

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

**Form 10-Q/A
Amendment No. 1**

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended March 31, 2004

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from to

Commission file number: 000-50067

CROSSTEX ENERGY, L.P.

(Exact name of registrant as specified in its charter)

Delaware
(State of organization)

16-1616605
(I.R.S. Employer Identification No.)

2501 CEDAR SPRINGS, SUITE 600
DALLAS, TEXAS 75201
(Address of principal executive offices)
(Zip Code)

(214) 953-9500
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

As of April 28, 2004, the Registrant had 8,747,326 common units and 9,334,000 subordinated units outstanding.

CROSSTEX ENERGY, L.P.
FORM 10-Q/A
INTRODUCTORY NOTE

This Amendment No. 1 to quarterly report on Form 10-Q/A ("Form 10-Q/A") is being filed to amend our quarterly report on Form 10-Q for the quarterly period ended March 31, 2004, which was originally filed on May 7, 2004 ("Original Form 10-Q"). Accordingly, pursuant to rule 12b-15 under the Securities Exchange Act of 1934, as amended, this Form 10-Q/A contains the complete text of items 1 and 4 of Part I and item 6 of Part II, as amended, as well as certain currently dated certifications. Unaffected items have not been repeated in this Amendment No. 1.

In July 2004, we determined that, due to clerical errors, certain reconciling items between the detail accounts receivable and accounts payable subledgers and the general ledger relating to 2002 had not been properly cleared. As a result of correcting these errors, we have restated our consolidated balance sheets as of December 31, 2003 and March 31, 2004 and our consolidated statements of changes in partners' equity as of March 31, 2004 and December 31, 2003. We have also restated our notes to consolidated financial statements as necessary to reflect the adjustments. The net effect of the adjustments resulted in a reduction in partners' equity and working capital as of December 31, 2003 and March 31, 2004 by \$1.7 million. Please read note 2 to the accompanying consolidated financial statements for a discussion of the adjustments.

This amendment does not reflect events occurring after the filing of the Original Form 10-Q, and does not modify or update the disclosures therein in any way other than as required to reflect the adjustments described above. Such events include, among others, the events described in our current reports on Form 8-K filed after the filing of the Original Form 10-Q.

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CROSTEX ENERGY, L.P.

Consolidated Balance Sheets
(Dollars in thousands)

	March 31, 2004 (Restated)	December 31, 2003 (Restated)
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 959	\$ 166
Accounts receivable:		
Trade	12,937	10,238
Accrued revenues	125,504	124,517
Imbalances	378	447
Related party	2,093	1,618
Note receivable	747	535
Other	2,807	2,588
Fair value of derivative assets	6,118	4,080
Prepaid expenses and other	1,875	1,979
	<u>153,418</u>	<u>146,168</u>
Property and equipment:		
Transmission assets	109,952	99,650
Gathering systems	27,825	27,990
Gas plants	90,875	87,140
Other property and equipment	3,842	3,743
Construction in process	7,927	9,863
	<u>240,421</u>	<u>228,386</u>
Accumulated depreciation	(28,497)	(24,477)
	<u>211,924</u>	<u>203,909</u>
Intangible assets, net		
Goodwill, net	5,126	5,366
Investment in limited partnerships	4,873	4,873
Other assets, net	430	2,560
	<u>2,829</u>	<u>3,174</u>
	<u>378,600</u>	<u>366,050</u>
Liabilities and Partners' Equity		
Current liabilities:		
Drafts payable	\$ 17,914	\$ 10,446
Accounts payable	10,074	6,325
Accrued gas purchases	119,684	119,900
Accounts payable—related party	—	448
Accrued imbalances payable	212	212
Fair value of derivative liabilities	3,406	2,487
Current portion of long-term debt	50	50
Other current liabilities	7,585	10,872
	<u>158,925</u>	<u>150,740</u>
Long-term debt	62,700	60,700
Minority interest in subsidiary	2,285	—
Partners' equity:		
Common unit-holders (8,747,326 and 8,716,000 units issued and outstanding at March 31, 2004 and December 31, 2003, respectively)	116,148	116,780
Subordinated unit-holders (9,334,000 units issued and outstanding at March 31, 2004 and December 31, 2003)	32,587	33,593
General partner interest (2% interest with 369,000 and 368,000 equivalent units outstanding at March 31, 2004 and December 31, 2003, respectively)	3,273	2,854
Accumulated other comprehensive income (loss)	2,682	1,383
	<u>154,690</u>	<u>154,610</u>
	<u>378,600</u>	<u>366,050</u>

CROSSTEX ENERGY, L.P.
Consolidated Statements of Operations
(In thousands, except per unit amounts)
(Unaudited)

