

LEGACY RESERVES LP  
Form S-3/A  
March 14, 2008

**Table of Contents**

**As filed with the Securities and Exchange Commission on March 14, 2008**

**Registration No. 333-149251**

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

**Amendment No. 1  
to  
FORM S-3  
REGISTRATION STATEMENT UNDER  
THE SECURITIES ACT OF 1933**

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

**Delaware**

*(State or other jurisdiction of  
incorporation or organization)*

**1311**

*(Primary Standard Industrial  
Classification Code Number)*

**16 1751069**

*(I.R.S. Employer  
Identification Number)*

**303 W. Wall Street, Suite 1400  
Midland, Texas 79701  
(432) 689 5200**

*(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)*

**Steven H. Pruett  
President and Chief Financial Officer**

**Legacy Reserves GP, LLC  
303 W. Wall Street, Suite 1400  
Midland, Texas 79701  
(432) 689 5200**

*(Name, address, including zip code, and telephone number, including area code, of agent for service)*

***Copies to:***

**Gislar Donnenberg  
Andrews Kurth LLP  
600 Travis, Suite 4200  
Houston, TX 77002  
(713) 220-4200**

**Approximate date of commencement of proposed sale to the public:** From time to time after the effective date of this Registration Statement.

If the only securities being registered on this Form are to be offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, 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.

offering.

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

**CALCULATION OF REGISTRATION FEE**

| <b>Title of Each Class of Securities to be Registered</b> | <b>Amount to be Registered</b> | <b>Proposed Maximum Offering Price per Unit</b> | <b>Proposed Maximum Aggregate Offering Price</b> | <b>Amount of Registration Fee</b> |
|---|--------------------------------|---|--|-----------------------------------|
| Units representing limited partner interests              | 49,200                         | \$20.00(1)(2)                                   | \$984,000(2)(3)                                  | \$39(4)                           |

(1) The proposed maximum offering price per unit will be determined from time to time by the selling unitholders in connection with, and at the time of, the issuance by the selling unitholders of the securities registered hereunder.

(2) Pursuant to Rule 457(c) of the Securities Act, the registration fee is calculated on the basis of the average of the high and low sale prices for our units on March 13, 2008, as reported on

the NASDAQ  
Global Select  
Market.

- (3) Estimated solely for purposes of calculating the registration fee pursuant to Rule 457 under the Securities Act.
- (4) The registrant previously paid a registration fees of \$12,939 on February 14, 2008 in connection with the filing of the original registration statement, registering 17,067,297 units.

**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 the Registration Statement shall become effective on such date as the Commission acting pursuant to said 8(a), may determine.**

---

**Table of Contents**

The information in this preliminary 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 preliminary prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

**SUBJECT TO COMPLETION, DATED March 14, 2008**

**PRELIMINARY PROSPECTUS**

**Legacy Reserves LP  
17,116,497 Units  
Representing Limited Partner Interests**

The securities to be offered and sold using this prospectus are currently issued and outstanding units representing limited partner interests in us. These units may be offered and sold by the selling unitholders named in this prospectus or in any supplement to this prospectus from time to time in accordance with the provisions set forth under Plan of Distribution. The selling unitholders acquired the units offered by this prospectus in connection with our formation transaction in March 2006, as partial consideration for the acquisition of oil and natural gas properties in June 2006 and April 2007, or through a private placement transaction in November 2007.

The selling unitholders may sell the units offered by this prospectus from time to time on any exchange on which the units are listed on terms to be negotiated with buyers. They may also sell the units in private sales or through dealers and agents. The selling unitholders may sell the units at prevailing market prices or at prices negotiated with buyers. Such sales may occur in the open market, in negotiated transactions and sales by a combination of these methods. The selling unitholders will be responsible for any commissions due to brokers, dealers or agents.

We will not receive any proceeds from the sale of these units.

Our units are traded on The NASDAQ Global Select Market, or NASDAQ, under the symbol LGCY. On March 13, 2008, the last reported sales price of our units on NASDAQ was \$20.00 per unit.

*Investing in our units involves a high degree of risk. Limited partnerships are inherently different from corporations. For a discussion of the factors you should consider before deciding to purchase our units, please see Risk Factors, beginning on page 4 of this prospectus.*

**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.**

The date of this prospectus is \_\_\_\_\_, 2008.

TABLE OF CONTENTS

|   |    |
|---|----|
| <u>About This Prospectus</u>                                | 1  |
| <u>Cautionary Note Regarding Forward-Looking Statements</u> | 1  |
| <u>About Legacy Reserves Lp</u>                             | 3  |
| <u>Risk Factors</u>   | 4  |
| <u>Use Of Proceeds</u>                                      | 18 |
| <u>Description Of The Units</u>                             | 19 |
| <u>Cash Distribution Policy</u>                             | 21 |
| <u>Material Provisions Of Our Partnership Agreement</u>     | 23 |
| <u>Registration Rights</u>                                  | 35 |
| <u>Conflicts Of Interest And Fiduciary Duties</u>           | 38 |
| <u>Material Tax Consequences</u>                            | 45 |
| <u>Selling Unitholders</u>                                  | 61 |
| <u>Plan Of Distribution</u>                                 | 67 |
| <u>Legal Matters</u>  | 69 |
| <u>Experts</u>  | 69 |
| <u>Where You Can Find More Information</u>                  | 69 |
| <u>Incorporation By Reference</u>                           | 69 |
| <u>Opinion of Andrews Kurth LLP</u>                         |    |
| <u>Opinion of Andrews Kurth LLP - Tax Matters</u>           |    |
| <u>Consent of BDO Seidman, LLP</u>                          |    |
| <u>Consent of Johnson Miler &amp; Co., CPA's PC</u>         |    |
| <u>Consent of LaRoche Petroleum Consultants, Ltd.</u>       |    |

