

Crosstex MLP FAQ

Why does Crosstex trade under two ticker symbols?

Crosstex offers two equity securities for investment: Crosstex Energy, L.P. (the Partnership) (NASDAQ:XTEX) and Crosstex Energy, Inc. (the Corporation) (NASDAQ:XTXI).

The Partnership is a master limited partnership (MLP) that owns and operates the assets of our midstream energy business. Units associated with the Partnership are traded on the Nasdaq.

The Corporation is a "C" corporation that owns the two percent general partner interest, the Incentive Distribution Rights, and a 25 percent limited partner interest. The Corporation's common stock is also traded on the Nasdaq. The Corporation offers investors a means of participating in the Partnership's growth through common share ownership. The Corporation's only assets are partnership interests in the Partnership, including the Incentive Distribution Rights.

What is a Master Limited Partnership (MLP)?

An MLP is a publicly traded limited partnership. To qualify as an MLP, at least 90 percent of a partnership's income must be "qualifying income," which generally includes certain types of income and gains derived from minerals or natural resources. Ownership of limited partner interests in MLPs are designated in units, and combine the tax advantages of a partnership with the liquidity of a publicly traded stock.

What are the benefits of the MLP structure?

MLPs are not subject to U.S. federal corporate income taxes and therefore allow for more pass-through income for investors. An MLP avoids the "double taxation" generally applied to corporations (under which the corporation pays taxes on its income and the corporation's shareholders pay taxes when the corporation distributes its income via a dividend).

What is the difference between the distributions and dividends paid by Crosstex?

MLPs generally pay out all "available cash" to unitholders in the form of distributions (subject to determination of a company's Board of Directors). In addition, MLP's generally distribute all taxable income and loss to the unit holders. In our case, most cash distributions have had a "tax shield" as a result of the distribution of taxable losses. In 2011, the tax shield has been projected to be at least 80 percent.

Crosstex currently pays both distributions to holders of units of the Partnership and dividends to the holders of shares of the Corporation. The dividends paid by XTXI, the corporation, have been (and are expected to continue to be) either a return of capital or qualified dividend income.

What are incentive distribution rights?

Incentive distribution rights, or IDRs, provide the general partner performance-based pay for successfully managing the MLP, which is measured by cash distributions to the limited Partner. The amount the general partner receives depends on the level of payment made to limited partner unitholders.

What percentage of the distribution does the general partner receive in IDRs?

Under the quarterly incentive distribution provisions, the General Partner is entitled to 13.0% of amounts the Limited Partner distributes in excess of \$0.25 per unit, 23.0% of the amounts the Limited Partner distributes in excess of \$0.3125 per unit and 48.0% of amounts the Limited Partner distributes in excess of \$0.375 per unit. Incentive distributions totaling \$0.6 million and \$1.0 million were earned by the General Partner for the three and six months ended June 30, 2011, respectively.