	Three months ended March 31,	
	2004	2003
Revenues:		
Midstream	\$ 318,214	\$ 245,315
Treating	7,144	5,255
	325,358	250,570
Operating costs and expenses:		
Midstream purchased gas	302,876	237,408
Treating purchased gas	1,376	2,416
Operating expenses	6,213	3,210
General and administrative	3,592	1,500
Stock based compensation	209	2,504
(Profit) loss on energy trading activities	(421)	(107)
Loss on sale of property	296	—
Depreciation and amortization	4,418	2,435
	318,559	249,366
Operating income	6,799	1,204
Other income (expense):		
Interest expense, net	(1,156)	(410)
Other income	92	38
	(1,064)	(372)
Income before minority interest	5,735	832
Minority interest in subsidiary	(29)	—
Net income	\$ 5,706	\$ 832
General partner interest in net income	\$ 1,048	\$ 17
Limited partners' interest in net income	\$ 4,658	\$ 815
Net income per limited partners' unit:		
Basic	\$ 0.26	\$ 0.06
Diluted	\$ 0.24	\$ 0.06
Weighted average limited partners' units outstanding:		
Basic	18,072	14,600
Diluted	19,090	14,680

See accompanying notes to consolidated financial statements.

CROSSTEX ENERGY, L.P.

Consolidated Statements of Changes in Partners' Equity
 Three Months ended March 31, 2004
 (In thousands)

(Unaudited)

	Common units	Subordinated units	General partner interest	Accumulated other comprehensive income	Total
Balance, December 31, 2003 (previously reported)	\$ 117,366	\$ 34,632	\$ 2,887	\$ 1,383	\$ 156,268
Restatement adjustments	(586)	(1,039)	(33)	—	(1,658)
Balance, December 31, 2003 (restated)	\$ 116,780	\$ 33,593	\$ 2,854	\$ 1,383	\$ 154,610
Stock based compensation	83	88	38	—	209
Distributions	(3,280)	(3,500)	(667)	—	(7,447)
Net income	2,252	2,406	1,048	—	5,706
Proceeds from exercise of stock options	313	—	—	—	313
Hedging gains or losses reclassified to earnings	—	—	—	(741)	(741)
Adjustment in fair value of derivatives	—	—	—	2,040	2,040
Balance, March 31, 2004 (restated)	\$ 116,148	\$ 32,587	\$ 3,273	\$ 2,682	\$ 154,690

See accompanying notes to consolidated financial statements.

CROSTEX ENERGY, L.P.

Consolidated Statements of Comprehensive Income
(In thousands)

(Unaudited)

	Three months ended March 31,	
	2004	2003
Net income	\$ 5,706	\$ 832
Hedging gains or losses reclassified to earnings	(741)	(384)
Adjustment in fair value of derivatives	2,040	(1,165)
Comprehensive income (loss)	\$ 7,005	\$ (717)

See accompanying notes to consolidated financial statements.

CROSSTEX ENERGY, L.P.

Consolidated Statements of Cash Flows
(In thousands)

(Unaudited)

	Three months ended March 31,	
	2004	2003
Cash flows from operating activities:		
Net income	\$ 5,706	\$ 832
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,418	2,435
Income (loss) on investment in affiliated partnerships	(88)	4
Non-cash stock based compensation	209	2,504
Loss on sale of property	296	—
Minority interest in subsidiary	29	—
Changes in assets and liabilities, net of acquisition effects:		
Accounts receivable and accrued revenue	(4,132)	(87,386)
Prepaid expenses	104	(1,470)
Accounts payable, accrued gas purchases, and other accrued liabilities	(292)	102,221
Fair value of derivatives	181	36
Other	133	(328)
Net cash provided by operating activities	6,564	18,848
Cash flows from investing activities:		
Additions to property and equipment	(8,051)	(4,614)
Proceeds from sale of property	100	—
Distributions from (investments in) affiliated partnerships	(154)	(100)
Net cash used in investing activities	(8,105)	(4,714)
Cash flows from financing activities:		
Proceeds from borrowings	25,500	44,100
Payments on borrowings	(23,500)	(45,850)
Increase (decrease) in drafts payable	7,468	(13,058)
Distribution to partners	(7,447)	—
Proceeds from exercise of stock options	313	—
Offering costs	—	(470)
Net cash provided by (used in) financing activities	2,334	(15,278)
Net increase (decrease) in cash and cash equivalents	793	(1,144)
Cash and cash equivalents, beginning of period	166	1,308
Cash and cash equivalents, end of period	\$ 959	\$ 164
Cash paid for interest	\$ 899	\$ 374

See accompanying notes to consolidated financial statements.

CROSSTEX ENERGY, L.P.

**Notes to Consolidated Financial Statements
March 31, 2004
(Unaudited)**

(1) General

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

Crosstex Energy, L.P. (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 to its gathering systems 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.