**You should rely only on the information contained in this prospectus, any prospectus supplement and the documents we have incorporated by reference. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus or any prospectus supplement, as well as the information we previously filed with the Securities and Exchange Commission that is incorporated by reference herein, is accurate as of any date other than its respective date.**

**Table of Contents**

**ABOUT THIS PROSPECTUS**

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, or SEC, utilizing a shelf registration process or continuous offering process. Under this shelf registration process, the selling unitholders named in this prospectus or in any supplement to this prospectus may sell the units described in this prospectus in one or more offerings. This prospectus provides you with a general description of the units that may be offered by the selling unitholders. Each time a selling unitholder sells securities, the selling unitholder is required to provide you with this prospectus and, in certain cases, a prospectus supplement containing specific information about the selling unitholder and the terms of the securities being offered. That prospectus supplement may include additional risk factors or other special considerations applicable to those securities. Any prospectus supplement may also add, update, or change information in this prospectus. If there is any inconsistency between the information in this prospectus and any prospectus supplement, you should rely on the information in the prospectus supplement.

Additional information, including our financial statements and the notes thereto, is incorporated in this prospectus by reference to our reports filed with the SEC. Please read *Where You Can Find More Information*. You are urged to read this prospectus carefully, including our *Risk Factors*, and our reports filed with the SEC in their entirety before investing in our units.

References in this prospectus to Legacy Reserves, Legacy, we, our, us, or like terms prior to March 15, 2006 to the Moriah Group, Legacy Reserves predecessor, including the oil and natural gas properties we acquired in exchange for units and cash from the Moriah Group, the Brothers Group, H2K Holdings, MBN Properties and certain charitable foundations in connection with our private equity offering on March 15, 2006. When used for periods from March 15, 2006 forward, those terms refer to Legacy Reserves LP and its subsidiaries.

**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus contains forward-looking statements that are subject to a number of risks and uncertainties, many of which are beyond our control, which may include statements about:

our business strategy;

the amount of oil and natural gas we produce;

the price at which we are able to sell our oil and natural gas production;

our ability to acquire additional oil and natural gas properties at economically attractive prices;

our drilling location and our ability to continue our development activities at economically attractive prices;

the level of our lease operating expenses, general and administrative costs and finding and development costs, including payments to our general partner;

the level of capital expenditures;

our future operating results; and

our plans, objectives, expectations and intentions.

All of these types of statements, other than statements of historical fact included in this prospectus, are forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as *may*, *could*, *should*, *expect*, *plan*, *project*, *intend*, *anticipate*, *believe*, *estimate*, *predict*, *potential*, or *possible*, or the negative of such terms or other comparable terminology.

**Table of Contents**

The forward-looking statements contained in this prospectus are largely based on our expectations, which reflect estimates and assumptions made by our management. These estimates and assumptions reflect our best judgment based on currently known market conditions and other factors. Although we believe such estimates and assumptions to be reasonable, they are inherently uncertain and involve a number of risks and uncertainties that are beyond our control. In addition, management's assumptions about future events may prove to be inaccurate. All readers are cautioned that the forward-looking statements contained in this prospectus are not guarantees of future performance, and we cannot assure any reader that such statements will be realized or the forward-looking events and circumstances will occur. Actual results may differ materially from those anticipated or implied in the forward-looking statements due to factors described in the Risk Factors section and elsewhere in this prospectus. The forward-looking statements in this prospectus speak only as of the date of this prospectus; we disclaim any obligation to update these statements unless required by securities law. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.



**Table of Contents**

**ABOUT LEGACY RESERVES LP**

Legacy Reserves LP is an independent oil and natural gas limited partnership headquartered in Midland, Texas, focused on the acquisition and exploitation of oil and natural gas properties primarily located in the Permian Basin of West Texas and southeast New Mexico. We were formed in October 2005 to own and operate the oil and natural gas properties that we acquired from our Founding Investors in connection with the closing of our formation and a private equity offering on March 15, 2006. On January 18, 2007, we completed our initial public offering.

We have grown primarily through two activities: the acquisition of producing oil and natural gas properties and the exploitation of proved properties as opposed to higher risk exploration of unproved properties.

Our reserves are located primarily in the Permian Basin, one of the largest and most prolific oil and natural gas producing basins in the United States. The Permian Basin is characterized by oil and natural gas fields with long production histories and multiple producing formations. Our producing properties are mature fields with established decline curves.

Our general partner, Legacy Reserves GP, LLC, manages our operations and activities and its board of directors and officers make decisions on our behalf.

Our principal executive offices are located at 303 W. Wall Street, Suite 1400, Midland, Texas 79701 and our telephone number is (432) 689-5200.

**Table of Contents**

**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.*

*An investment in our units involves a high degree of risk. You should carefully consider the following risk factors, together with all of the other information included in, or incorporated by reference into, this prospectus or any prospectus supplement in evaluating an investment in our units. If any of these risks were to occur, our business, financial condition or results of operations could be adversely affected. In that case, we may be unable to make distributions to our unitholders, the trading price of our units could decline and you could lose all or part of your investment.*

**Risks Inherent in an Investment in Our Units**

***We may not have sufficient available cash to pay the full amount of our current quarterly distribution or any distribution at all following establishment of cash reserves and payment of fees and expenses, including payments to our general partner.***

We may not have sufficient available cash each quarter to pay the full amount of our current quarterly distribution or any distribution at all. The amount of cash we distribute in any quarter to our unitholders may fluctuate significantly from quarter to quarter and may be significantly less than our current quarterly distribution. Under the terms of our partnership agreement, the amount of cash otherwise available for distribution will be reduced by our operating expenses and the amount of any cash reserves that our general partner establishes to provide for future operations, future capital expenditures, future debt service requirements and future cash distributions to our unitholders. Further, our debt agreements contain restrictions on our ability to pay distributions. The amount of cash we can distribute on our 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 oil and natural gas we produce;

the price at which we are able to sell our oil and natural gas production;

whether we are able to acquire additional oil and natural gas properties at economically attractive prices;

whether we are able to continue our exploitation activities at economically attractive costs;

the level of our operating costs, including payments to our general partner;

the level of our interest expense, which depends on the amount of our indebtedness and the interest payable thereon; and

the level of our capital expenditures.

