreement within the time established by the arbitrators, after resolving any discovery disputes, the arbitrators may take such failure to comply into consideration in reaching their decision. All discovery disputes shall be resolved by the arbitrators pursuant to the procedures set forth in the Federal Rules of Civil Procedure.

(vii) Adherence to formal rules of evidence shall not be required. The arbitrators shall consider any evidence and testimony that they determine to be relevant.

(viii) The Parties hereby request that the arbitrators render their decision within thirty (30) days following conclusion of the hearing.

(ix) The defenses of statute of limitations and laches shall be tolled from and after the date a Party gives the other Party written notice of an Arbitrable Dispute as provided in *Section 12.8(b)* above until such time as the Arbitrable Dispute has been resolved pursuant to *Section 12.8(b)*, or an arbitration award has been entered pursuant to this *Section 12.8(b)*.

(e) *Recovery of Costs and Attorneys' Fees.* In the event arbitration arising out of this Agreement is initiated by either Party, after the entry of a final non-appealable order, if one Party has predominantly prevailed in the dispute, it shall be entitled to recover from the other Party all court costs, fees and expenses of such arbitration, including reasonable attorneys' fees that are specifically included in the arbitration award.

(f) *Choice of Forum.* If, despite the Parties' agreement to submit any Arbitrable Disputes to binding arbitration, there are any court proceedings arising out of or relating to this Agreement or the transactions contemplated hereby, such proceedings shall be brought and tried in, and the Parties hereby consent to the jurisdiction of, the federal or state courts situated in Houston, Texas.

(g) *Jury Waivers.* **THE PARTIES HEREBY WAIVE ANY AND ALL RIGHTS TO DEMAND A TRIAL BY JURY.**

(h) *Settlement Proceedings.* All aspects of any settlement proceedings, including discovery, testimony and other evidence, negotiations and communications pursuant to this *Section 12.8*, briefs and the award shall be held confidential by each Party and the arbitrators, and shall be treated as compromise and settlement negotiations for the purposes of the Federal and State Rules of Evidence.

12.9 *Notices and Addresses.* Any notice, request, instruction, waiver or other communication to be given hereunder by either Party shall be in writing and shall be considered duly delivered if personally delivered, mailed by certified mail with the postage prepaid (return receipt requested), sent

by messenger or overnight delivery service, or sent by facsimile to the addresses of the Parties as follows:

BUYER:

Crosstex Energy Services, L.P.
2501 Cedar Springs, Suite 600
Dallas, Texas 75201
Attention: Barry E. Davis, President
Telephone: (214) 953-9500
Facsimile: (214) 953-9501

with a copy to:

Hunton & Williams
Energy Plaza, 30th Floor
1601 Bryan Street
Dallas, Texas 75201
Attention: Joe A. Davis
Telephone: (214) 979-3038
Facsimile: (214) 880-0011

DEFS:

Duke Energy Field Services, LP
370 - 17th Street, Suite 900
Denver, Colorado 80202

Telephone: (303) 595-3331
Facsimile: (303) 595-0480
Attn: President

with a copy to:

Duke Energy Field Services, LP
370 - 17th Street, Suite 900
Denver, Colorado 80202
Telephone: (303) 595-3331
Facsimile: (303) 893-8902
Attn: General Counsel

or at such other address as either Party may designate by written notice to the other Party in the manner provided in this *Section 12.9*. Notice by mail shall be deemed to have been given and received on the third (3rd) day after posting. Notice by messenger, overnight delivery service, facsimile transmission or personal delivery shall be deemed given on the date of actual delivery.

12.10 *Press Releases.* Except as may otherwise be required by securities Laws and public announcements or disclosures that are, in the reasonable opinion of the Party proposing to make the announcement or disclosure, legally required to be made, there shall be no press release or public communication concerning the transactions contemplated by this Agreement by either Party except with the prior written consent of the Party not originating such press release or communication, which consent shall not be unreasonably withheld or delayed. BUYER and DEFS will consult in advance on the necessity for, and the timing and content of, any communications to be made to the public and, subject to legal constraints, to the form and content of any application or report to be made to any Governmental Authority that relates to the transactions contemplated by this Agreement.

12.11 *Offset.* Nothing contained herein or in any Transaction Document shall create a right of offset or setoff for any Party, and each Party hereby waives and disclaims any right of offset or setoff under all applicable Law or common Law.

12.12 *No Partnership; Third Party Beneficiaries.* Nothing in this Agreement shall be deemed to create a joint venture, partnership, tax partnership, or agency relationship between the Parties. Nothing in this Agreement shall provide any benefit to any Third Person or entitle any Third Person to any claim, cause of action, remedy or right of any kind, it being the intent of the Parties that this Agreement shall not be construed as a third-party beneficiary contract; provided, however, that the indemnification provisions of Article XI shall inure to the benefit of the BUYER Indemnitees and the DEFS Indemnitees as provided therein.

12.13 *Negotiated Transaction.* The provisions of this Agreement were negotiated by the Parties, and this Agreement shall be deemed to have been drafted by both Parties.