The accompanying consolidated financial statements are prepared in accordance with the instructions to Form 10-Q, are unaudited and do not include all the information and disclosures required by generally accepted accounting principles for complete financial statements. All adjustments that, in the opinion of management, are necessary for a fair presentation of the results of operations for the interim periods have been made and are of a recurring nature unless otherwise disclosed herein. The results of operations for such interim periods are not necessarily indicative of results of operations for a full year. All significant intercompany balances and transactions have been eliminated in consolidation. These consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in our annual report on Form 10-K for the year ended December 31, 2003.

(a) Long-Term Incentive Plans

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 long-term incentive plans. In accordance with APB No. 25 for fixed stock and unit options, compensation is recorded to the extent the fair value of the stock or unit exceeds the exercise price of the option at the measurement date. Compensation costs for fixed awards with pro rata vesting are recognized on a straight-line basis over the vesting period. In addition, compensation expense is recorded for variable options based on the difference between fair value of the stock or unit and exercise price of the options at period end. Compensation expense of \$209,000 and \$2,504,000 was recognized during the three months ended March 31, 2004 and 2003, 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 would have been as follows (in thousands, except per unit amounts):

	Three months ended March 31,	
	2004	2003
Net income, as reported	\$ 5,706	\$ 832
Add: Stock-based employee compensation expense included in reported net income	209	2,504
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(262)	(2,618)
Pro forma net income	\$ 5,653	\$ 718
Net income per limited partner unit, as reported:		
Basic	\$ 0.26	\$ 0.06
Diluted	\$ 0.24	\$ 0.06
Pro forma net income per limited partner unit:		
Basic	\$ 0.25	\$ 0.05
Diluted	\$ 0.24	\$ 0.05

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 Partnership unit grants in 2004:

	2004
Options granted	346,779
Weighted average dividend yield	6.5%
Weighted average expected volatility	24%
Weighted average risk free interest rate	3.14%
Weighted average expected life	5
Contractual life	10
Weighted average of fair value of unit options granted	\$ 3.09

No Crosstex Energy, Inc. (CEI) options were granted to officers or employees in 2004. Stock based compensation associated with the CEI option plan with respect to officers and employees is recorded by the Partnership since CEI has no operating activities, other than its interest in the Partnership.

CEI modified certain outstanding options attributable to its shares of common stock in the first quarter of 2003, which allowed 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 CEI options which were modified was approximately 364,000. These modified options have been accounted for using variable accounting as of the option modification date. The Partnership accounted for the modified options as variable options until the holders elect to cash out the options or the election to cash out the options lapsed. CEI is

responsible for paying the intrinsic value of the options for the holders who elect to cash out their options. December 31, 2003 was the last valuation date that a holder of modified options could elect the cash-out alternative. Accordingly, effective January 1, 2004, the remaining modified options are accounted for as fixed options. Beginning in the first quarter of 2003, the Partnership recognized 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 related to the variable options for the quarter ended March 31, 2003.

In February 2004, 75,000 restricted shares in CEI were issued to senior management under its long-term incentive plan with an intrinsic value of \$2,183,000. In February 2004, 1,406 restricted units with an intrinsic value of \$29,000 were issued to a director, at his election, for his 2004 annual director fee. These restricted units vest over a five-year period and the intrinsic value of the units is amortized into stock based compensation expense over the vesting period.

(b) 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 three months ended March 31, 2004 and 2003. The computation of diluted earnings per unit further assumes the dilutive effect of unit options.

Effective March 29, 2004, the Partnership completed a two-for-one split on its outstanding limited partnership units. All unit amounts for prior periods presented herein have been restated to reflect this unit split.

The following are the unit amounts used to compute the basic and diluted earnings per limited partner unit for the three months ended March 31, 2004 and 2003 (in thousands):

	Three months ended March 31,	
	2004	2003
Basic earnings per unit:		
Weighted average limited partner units outstanding	18,072	14,600
Diluted earnings per unit:		
Weighted average limited partner units outstanding	18,072	14,600
Dilutive effect of exercise of options outstanding	1,018	80
Diluted units	19,090	14,680

All outstanding units were included in the computation of diluted earnings per unit.

(c) New Accounting Pronouncement

In January 2003, the FASB issued FASB Interpretation No. 46, *Consolidation of Variable Interest Entities, an interpretation of ARB No. 51*. In December 2003, the FASB issued FIN No. 46R which clarified certain issues identified in FIN 46. FIN No. 46R 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 ending after March 15, 2004. In January 2004, the Partnership adopted FIN No. 46R and began consolidating its joint venture interest in the Crosstex DC Gathering, J.V. (CDC), previously accounted for using the equity method of accounting. The consolidated carrying amount for the joint venture is based on the historical costs of the assets, liabilities and non-controlling interests of the joint venture since its formation in January 2003 which approximates the carrying amount of the assets, liabilities and non-controlling interests in the consolidated financial statements as if FIN No. 46R had been effective upon inception of the joint venture.