***If we are not able to acquire additional oil and natural gas reserves on economically acceptable terms, our reserves and production will decline, which would adversely affect our business, results of operations and financial condition and our ability to make cash distributions to our unitholders.***

We will be unable to sustain distributions at the current level without making accretive acquisitions or substantial capital expenditures that maintain or grow our asset base. Oil and natural gas reserves are characterized by declining production rates, and our future oil and natural gas reserves and production and, therefore, our cash flow and our ability to make distributions are highly dependent on our success in economically finding or acquiring additional recoverable reserves and efficiently developing and exploiting our current reserves. Further, the rate of estimated decline of our oil and natural gas reserves may increase if our wells do not produce as expected. We may not be able to find, acquire or develop additional reserves to replace our current and future production at acceptable costs, which would adversely affect our business, results of operations, financial condition and our ability to make cash distributions to our unitholders.



**Table of Contents**

***Because we distribute all of our available cash to our unitholders, our future growth may be limited.***

Since we will distribute all of our available cash as defined in our partnership agreement to our unitholders, our growth may not be as fast as businesses that reinvest their available cash to expand ongoing operations. We will depend on financing provided by commercial banks and other lenders and the issuance of debt and equity securities to finance any significant growth or acquisitions. If we are unable to obtain adequate financing from these sources, our ability to grow will be limited.

***If commodity prices decline significantly for a prolonged period, we may be forced to reduce our distribution or not be able to pay distributions at all.***

A significant decline in oil and natural gas prices over a prolonged period would have a significant impact on the value of our reserves and on our cash flow, which would force us to reduce or suspend our distribution. Prices for oil and natural gas may fluctuate widely in response to relatively minor changes in the supply of and demand for oil and natural gas, market uncertainty and a variety of additional factors that are beyond our control, such as:

the domestic and foreign supply of and demand for oil and natural gas;

the price and quantity of imports of crude oil and natural gas;

overall domestic and global economic conditions;

political and economic conditions in other oil and natural gas producing countries, including embargoes and continued hostilities in the Middle East and other sustained military campaigns, and acts of terrorism or sabotage;

the ability of members of the Organization of Petroleum Exporting Countries to agree to and maintain oil price and production controls;

the level of consumer product demand;

weather conditions;

the impact of the U.S. dollar exchange rates on oil and natural gas prices; and

the price and availability of alternative fuels.

In the past, the prices of oil and natural gas have been extremely volatile, and we expect this volatility to continue.

***If commodity prices decline significantly for a prolonged period, a significant portion of our exploitation projects may become uneconomic, which may adversely affect our ability to make distributions to our unitholders.***

Lower oil and natural gas prices may not only decrease our revenues, but also reduce the amount of oil and natural gas that we can produce economically. Furthermore, substantial decreases in oil and natural gas prices as were experienced as recently as 2002, when prices of less than \$20.00 per Bbl of oil and \$2.00 per Mcf of natural gas were received at the wellhead, would render a significant portion of our exploitation projects uneconomic. This may result in our having to make substantial downward adjustments to our estimated proved reserves. If this occurs, or if our estimates of development costs increase, production data factors change or drilling results deteriorate, accounting rules may require us to write down, as a non-cash charge to earnings, the carrying value of our oil and natural gas properties for impairments. We may incur impairment charges in the future, which could have a material adverse effect on our results of operations in the period taken and our ability to borrow funds under our credit facility to pay distributions to our unitholders.

**Table of Contents**

***Our estimated reserves are based on many assumptions that may prove inaccurate. Any material inaccuracies in these reserve estimates or underlying assumptions will materially affect the quantities and present value of our reserves.***

No one can measure underground accumulations of oil and natural gas in an exact way. Oil and natural gas reserve engineering requires subjective estimates of underground accumulations of oil and natural gas and assumptions concerning future oil and natural gas prices, production levels, and operating and development costs. As a result, estimated quantities of proved reserves and projections of future production rates and the timing of development expenditures may prove to be inaccurate. Any material inaccuracies in these reserve estimates or underlying assumptions will materially affect the quantities and present value of our reserves which could adversely affect our business, results of operations, financial condition and our ability to make cash distributions to our unitholders.

***Our credit facility has substantial restrictions and financial covenants, and our borrowing base is subject to redetermination by our lenders which could adversely affect our business, results of operations, financial condition and our ability to make cash distributions to our unitholders.***

We will depend on our revolving credit facility for future capital needs. Our revolving credit facility restricts, among other things, our ability to incur debt and pay distributions, and requires us to comply with certain financial covenants and ratios. Our ability to comply with these restrictions and covenants in the future is uncertain and will be affected by the levels of cash flow from our operations and events or circumstances beyond our control. Our failure to comply with any of the restrictions and covenants under our revolving credit facility could result in a default under our revolving credit facility. A default under our revolving credit facility could cause all of our existing indebtedness to be immediately due and payable. Additionally, our revolving credit facility limits the amounts we can borrow to a borrowing base amount, determined by the lenders in their sole discretion.

We are prohibited from borrowing under our revolving credit facility to pay distributions to unitholders if the amount of borrowings outstanding under our revolving credit facility reaches or exceeds 90% of the borrowing base, which is the amount of money available for borrowing, as determined semi-annually by our lenders in their sole discretion. The lenders will redetermine the borrowing base based on an engineering report with respect to our oil and natural gas reserves, which will take into account the prevailing oil and natural gas prices at such time. Any time our borrowings exceed 90% of the then specified borrowing base, our ability to pay distributions to our unitholders in any such quarter is solely dependent on our ability to generate sufficient cash from our operations.