12.14 *Non-Compete; Confidentiality.*

(a) For a period of two years following the Closing Date, DEFS agrees, for itself and for its Affiliates, and their respective successors or assigns (collectively, the "*DEFS Companies*") that the DEFS Companies will not, directly or indirectly, compete with BUYER or its Affiliates by (i) acquiring transportation capacity on the AIM System, (ii) selling natural gas to any facility served, previously served by or connected to the AIM System at the Effective Time, or (iii) purchasing natural gas produced from any production facilities connected to the AIM System at the Effective Time. DEFS, for itself and each of the DEFS Companies, acknowledges that the restrictions contained in this *Section 12.14* are reasonable and necessary to protect the legitimate interests of BUYER and its Affiliates, and that BUYER would not have entered into this Agreement in the absence of such restrictions. DEFS, for itself and each of the DEFS Companies, also acknowledges that any breach of *Section 12.14* will cause continuing and irreparable injury to BUYER for which monetary damages would not be an adequate remedy. In the event of such breach by any of the DEFS Companies, BUYER shall have the right to enforce the provisions of this *Section 12.14* by seeking injunctive or other equitable relief in any court, and this Agreement shall not in any way limit remedies of equity available to BUYER. In the event that the provisions of this *Section 12.14* should ever be adjudicated to exceed the time, geographic, or other limitations permitted by applicable Law in any applicable jurisdiction, then such provisions shall be deemed reformed in such jurisdiction to the maximum time, geographic, or other limitations permitted by applicable Law. Notwithstanding the foregoing, the restrictions contained in this *Section 12.14(a)* shall not apply (i) following the acquisition of DEFS or substantially all of its assets by a Third Person, or the merger or consolidation of DEFS with a Third Person other than the Persons owning DEFS as of the date hereof, or (ii) if DEFS acquires directly or indirectly assets capable of being served by the AIM System or which include capacity on the AIM System as part of a transaction having a total value in excess of $200,000,000.

(b) Effective at Closing, the Confidentiality Agreement is terminated, and DEFS will assign to BUYER the benefit of and the right to enforce any other confidentiality agreement entered into by DEFS or any of its Affiliates related to the sale or any attempt to sell the Assets. From and after Closing, DEFS will not, except as required by applicable Law, disclose any "Proprietary Information" as defined in the Confidentiality Agreement to any other Person or otherwise use any such Proprietary Information to the competitive disadvantage of BUYER.

(c) Without the prior written consent of the other Party, neither Party shall publicly disclose the terms of the transactions contemplated herein, this Agreement or the Exhibits or Schedules hereto unless in the opinion of counsel to the disclosing Party, such disclosure is required by law, or such disclosure is requested by any Governmental Authority, in which event, the disclosing Party shall give the other Party as much prior written notice as practicable under the circumstances and

will cooperate with such other Party in obtaining confidential treatment of such information as such other Party may reasonably request.

THE PARTIES HAVE signed this Agreement by their duly authorized officials as of the date first set forth above.

DUKE ENERGY FIELD SERVICES, LP

By:	/s/ GREG K. SMITH
Name:	Greg K. Smith
Title:	Vice President

CROSSTEX ENERGY SERVICES, L.P.
By Crosstex Energy Services GP, LLC,
Its general partner

By:	/s/ JACK M. LAFIELD
Name:	Jack M. Lafield
Title:	Senior Vice President

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Exhibit 21.1

List of Subsidiaries

Name of Subsidiary	State of Organization
Crosstex Energy Services GP, LLC	Delaware
Crosstex Energy Services, L.P.	Delaware
Crosstex Pipeline, LLC	Texas
Crosstex Pipeline Partners, L.P.	Texas
Crosstex Gulf Coast Transmission, Ltd.	Texas
Crosstex Gulf Coast Marketing, Ltd.	Texas
Crosstex CCNG Gathering Ltd.	Texas
Crosstex CCNG Marketing Ltd.	Texas
Crosstex CCNG Transmission Ltd.	Texas
Crosstex CCNG Processing Ltd.	Texas
Crosstex Treating Services, L.P.	Delaware
Crosstex Treating Services GP, LLC	Delaware
Crosstex Acquisition Management GP, LLC	Delaware
Crosstex Alabama Gathering System, L.P.	Delaware
Crosstex Mississippi Industrial Gas Sales, L.P.	Delaware
Crosstex Mississippi Pipeline, L.P.	Delaware
Crosstex Seminole Gas, L.P.	Delaware
Crosstex Acquisition Management, L.P.	Delaware

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Exhibit 23.1

Independent Auditors' Consent

We consent to the use of our report dated February 7, 2003 with respect to the consolidated balance sheets of Crosstex Energy L.P. as of December 31, 2002 and 2001, and the related consolidated statements of operations, partners' equity, comprehensive income, and cash flows for the four months ended April 30, 2000 (Predecessor), the eight months ended December 31, 2000, and the years ended December 31, 2002 and 2001; our report dated June 28, 2003 with respect to the balance sheet of Crosstex Energy GP, L.P. as of December 31, 2002, included herein and to the reference to our firm under the heading "Experts" in the prospectus. The audit report covering the December 31, 2001 financial statements of Crosstex Energy, L.P. refers to a change in the method of accounting for derivatives. The audit report covering the December 31, 2002 financial statements of Crosstex Energy, L.P. refers to a change in the method of amortizing goodwill.

/s/ KPMG LLP

Dallas, Texas
July 9, 2003

QuickLinks

Exhibit 23.1

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Exhibit 23.2

INDEPENDENT AUDITORS' CONSENT

We consent to the use in this Registration Statement of Crosstex Energy, L.P. on Form S-1 of our report dated June 30, 2003 (which report expresses an unqualified opinion and includes an explanatory paragraph emphasizing that the statement was prepared for the purpose of complying with the rules and regulations of the Securities and Exchange Commission and is not intended to be a complete presentation of the revenues and direct operating expenses of the assets, as defined in the purchase and sale agreement between Duke Energy Field Services, L.P. and Crosstex Energy, L.P. dated April 29, 2003), appearing in the Prospectus, which is part of this Registration Statement.

We also consent to the reference to us under the heading "Experts" in such Prospectus.

/s/ Deloitte & Touche LLP

Denver, Colorado
July 9, 2003

QuickLinks