(2) Restatement of Previously Issued Financial Statements

In July 2004, we determined that certain clerical errors had occurred in 2002 accounting that resulted in certain reconciling items not being properly cleared from accounts payable, accounts receivable and accrued gas purchases resulting in a decrease in income of \$1.7 million. As a result of correcting these errors, we have restated our consolidated balance sheets as of March 31, 2004 and December 31, 2003 and our consolidated statements of changes in partners' equity as of March 31, 2004 and December 31, 2003.

The effects of the revisions on our consolidated balance sheets as of March 31, 2004 and December 31, 2003 are summarized in the following table (dollars in thousands):

	Previously Reported		As Restated	
	March 31, 2004	December 31, 2003	March 31, 2004	December 31, 2003
Accounts Receivable—Trade	\$ 12,190	\$ 9,491	\$ 12,937	\$ 10,238
Total current assets	152,671	145,421	153,418	146,168
Total property and equipment, net	211,924	203,909	211,924	203,909
Total assets	377,853	365,303	378,600	366,050
Accounts payable	7,813	4,064	10,074	6,325
Accrued gas purchases	119,540	119,756	119,684	119,900
Total current liabilities	156,520	148,335	158,925	150,740
Long-term debt	62,700	60,700	62,700	60,700
Partners' equity				
Common unit-holders (8,747,326 and 8,716,000 units issued and outstanding at March 31, 2004 and December 31, 2003, respectively)	116,734	117,366	116,148	116,780
Subordinated unit-holders (9,334,000 and issued and outstanding at March 31, 2004 and December 31, 2003)	33,626	34,632	32,587	33,593
General partner interest (2% interest with 369,000 and 368,000 equivalent units outstanding at March 31 2004 and December 31, 2003, respectively)	3,306	2,887	3,273	2,854
Accumulated other comprehensive income	2,682	1,383	2,682	1,383
Total partner's equity	156,348	156,268	154,690	154,610
Total liabilities and partners' equity	377,853	365,303	378,600	366,050

The effects of the revisions on our consolidated statement of changes in partners' equity are a decrease to net income of \$1.7 million and a corresponding decrease in transfer of equity in accordance with initial public offering of \$0.6 million for common unit-holders, \$1.0 million for subordinated unit-holders, and \$33,000 for general partner interest.

There was no impact on cash flows due to the restatement.

The segment information in note 10 has been restated to reflect the impact of the correction of the clerical errors.

(3) Significant Asset Purchases and Acquisitions

On June 30, 2003, the Partnership completed the acquisition of certain assets from Duke Energy Field Services, L.P. (DEFS) for \$68.1 million, including the effect of certain purchase price adjustments. The assets acquired included: the Mississippi pipeline system, a 12.4% interest in the Seminole gas processing plant, the Conroe gas plant and gathering system and the Alabama pipeline system. The Partnership has accounted for this acquisition as a business combination in accordance with SFAS No. 141, Business Combinations. We have utilized the purchase method of accounting for this acquisition with an acquisition date of June 30, 2003.

Operating results for the DEFS assets are included in the Statements of Operations since June 30, 2003. Unaudited pro forma results of operations as if the acquisition from DEFS had been acquired on January 1, 2003 are as follows (in thousands, except per unit amounts):

	Three months ended March 31, 2003	
Revenue	\$	308,019
Net income	\$	799
Net income per limited partner unit	\$	0.06

(4) Investment in Limited Partnerships and Note Receivable

The Partnership owns a 7.86% weighted average interest as the general partner in the five gathering systems of Crosstex Pipeline Partners, L.P. (CPP), a 20.31% interest as a limited partner in CPP, 50% interest in the J.O.B. J.V. and a 50% interest in CDC. In January 2004, the Partnership began consolidating its investment in CDC. The Partnership accounts for its investments in J.O.B. J.V. and CPP under the equity method, as it exercises significant influence in operating decisions as a general partner in CPP and as a 50% owner in the joint venture. Under this method, the Partnership carries its investments at cost and 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.

In connection with the formation of CDC, the Partnership agreed to loan the CDC Partner up to \$1.5 million for their initial capital contribution. The loan bears interest at an annual rate of prime plus 2%. CDC makes payments directly to the Partnership attributable to CDC Partner's 50% share of distributable cash flow to repay the loan. Any balance remaining on the note is due in August 2007. The current portion of loan receivable of \$747,000 from the CDC Partner is included in current notes receivable as of March 31, 2004. The remaining balance of \$838,000 is included in other non-current assets as of March 31, 2004.