Outstanding borrowings in excess of the borrowing base must be repaid, and, if mortgaged properties represent less than 80% of total value of oil and gas properties used to determine the borrowing base, we must pledge other oil and natural gas properties as additional collateral. We may not have the financial resources in the future to make any mandatory principal prepayments required under our revolving credit facility.

The occurrence of an event of default or a negative redetermination of our borrowing base could adversely affect our business, results of operations, financial condition and our ability to make distributions to our unitholders.

***Our business depends on gathering and transportation facilities owned by others. Any limitation in the availability of those facilities would interfere with our ability to market the oil and natural gas we produce.***

The marketability of our oil and natural gas production depends in part on the availability, proximity and capacity of gathering and pipeline systems owned by third parties. The amount of oil and natural gas that can be produced and sold is subject to curtailment in certain circumstances, such as pipeline interruptions due to scheduled and unscheduled maintenance, excessive pressure, physical damage to the gathering or transportation system, or lack of contracted capacity on such systems. The curtailments arising from these and similar circumstances may last from a few days to several months. In many cases, we are provided only with limited, if any, notice as to when these circumstances will arise and their duration. Any significant curtailment in gathering system or pipeline capacity, or significant delay in the construction of necessary gathering and transportation facilities, could adversely affect our business, results of operations, financial condition and our ability to make cash distributions to our unitholders.

**Table of Contents**

***Our exploitation projects require substantial capital expenditures, which will reduce our cash available for distribution. We may be unable to obtain needed capital or financing on satisfactory terms, which could lead to a decline in our oil and natural gas reserves.***

We make and expect to continue to make substantial capital expenditures in our business for the exploitation, development, production and acquisition of oil and natural gas reserves. These expenditures will reduce our cash available for distribution. We intend to finance our future capital expenditures with cash flow from operations and borrowings under our revolving credit facility. Our cash flow from operations and access to capital are subject to a number of variables, including:

our proved reserves;

the level of oil and natural gas we are able to produce from existing wells;

the prices at which our oil and natural gas are sold; and

our ability to acquire, locate and produce new reserves.

If our revenues or the borrowing base under our credit facility decrease as a result of lower oil and/or natural gas prices, operating difficulties, declines in reserves or for any other reason, we may have limited ability to obtain the capital necessary to sustain our operations at current levels. Our credit facility restricts our ability to obtain new financing. If additional capital is needed, we may not be able to obtain debt or equity financing. If cash generated by operations or available under our revolving credit facility is not sufficient to meet our capital requirements, the failure to obtain additional financing could result in a curtailment of our operations relating to development of our prospects, which in turn could lead to a decline in our oil and natural gas reserves, and could adversely affect our business, results of operations, financial condition and our ability to make cash distributions to our unitholders.

***We do not control all of our operations and exploitation projects and failure of an operator of wells in which we own partial interests to adequately perform could adversely affect our business, results of operations, financial condition and our ability to make cash distributions to our unitholders.***

Much of our business activities are conducted through joint operating agreements under which we own partial interests in oil and natural gas wells.

If we do not operate wells in which we own an interest, we do not have control over normal operating procedures, expenditures or future development of underlying properties. The success and timing of our exploitation activities on properties operated by others is outside of our control.

The failure of an operator of wells in which we own partial interests to adequately perform operations, or an operator's breach of the applicable agreements, could reduce our production and revenues and could adversely affect our business, results of operations, financial condition and our ability to make cash distributions to our unitholders.

***Shortages of drilling rigs, equipment and crews could delay our operations, adversely affect our ability to increase our reserves and production and reduce our cash available for distribution to our unitholders.***

Higher oil and natural gas prices generally increase the demand for drilling rigs, equipment and crews and can lead to shortages of, and increasing costs for, drilling equipment, services and personnel. Shortages of, or increasing costs for, experienced drilling crews and oil field equipment and services could restrict our ability to drill the wells and conduct the operations which we currently have planned. Any delay in the drilling of new wells or significant increase in drilling costs could adversely affect our ability to increase our reserves and production and reduce our revenues and cash available for distribution to our unitholders.

**Table of Contents**

***Increases in the cost of drilling rigs, service rigs, pumping services and other costs in drilling and completing wells could reduce the viability of certain of our exploitation projects.***

The rig count and the cost of rigs and oil field services necessary to implement our exploitation projects have risen significantly with the increases in oil and natural gas prices. Increased capital requirements for our projects will result in higher reserve replacement costs which could reduce cash available for distribution. Higher project costs could cause certain of our projects to become uneconomic and therefore not to be implemented, reducing our production and cash available for distribution.

***Drilling for and producing oil and natural gas are high risk activities with many uncertainties that could adversely affect our business, results of operations, financial condition and our ability to make cash distributions to our unitholders.***

Our drilling activities are subject to many risks, including the risk that we will not discover commercially productive reservoirs. Drilling for oil and natural gas can be uneconomic, not only from dry holes, but also from productive wells that do not produce sufficient revenues to be commercially viable.

In addition, our drilling and producing operations may be curtailed, delayed or canceled as a result of other factors, including:

the high cost, shortages or delivery delays of equipment and services;

unexpected operational events;

adverse weather conditions;

facility or equipment malfunctions;

title disputes;

pipeline ruptures or spills;

collapses of wellbore, casing or other tubulars;

unusual or unexpected geological formations;

loss of drilling fluid circulation;

formations with abnormal pressures;

fires;

blowouts, craterings and explosions; and

uncontrollable flows of oil, natural gas or well fluids.

Any of these events can cause substantial losses, including personal injury or loss of life, damage to or destruction of property, natural resources and equipment, pollution, environmental contamination, loss of wells and regulatory penalties.

We ordinarily maintain insurance against various losses and liabilities arising from our operations; however, insurance against all operational risks is not available to us. Additionally, we may elect not to obtain insurance if we believe that the cost of available insurance is excessive relative to the perceived risks presented. Losses could therefore occur for uninsurable or uninsured risks or in amounts in excess of existing insurance coverage. The

**Table of Contents**

occurrence of an event that is not fully covered by insurance could have a material adverse impact on our business, results of operations, financial condition and our ability to make cash distributions to our unitholders.