(5) Long-Term Debt

As of March 31, 2004 and December 31, 2003, long-term debt consisted of the following (dollars in thousands):

	March 31, 2004	December 31, 2003
Acquisition credit facility, interest based on Prime and/or LIBOR plus an applicable margin, interest rates (per the facility) at March 31, 2004 and December 31, 2003 were 3.00% and 2.92%, respectively	\$ 22,000	\$ 20,000
Senior secured notes, weighted average interest rate of 6.93%	40,000	40,000
Note payable to Florida Gas Transmission Company	750	750
	62,750	60,750
Less current portion	(50)	(50)
Debt classified as long-term	\$ 62,700	\$ 60,700

In conjunction with the April 2004 acquisition of the LIG Pipeline Company and its subsidiaries discussed in Note (9), the Partnership amended its bank credit facility to increase the borrowing base under its senior secured revolving acquisition facility from \$70 million to \$100 million and to increase the borrowing base under its senior secured revolving credit working capital and letter of credit facility from \$50 million to \$100 million.

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 which expires on November 1, 2004. 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. The fair value of the interest rate swap at March 31, 2004 was a \$181,000 liability and is included in fair value of derivative liabilities.

(6) Partners' Capital

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. Distributions will generally be made 98% to the common and subordinated unitholders and 2% to the general partner, subject to the payment of incentive distributions as described below to the extent that certain target levels of cash distributions are achieved. Under the quarterly incentive distribution provisions, generally our general partner is entitled to 13% of amounts we distribute in excess of \$0.25 per unit, 23% of the amounts we distribute in excess of \$0.3125 per unit and 48% of

amounts we distribute in excess of \$0.375 per unit. Incentive distributions totaling \$953,000 were earned by our general partner for the three months ended March 31, 2004. To the extent there is sufficient available cash, the holders of common units are entitled to receive the minimum quarterly distribution of \$0.25 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's fourth quarter distribution on its common and subordinated units of \$0.375 per unit was paid on February 13, 2004. The Partnership declared a first quarter 2004 distribution of \$0.40 per unit to be paid on May 14, 2004.

(7) Derivatives

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

The fair value of derivative assets and liabilities, excluding the interest rate swap, are as follows (in thousands):

	March 31, 2004	December 31, 2003
Fair value of derivative assets—current	\$ 6,118	\$ 4,080
Fair value of derivative assets—long term	—	—
Fair value of derivative liabilities—current	(3,225)	(2,278)
Fair value of derivative liabilities—long term	—	—
Net fair value of derivatives	\$ 2,893	\$ 1,802

Set forth below is the summarized notional amount and terms of all instruments held for price risk management purposes at March 31, 2004 (all quantities are expressed in British Thermal Units). The remaining term of the contracts extend no later than March 2005, with no single contract longer than 6 months. The Partnership's counterparties to hedging contracts include Williams Energy Services Company, Sempra Energy Trading Corp., Morgan Stanley Capital Group, BP Corporation, and Duke Energy Trading and Marketing. 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.

March 31, 2004

Transaction type	Total volume	Pricing terms	Remaining term of contracts	Fair value (in thousands)
<i>Cash Flow Hedge:</i>				
Natural gas swaps Cash flow hedge	4,529,500	Fixed prices ranging from \$4.64 to \$5.90 settling against various Inside FERC Index prices	April 2004-March 2005	\$ 4,744
Natural gas swaps Cash flow hedge	(2,336,000)		April 2004-March 2005	(1,724)
Total natural gas swaps Cash flow hedge				\$ 3,020
Liquids swaps Cash flow hedge	(5,411,342)	Fixed prices ranging from \$0.3775 to \$0.7450 settling against Mt. Belvieu Average of daily postings (non-TET)	April 2004-December 2004	\$ (155)
Total liquids swaps Cash flow hedge				\$ (155)
<i>Producer Services:</i>				
Marketing trading financial swaps	780,000	Fixed prices ranging from \$3.14 to \$5.945 settling against various Inside FERC Index prices	April 2004-March 2005	\$ 784
Marketing trading financial swaps	(628,000)		April 2004-March 2005	(476)
Total marketing trading financial swaps				\$ 308
Physical offset to marketing trading transactions	628,000	Fixed prices ranging from \$3.59 to \$5.855 settling against various Inside FERC Index prices	April 2004-March 2005	\$ 496
Physical offset to marketing trading transactions	(780,000)		April 2004-March 2005	(776)
Total physical offset to marketing trading transactions swaps				\$ (280)

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 derivative contracts held for trading purposes are included in the fair value of derivative assets and liabilities. Producer Services operating and results are recorded net as profit (loss) on energy trading activities in the consolidated statement of operations. The Partnership estimates the fair value of all of its energy trading contracts using prices actively quoted. The estimated fair value of energy trading contracts by maturity date was as follows (in thousands):

	Maturity periods			Total fair value
	Less than one year	One to two years	Two to three years	
March 31, 2004	\$ 28	—	—	\$ 28
December 31, 2003	\$ (26)	—	—	\$ (26)

(8) Transactions with Related Parties

General and Administrative Expense Cap

The Partnership had a \$6.0 million annual (\$1.5 million quarterly) general and administrative cap for the twelve-month period ended in December 2003, per its partnership agreement. CEI bore the cost of any excess general and administrative expenses. During the three months ended March 31, 2003, the Partnership had excess expenses of approximately \$0.5 million. The general partner is also reimbursed for direct charges it incurs on behalf of partnership business development activities. There were no direct charges for the three months ended March 31, 2003.

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 Energy Partners IV, L.P. and Yorktown Energy Partners V, L.P., collectively the major shareholder in CEI, in Camden. During the three months ended March 31, 2004 and 2003, the Partnership purchased natural gas from Camden in the amount of approximately \$8.2 million and \$2.7 million, respectively, and received approximately \$18,000 and \$61,000 in treating fees from Camden.

Crosstex Pipeline Partners, L.P.

The Partnership had related-party transactions with Crosstex Pipeline Partners, L.P. (CPP), as summarized below:

- During the three months ended March 31, 2004 and 2003, the Partnership bought natural gas from CPP in the amount of approximately \$2.25 million and \$1.2 million and paid for transportation of approximately, \$11,622 and \$13,800, respectively, to CPP.
- During the three months ended March 31, 2004 and 2003, the Partnership received a management fee from CPP in the amount of approximately \$31,000 and \$31,000, respectively.
- During the three months ended March 31, 2004 and 2003, the Partnership received distributions from CPP in the amount of approximately \$20,000 and \$52,000, respectively.

(9) Commitments and Contingencies

(a) Employment Agreements

Each member of senior management of the Partnership is a party to an employment contract 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.

(b) Environmental Issues

The Partnership acquired two assets from DEFS in June 2003 that have environmental contamination, including a gas plant in Montgomery County near Conroe, Texas and a compressor station near Cadeville, Louisiana. At both of these sites, contamination from historical operations has been identified at levels that exceed the applicable state action levels. Consequently, site investigation and/or remediation are underway to address those impacts. The estimated remediation cost for the Conroe plant site is currently estimated to be approximately \$3.2 million, and the remediation cost for the Cadeville site is currently estimated to be approximately \$1.2 million. Under the purchase agreement, DEFS has retained liability for cleanup of both the Conroe and Cadeville sites. Moreover, DEFS has entered into an agreement with a third-party Company pursuant to which the remediation costs associated with the Conroe site have been assumed by this third-party Company that specializes in remediation work. Therefore, the Partnership does not expect to incur any material environmental liability associated with the Conroe or Cadeville sites.

(c) Other

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

The Partnership receives notices from pipeline companies from time to time of gas volume allocation corrections related to gas deliveries on their pipeline systems. These allocation corrections normally have little impact on the Partnership's gross margin because the Partnership balances its purchases and sales in the pipelines and both the purchase and sale on the pipeline system require corrections. As of March 31, 2004 and December 31, 2003, a subsidiary of the Partnership was involved in a dispute related to one such allocation correction with a pipeline company and a customer on that pipeline. In reallocating previous settled deliveries, the pipeline company billed the Partnership's subsidiary for approximately \$1.2 million of gas deliveries that occurred in the period from December, 2000 through February, 2001. The Partnership's subsidiary, in turn, billed its customer who was overpaid due to the allocation error. The customer is disputing its liability for such amount, asserting that the corrected billing was untimely. The allocation error occurred prior to the Partnership's acquisition of the subsidiary involved in the dispute. The Partnership has an indemnity from the seller of the subsidiary for liabilities arising prior to the acquisition date. As of March 31, 2004 and December 31, 2003, the Partnership has recorded a receivable of \$1.2 million in other current receivables and a liability of \$1.2 million in other current liabilities related to this allocation correction.

The Partnership believes the customer's dispute of the receivable is without merit, and further believes that it is protected against loss by its right to indemnification.