***Increases in interest rates could adversely affect our business, results of operations, cash flows from operations and financial condition.***

Since all of the indebtedness outstanding under our credit facility is at variable interest rates, we have significant exposure to increases in interest rates. As a result, our business, results of operations and cash flows may be adversely affected by significant increases in interest rates.

Further, an increase in interest rates may cause a corresponding decline in demand for equity investments, in particular for yield-based equity investments such as our units. Any reduction in demand for our units resulting from other more attractive investment opportunities may cause the trading price of our units to decline.

***We may have assumed unknown liabilities in connection with the formation transactions and our subsequent acquisitions.***

As part of the formation transactions and subsequent acquisitions, our properties may be subject to existing liabilities, some of which may have been unknown at the closing of such transactions. Unknown liabilities might include liabilities for cleanup or remediation of undisclosed or unknown environmental conditions, claims of vendors or other persons (that had not been asserted or threatened prior to the closing of such transactions), tax liabilities and accrued but unpaid liabilities incurred in the ordinary course of business.

***Properties that we buy may not produce as projected, and we may be unable to determine reserve potential, identify liabilities associated with the properties or obtain protection from sellers against such liabilities.***

One of our growth strategies is to acquire additional oil and natural gas reserves. However, our reviews of acquired properties are inherently incomplete because it generally is not feasible to review in depth every individual property involved in each acquisition. Even a detailed review of records and properties may not necessarily reveal existing or potential problems, nor will it permit a buyer to become sufficiently familiar with the properties to assess fully their deficiencies and potential. Inspections may not always be performed on every well, and environmental problems, such as ground water contamination, are not necessarily observable even when an inspection is undertaken. Even when problems are identified, we often assume environmental and other risks and liabilities in connection with acquired properties.

***Our identified drilling location inventories are scheduled out over several years, making them susceptible to uncertainties that could materially alter the occurrence or timing of their drilling.***

Our management team has specifically identified and scheduled drilling locations as an estimation of our future multi-year drilling activities on our acreage. These identified drilling locations represent a significant part of our growth strategy. Our ability to drill and develop these locations depends on a number of factors, including the availability of capital, seasonal conditions, regulatory approvals, oil and natural gas prices, costs and drilling results. Our final determination on whether to drill any of these drilling locations will be dependent upon the factors described above as well as, to some degree, the results of our drilling activities with respect to our proved drilling locations. Because of these uncertainties, we do not know if the numerous drilling locations we have identified will be drilled within our expected timeframe or will ever be drilled or if we will be able to produce oil or natural gas from these or any other potential drilling locations. As such, our actual drilling activities may be materially different from those presently identified, which could adversely affect our business, results of operations, financial condition and our ability to make cash distributions to our unitholders.

***Our hedging activities could result in cash losses, could reduce our cash available for distributions and may limit potential gains.***

We have entered into, and we may in the future enter into, hedging arrangements for a significant portion of our oil and natural gas production. Many derivative instruments that we employ require us to make cash payments to



**Table of Contents**

the extent the applicable index exceeds a predetermined price, thereby limiting our ability to realize the benefit of increases in oil and natural gas prices.

If our actual production and sales for any period are less than our hedged production and sales for that period (including reductions in production due to operational delays) or if we are unable to perform our drilling activities as planned, we might be forced to satisfy all or a portion of our hedging obligations without the benefit of the cash flow from our sale of the underlying physical commodity, resulting in a substantial diminution of our liquidity. Lastly, an attendant risk exists in hedging activities that the counterparty in any derivative transaction cannot or will not perform under the instrument and that we will not realize the benefit of the hedge. Under our credit facility, we are prohibited from hedging all of our production, and we therefore retain the risk of a price decrease on our unhedged volumes. ***The inability of one or more of our customers to meet their obligations may adversely affect our financial condition and results of operations.***

Substantially all of our accounts receivable result from oil and natural gas sales or joint interest billings to third parties in the energy industry. This concentration of customers and joint interest owners may impact our overall credit risk in that these entities may be similarly affected by changes in economic and other conditions. In addition, our oil and natural gas hedging arrangements expose us to credit risk in the event of nonperformance by counterparties.

***We depend on a limited number of key personnel who would be difficult to replace.***

Our operations are dependent on the continued efforts of our executive officers, senior management and key employees. The loss of any member of our senior management or other key employees could negatively impact our ability to execute our strategy.

***We may be unable to compete effectively with larger companies, which could have a material adverse effect on our business, results of operations, financial condition and our ability to make cash distributions to our unitholders.***

The oil and natural gas industry is intensely competitive, and we compete with other companies that have greater resources than us. Our ability to acquire additional properties and to discover reserves in the future will be dependent upon our ability to evaluate and select suitable properties and to consummate transactions in a highly competitive environment. Many of our larger competitors not only explore for and produce oil and natural gas, but also carry on refining operations and market petroleum and other products on a regional, national or worldwide basis. These companies may be able to pay more for productive natural gas properties and exploratory prospects or define, evaluate, bid for and purchase a greater number of properties and prospects than our financial or human resources permit. In addition, these companies may have a greater ability to continue exploration and exploitation activities during periods of low oil and natural gas market prices and to absorb the burden of present and future federal, state, local and other laws and regulations. Our inability to compete effectively with larger companies could have a material adverse effect on our business, results of operations, financial condition and our ability to make cash distributions to our unitholders.