(10) Segment Information

Identification of operating segments is based principally upon differences in the types and distribution channel of products. The Partnership's reportable segments consist of Midstream and Treating. The Midstream division consists of the Partnership's natural gas gathering and transmission operations and includes the Mississippi System, the Conroe System, the Gulf Coast System, the Corpus Christi System, the Gregory Gathering System located around the Corpus Christi area, the Arkoma system in Oklahoma, the Vanderbilt System located in south Texas, and various other small systems. Also included in the Midstream division are the Partnership's Producer Services operations. The operations in the Midstream segment are similar in the nature of the products and services, the nature of the production processes, the type of customer, the methods used for distribution of products and services and the nature of the regulatory environment. The Treating division generates fees from its plants either through volume-based treating contracts or through fixed monthly payments. Included in the Treating division are four gathering systems that are connected to the treating plants and the Seminole plant located in Gaines County, Texas.

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. Inter-segment sales are at cost.

Summarized financial information concerning the Partnership's reportable segments is shown in the following table. There are no other significant non-cash items.

	<u>Midstream</u>	<u>Treating</u>	<u>Totals</u>
	(in thousands)		
Three months ended March 31, 2004:			
Sales to external customers	\$ 318,214	\$ 7,144	\$ 325,358
Inter-segment sales	1,425	(1,425)	—
Interest expense	1,131	25	1,156
Stock-based compensation expense	167	42	209
Depreciation and amortization	3,560	858	4,418
Segment profit (loss)	5,348	358	5,706
Segment assets (restated)	333,949	44,651	378,600
Capital expenditures	4,347	3,704	8,051
Three months ended March 31, 2003:			
Sales to external customers	\$ 245,315	\$ 5,255	\$ 250,570
Inter-segment sales	1,504	(1,504)	—
Interest expense	401	9	410
Stock-based compensation expense	2,003	501	2,504
Depreciation and amortization	1,820	615	2,435
Segment profit (loss)	398	434	832
Segment assets (restated)	314,189	9,495	323,684
Capital expenditures	2,691	1,923	4,614

(10) Subsequent Event (Unaudited)

On April 1, 2004, the Partnership acquired, through its wholly-owned subsidiary Crosstex Louisiana Energy, L.P., the LIG Pipeline Company and its subsidiaries (LIG Inc., Louisiana Intrastate Gas Company, L.L.C., LIG Chemical Company, LIG Liquids Company, L.L.C. and Tuscaloosa Pipeline Company) (collectively, "LIG") from a subsidiary of American Electric Power in a negotiated transaction for \$76.2 million. LIG consists of approximately 2,000 miles of gas gathering and transmission systems located in 32 parishes extending from northwest and north-central Louisiana through the center of the state to south and southeast Louisiana. The Partnership financed the acquisition through borrowings under its amended bank credit facility.

Item 4. Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer of Crosstex Energy GP, LLC, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, to the extent and in the case described in the following paragraph, our disclosure controls and procedures were not effective as of March 31, 2004 to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

In July 2004, we determined during the course of internal reviews that, due to clerical errors, certain reconciling items between the detail accounts receivable and accounts payable subledgers and the general ledger relating to 2002 had not been properly cleared. We identified these errors and promptly brought them to the attention of our audit committee and auditors. As a result of correcting these errors, in this quarterly report on Form 10-Q/A, we have restated our consolidated balance sheets as of December 31, 2003 and March 31, 2004 and our consolidated statements of changes in partners' equity as of March 31, 2004 and December 31, 2003. We have also restated our notes to consolidated financial statements as necessary to reflect the adjustments. These errors resulted from a deficiency in the procedures to reconcile the detail accounts receivable and accounts payable subledgers to the general ledger. Our independent auditors, KPMG LLP, have reviewed these matters and advised our Audit Committee that the deficiency constituted a material weakness as defined in Statements of Auditing Standards No. 60. In light of the discovery of these errors, we have implemented new procedures for reconciling subledgers to the general ledger and disposition and resolution of reconciling items on a timely basis. Management believes that controls are now in place to ensure that similar errors do not occur again.

There have been no changes in our internal controls over financial reporting that occurred during the three months ended March 31, 2004 that have materially affected, or are reasonable likely to materially affect, our internal controls over financial reporting.