***If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud. As a result, current and potential unitholders could lose confidence in our financial reporting, which would harm our business and the trading price of our units.***

Internal controls over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. If we cannot provide reliable financial reports or prevent fraud, our reputation and operating results could be harmed. We cannot be certain that our efforts to develop

## **Table of Contents**

and maintain our internal controls will be successful, that we will be able to maintain adequate controls over our financial processes and reporting in the future or that we will be able to continue to comply with our obligations under Section 404 of the Sarbanes-Oxley Act of 2002. Any failure to maintain effective internal controls, or difficulties encountered in implementing or improving our internal controls, could harm our operating results or cause us to fail to meet certain reporting obligations. Ineffective internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our units.

***We are subject to complex federal, state, local and other laws and regulations that could adversely affect the cost, manner or feasibility of conducting our operations.***

Our oil and natural gas exploration and production operations are subject to complex and stringent laws and regulations. In order to conduct our operations in compliance with these laws and regulations, we must obtain and maintain numerous permits, approvals and certificates from various federal, state and local governmental authorities. We may incur substantial costs in order to maintain compliance with these existing laws and regulations. In addition, our costs of compliance may increase if existing laws and regulations are revised or reinterpreted, or if new laws and regulations become applicable to our operations. All such costs may have a negative effect on our business, results of operations, financial condition and ability to make cash distributions to our unitholders.

Our business is subject to federal, state and local laws and regulations as interpreted and enforced by governmental authorities possessing jurisdiction over various aspects of the exploration for and the production of, oil and natural gas. Failure to comply with such laws and regulations, as interpreted and enforced, could have a material adverse effect on our business, results of operations, financial condition and our ability to make cash distributions to our unitholders.

***Our operations expose us to significant costs and liabilities with respect to environmental and operational safety matters.***

We may incur significant costs and liabilities as a result of environmental and safety requirements applicable to our oil and natural gas exploration and production activities. These costs and liabilities could arise under a wide range of federal, state and local environmental and safety laws and regulations, including regulations and enforcement policies, which have tended to become increasingly strict over time. Failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal penalties, imposition of cleanup and site restoration costs and liens, and to a lesser extent, issuance of injunctions to limit or cease operations. In addition, claims for damages to persons or property may result from environmental and other impacts of our operations.

Strict, joint and several liability may be imposed under certain environmental laws, which could cause us to become liable for the conduct of others or for consequences of our own actions that were in compliance with all applicable laws at the time those actions were taken. New laws, regulations or enforcement policies could be more stringent and impose unforeseen liabilities or significantly increase compliance costs. If we were not able to recover the resulting costs through insurance or increased revenues, our ability to make cash distributions to our unitholders could be adversely affected.

### **Risks Related to Our Limited Partnership Structure**

***Units eligible for future sale may have adverse effects on our unit price and the liquidity of the market for our units.***

We cannot predict the effect of future sales of our units, or the availability of units for future sales, on the market price of or the liquidity of the market for our units. Sales of substantial amounts of units, or the perception that such sales could occur, could adversely affect the prevailing market price of our units. Such sales, or the possibility of such sales, could also make it difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. Factors affecting the likely volume of future sales of our units, and the possible consequences of such sales, include the following:

**Table of Contents**

All of our units issued in our private equity offerings are restricted securities within the meaning of Rule 144 under the Securities Act. As more of our units become eligible for sale under Rule 144, the volume of sales of our units may increase, which could reduce the market price of our units.

The Founding Investors and their affiliates, including members of our management, own approximately 43% of our outstanding units. We granted the Founding Investors certain registration rights to have their units registered under the Securities Act. Upon registration, these units will be eligible for sale into the market. Because of the substantial size of the Founding Investors' holdings, the sale of a significant portion of these units, or a perception in the market that such a sale is likely, could have a significant impact on the market price of our units.

We granted purchasers in our private equity offerings certain registration rights to have the resale of their units registered under the Securities Act. If purchasers in our private equity offerings were to resell a substantial portion of their units, it could reduce the market price of our outstanding units.

***Our Founding Investors, including members of our management, own a 43% limited partner interest in us and control our general partner, which has sole responsibility for conducting our business and managing our operations. Our general partner has conflicts of interest and limited fiduciary duties, which may permit it to favor its own interests to the detriment of our unitholders.***

Our Founding Investors, including members of our management, own a 43% limited partner interest in us and therefore have the ability to effectively control the election of the entire board of directors of our general partner. Although our general partner has a fiduciary duty to manage us in a manner beneficial to us and our unitholders, the directors and officers of our general partner have a fiduciary duty to manage our general partner in a manner beneficial to its owners, our Founding Investors and their affiliates. Conflicts of interest may arise between our Founding Investors and their affiliates, including our general partner, on the one hand, and us and our unitholders, on the other hand. In resolving these conflicts of interest, our general partner may favor its own interests and the interests of its affiliates over the interests of our unitholders. These conflicts include, among others, the following situations:

neither our partnership agreement nor any other agreement requires our Founding Investors or their affiliates, other than our executive officers, to pursue a business strategy that favors us;

our general partner is allowed to take into account the interests of parties other than us, such as our Founding Investors, in resolving conflicts of interest, which has the effect of limiting its fiduciary duty to our unitholders;

our Founding Investors and their affiliates (other than our executive officers and their affiliates) may engage in competition with us;

our general partner has limited its liability and reduced its fiduciary duties under our partnership agreement and has also restricted the remedies available to our unitholders for actions that, without the limitations, might constitute breaches of fiduciary duty. As a result of purchasing units, unitholders consent to some actions and conflicts of interest that might otherwise constitute a breach of fiduciary or other duties under applicable state law;

our general partner determines the amount and timing of asset purchases and sales, capital expenditures, borrowings, issuance of additional partnership securities, and reserves, each of which can affect the amount of cash that is distributed to our unitholders;

our general partner determines the amount and timing of any capital expenditures and whether a capital expenditure is a maintenance capital expenditure, which reduces operating surplus, or a growth capital expenditure, which does not. Such determination can affect the amount of cash that is distributed to our unitholders;



**Table of Contents**

our general partner determines which costs incurred by it and its affiliates are reimbursable by us;

our partnership agreement does not restrict our general partner from causing us to pay it or its affiliates for any services rendered to us or entering into additional contractual arrangements with any of these entities on our behalf;

our general partner intends to limit its liability regarding our contractual and other obligations;

our general partner controls the enforcement of obligations owed to us by it and its affiliates; and

our general partner decides whether to retain separate counsel, accountants, or others to perform services for us.

***Even if unitholders are dissatisfied they cannot remove our general partner without the consent of unitholders owning at least 66<sup>2</sup>/<sub>3</sub>% of our units, including units owned by our general partner and its affiliates.***

Currently, the unitholders are unable to remove our general partner without its consent because our general partner's affiliates own sufficient units to be able to prevent our general partner's removal. The vote of the holders of at least 66<sup>2</sup>/<sub>3</sub>% of all outstanding units voting together as a single class is required to remove the general partner. Affiliates of our general partner, including members of our management, own 43% of our units.

***Our partnership agreement restricts the voting rights of those unitholders owning 20% or more of our units.***

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 our general partner, cannot vote on any matter. Our partnership agreement also 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.

***Our Founding Investors and their affiliates (other than our executive officers and their affiliates) may compete directly with us.***

Our Founding Investors and their affiliates, other than our general partner and our executive officers and their affiliates, are not prohibited from owning assets or engaging in businesses that compete directly or indirectly with us. In addition, our Founding Investors or their affiliates, other than our general partner and our executive officers and their affiliates, may acquire, develop and operate oil and natural gas properties or other assets in the future, without any obligation to offer us the opportunity to acquire, develop or operate those assets.

***Cost reimbursements due our general partner and its affiliates will reduce our cash available for distribution to our unitholders.***

Prior to making any distribution on our outstanding units, we will reimburse our general partner and its affiliates for all expenses they incur on our behalf. Any such reimbursement will be determined by our general partner in its sole discretion. These expenses will include all costs incurred by our general partner and its affiliates in managing and operating us. The reimbursement of expenses of our general partner and its affiliates could adversely affect our ability to pay cash distributions to our unitholders.

***Our partnership agreement limits our general partner's fiduciary duties to our unitholders and restricts the remedies available to unitholders for actions taken by our general partner that might otherwise constitute breaches of fiduciary duty.***

Our partnership agreement contains provisions that reduce the standards to which our general partner would otherwise be held by state fiduciary duty law. For example, our partnership agreement:

**Table of Contents**

permits our general partner to make a number of decisions in its individual capacity, as opposed to in its capacity as our general partner. 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 unitholder;

provides that our general partner will not have any liability to us or our unitholders for decisions made in its capacity as a general partner so long as it acted in good faith, meaning it believed the decision was in the best interests of our partnership;

provides that our general partner is entitled to make other decisions in good faith if it believes that the decision is in our best interest;

provides generally that affiliated transactions and resolutions of conflicts of interest not approved by the conflicts committee of the board of directors of our general partner and not involving a vote of unitholders must be on terms no less favorable to us than those generally being provided to or available from unrelated third parties or be fair and reasonable to us, as determined by our general partner in good faith, and that, in determining whether a transaction or resolution is fair and reasonable, our general partner may consider the totality of the relationships between the parties involved, including other transactions that may be particularly advantageous or beneficial to us; and

provides that our general partner and its officers and directors will not be liable for monetary damages to us, our unitholders or assignees for any acts or omissions unless there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that the general partner or those other persons acted in bad faith or engaged in fraud or willful misconduct.

By purchasing a unit, a unitholder will become bound by the provisions in the partnership agreement, including the provisions discussed above. Please read Conflicts of Interest and Fiduciary Duties Fiduciary Duties.

***Our partnership agreement permits our general partner to redeem any partnership interests held by a limited partner who is a non-citizen assignee.***

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, our general partner may redeem the units held by the limited partner at their current market price. In order to avoid any cancellation or forfeiture, our general partner may require each limited partner to furnish information about his nationality, citizenship or related status. If a limited partner 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 is not an eligible citizen, our general partner may elect to treat the limited partner as a non-citizen assignee. A non-citizen assignee 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. 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.

***We may issue an unlimited number of additional units without the approval of our unitholders, which would dilute their existing ownership interest in us.***

Our general partner, without the approval of our unitholders, may cause us to issue an unlimited number of additional units. The issuance by us of additional units or other equity securities of equal or senior rank will have the following effects:

our unitholders proportionate ownership interests in us will decrease;

the amount of cash available for distribution on each unit may decrease;

**Table of Contents**

the risk that a shortfall in the payment of our current quarterly distribution will increase;

the relative voting strength of each previously outstanding unit may be diminished; and

the market price of the units may decline.

***The liability of our unitholders may not be limited if a court finds that unitholder action constitutes control of our business.***

A general partner of a partnership generally has unlimited liability for the obligations of the partnership, except for those contractual obligations of the partnership that are expressly made without recourse to the general partner. Our partnership is organized under Delaware law, and we conduct business in a number of other states. 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. In some states, including Delaware, a limited partner is only liable if he participates in the control of the business of the partnership. These statutes generally do not define control, but do permit limited partners to engage in certain activities, including, among other actions, taking any action with respect to the dissolution of the partnership, the sale, exchange, lease or mortgage of any asset of the partnership, the admission or removal of the general partner and the amendment of the partnership agreement. Our unitholders could, however, be liable for any and all of our obligations as if our unitholders were a general partner if:

a court or government agency determined that we were conducting business in a state but had not complied with that particular state's partnership statute; or

our unitholders' right to act with other unitholders to take other actions under our partnership agreement that constitute control of our business.

For a discussion of the implications of the limitations of liability on a unitholder, please read **Material Provisions of our Partnership Agreement - Limited Liability**.