PART II—OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

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

Number	Description
2.1*	— Purchase and Sale Agreement, dated as of February 13, 2004, by and between AEP Energy Services Investments, Inc. and Crosstex Energy, L.P.
2.2*	— First Amendment to Purchase and Sale Agreement, dated as of February 13, 2004, by and between AEP Energy Services Investments, Inc. and Crosstex Energy, L.P.
2.3*	— Second Amendment to Purchase and Sale Agreement, dated as of April 1, 2004, by and between AEP Energy Services Investments, Inc. and Crosstex Louisiana Energy, L.P.
3.1	— Certificate of Limited Partnership of Crosstex Energy, L.P. (incorporated by reference to Exhibit 3.1 to our Registration Statement on Form S-1, file No. 333-97779).
3.2*	— Second Amended and Restated Agreement of Limited Partnership of Crosstex Energy, L.P., dated as of March 29, 2004.
3.3*	— Amendment No. 1 to Second Amended and Restated Agreement of Limited Partnership of Crosstex Energy, L.P., dated as of April 1, 2004.
3.4	— Certificate of Limited Partnership of Crosstex Energy Services, L.P. (incorporated by reference to Exhibit 3.3 to our Registration Statement on Form S-1, file No. 333-97779).
3.5*	— Second Amended and Restated Agreement of Limited Partnership of Crosstex Energy Services, L.P., dated as of April 1, 2004.
3.6	— Certificate of Limited Partnership of Crosstex Energy GP, L.P. (incorporated by reference to Exhibit 3.5 to our Registration Statement on Form S-1, file No. 333-97779).
3.7	— Agreement of Limited Partnership of Crosstex Energy GP, L.P., dated as of July 12, 2002 (incorporated by reference to Exhibit 3.6 to our Registration Statement on Form S-1, file No. 333-97779).
3.8	— Certificate of Formation of Crosstex Energy GP, LLC (incorporated by reference to Exhibit 3.7 to our Registration Statement on Form S-1, file No. 333-97779).
3.9	— Amended and Restated Limited Liability Company Agreement of Crosstex Energy GP, LLC, dated as of December 17, 2002 (incorporated by reference to Exhibit 3.8 to our Registration Statement on Form S-1, File No. 333-106927).
4.1	— Specimen Unit Certificate for Common Units (incorporated by reference to Exhibit 4.1 to our Registration Statement on Form S-1, file No. 333-97779).
10.1*	— Third Amendment to Second Amended and Restated Credit Agreement, dated as of April 1, 2004, by and among Crosstex Energy Services, L.P., Union Bank of California, N.A. and certain other parties.
10.2*	— Letter Amendment No. 1 to Master Shelf Agreement, dated as of April 1, 2004, among Crosstex Energy Services, L.P., Prudential Investment Management, Inc., The Prudential Insurance Company of America and Pruco Life Insurance Company.
21.1*	— List of Subsidiaries.
31.1**	— Certification of the principal executive officer.
31.2**	— Certification of the principal financial officer.
32.1**	— Certification of the principal executive officer and principal financial officer of the Company pursuant to 18 U.S.C. Section 1350.

* Previously filed.

** Filed herewith.

(b) Reports on Form 8-K

On February 18, 2004, Crosstex Energy, L.P. filed a Current Report on Form 8-K, Items 5, 7 and 9, (dated as of February 17, 2004) announcing its execution of a definitive agreement for the acquisition of the LIG Pipeline Company and its subsidiaries from American Electric Power for \$76.2 million with an anticipated closing date within 90 days.

On February 27, 2004, Crosstex Energy, L.P. filed a Current Report on Form 8-K, Items 7 and 12, which included its press release as Exhibit 99.1 announcing its financial results for the three and twelve months ended December 31, 2003.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 10th day of August 2004.

CROSTEX ENERGY, L.P.

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

By: Crosstex Energy GP, LLC,
its general partner

By: /s/ WILLIAM W. DAVIS

William W. Davis,
Executive Vice President and Chief Financial
Officer

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[CROSSTEX ENERGY, L.P. Consolidated Statements of Changes in Partners' Equity Three Months ended March 31, 2004 \(In thousands\) \(Unaudited\)](#)

[CROSSTEX ENERGY, L.P. Consolidated Statements of Comprehensive Income \(In thousands\) \(Unaudited\)](#)

[CROSSTEX ENERGY, L.P. Consolidated Statements of Cash Flows \(In thousands\) \(Unaudited\)](#)

[CROSSTEX ENERGY, L.P. Notes to Consolidated Financial Statements March 31, 2004 \(Unaudited\)](#)

[Item 4. Controls and Procedures](#)

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CERTIFICATIONS

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

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

Date: August 10, 2004

/s/ BARRY E. DAVIS

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

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[Exhibit 31.1](#)

[CERTIFICATIONS](#)

CERTIFICATIONS

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

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

Date: August 10, 2004

/s/ WILLIAM W. DAVIS

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

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[Exhibit 31.2](#)

[CERTIFICATIONS](#)

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

In connection with the Quarterly Report of Crosstex Energy, L.P., (the "Registrant") on Form 10-Q/A for the quarter ended March 31, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned, Barry E. Davis, Chief Executive Officer of Crosstex Energy GP, LLC, and William W. Davis, Chief Financial Officer of Crosstex Energy GP, LLC, certifies, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

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

/s/ BARRY E. DAVIS

Barry E. Davis
Chief Executive Officer

August 10, 2004

/s/ WILLIAM W. DAVIS

William W. Davis
Chief Financial Officer

August 10, 2004

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

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[Exhibit 32.1](#)

[CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002](#)