***Unitholders may have liability to repay distributions that were wrongfully distributed to them.***

Under certain circumstances, unitholders may have to repay amounts wrongfully returned or distributed to them. Under Section 17-607 of the Delaware Revised Uniform Limited Partnership Act, we may not make a distribution to our unitholders if the distribution would cause our liabilities to exceed the fair value of our assets. Delaware law provides that for a period of three years from the date of the distribution, limited partners who received an impermissible distribution and who knew at the time of the distribution that it violated Delaware law will be liable to the limited partnership for the distribution amount. Substituted limited partners are liable for the obligations of the transferring limited partner to make contributions to the partnership that are known to such substitute limited partner at the time it became a limited partner and for unknown obligations if the liabilities could be determined from the partnership agreement. Liabilities to partners on account of their partnership interest and liabilities that are non-recourse to the partnership are not counted for purposes of determining whether a distribution is permitted.

**Tax Risks to Unitholders**

In addition to reading the following risk factors, you should read **Material Tax Consequences** for a more complete discussion of the expected material federal income tax consequences of owning and disposing of our units.

**Table of Contents**

***Our tax treatment depends on our status as a partnership for federal income tax purposes, as well as our not being subject to a material amount of additional entity-level taxation by states and localities. If the IRS were to treat us as a corporation or if we were to become subject to a material amount of additional entity-level taxation for state or local tax purposes, then our cash available for distribution to our unitholders would be substantially reduced.***

The anticipated after-tax economic benefit of an investment in our units depends largely on our being treated as a partnership for federal income tax purposes. We have not requested, and do not plan to request, a ruling from the IRS on this or any other tax matter affecting us.

If we were treated as a corporation for federal income tax purposes, we would pay federal income tax on our taxable income at the corporate tax rate, which currently has a top marginal rate of 35%, and would likely pay state and local income tax at the corporate tax rate of the various states and localities imposing a corporate income tax. Distributions to our unitholders would generally be taxed again as corporate distributions, and no income, gains, losses, deductions or credits would flow through to our unitholders. Because a tax would be imposed upon us as a corporation, our cash available to pay distributions to our unitholders 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 our unitholders likely causing a substantial reduction in the value of our units.

Current law may change, causing us to be treated as a corporation for federal income tax purposes or otherwise subject us to entity-level taxation. In addition, because of widespread state budget deficits and other reasons, several states are evaluating ways to subject partnerships to entity-level taxation through the imposition of state income, franchise and other forms of taxation. For example, we are subject to a new entity-level state tax on the portion of our income that is generated in Texas beginning for tax reports due on or after January 1, 2008. Specifically, the Texas margin tax is imposed at a maximum effective rate of 0.7% of our gross income that is apportioned to Texas. If any additional states were to impose a tax upon us as an entity, the cash available for distribution to our unitholders would be reduced.

***The tax treatment of publicly traded partnerships or an investment in our units could be subject to potential legislative, judicial or administrative changes and differing interpretations, possibly on a retroactive basis.***

The present U.S. federal income tax treatment of publicly traded partnerships, including us, or an investment in our units may be modified by administrative, legislative or judicial interpretation at any time. Any modification to the U.S. federal income tax laws and interpretations thereof may or may not be applied retroactively and could make it more difficult or impossible to meet the exception for us to be treated as a partnership for U.S. federal income tax purposes that is not taxable as a corporation, or Qualifying Income Exception, affect or cause us to change our business activities, affect the tax considerations of an investment in us, change the character or treatment of portions of our income and adversely affect an investment in our units. For example, in response to certain recent developments, members of Congress are considering substantive changes to the definition of qualifying income under Section 7704(d) of the Internal Revenue Code. Legislation has been proposed that would eliminate partnership tax treatment for certain publicly traded partnerships. Although such legislation would not apply to us as currently proposed, it could be amended prior to enactment in a manner that does apply to us. It is possible that these legislative efforts could result in changes to the existing U.S. tax laws that affect publicly traded partnerships, including us. Any modification to the U.S. federal income tax laws and interpretations thereof may or may not be applied retroactively. We are unable to predict whether any of these changes, or other proposals, will ultimately be enacted. Any such changes could negatively impact the value of an investment in our units. For a discussion of the importance of the Qualifying Income Exception and our status as a partnership for federal income tax purposes, please read *Material Tax Considerations* Partnership Status.

***Our unitholders may be required to pay taxes on their share of our income even if they do not receive any cash distributions from us.***

Our unitholders are required to pay federal income taxes and, in some cases, state and local income taxes on their share of our taxable income, whether or not they receive cash distributions from us. Our unitholders may not receive cash distributions from us equal to their share of our taxable income or even equal to the actual tax liability that results from their share of our taxable income.



***We prorate our items of income, gain, loss and deduction between transferors and transferees of our units each month based upon the ownership of our units on the first day of each month, instead of on the basis of the date a particular unit is transferred.***

We prorate our items of income, gain, loss and deduction between transferors and transferees of our units each month based upon the ownership of our units on the first day of each month, instead of on the basis of the date a particular unit is transferred. The use of this proration method may not be permitted under existing Treasury regulations, and, accordingly, our counsel is unable to opine as to the validity of this method. If the IRS were to challenge this method or new Treasury regulations were issued, we may be required to change the allocation of items of income, gain, loss and deduction among our unitholders. Please read **Material Tax Consequences** **Disposition of Units** **Allocations Between Transferors and Transferees**.

***A successful IRS contest of the federal income tax positions we take may adversely affect the market for our units, and the costs of any contest will reduce our cash available for distribution to our unitholders.***

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 or 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 disagree with some or 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 units and the price at which they trade. In addition, the costs of any contest

**Table of Contents**

with the IRS will result in a reduction in cash available to pay distributions to our unitholders and thus will be borne indirectly by our unitholders.

***Tax-exempt entities and foreign persons face unique tax issues from owning units that may result in adverse tax consequences to them.***

Investment in our units by tax-exempt entities, including employee benefit plans and individual retirement accounts (known as IRAs) 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 taxable income and will be taxable to such a unitholder. Distributions to non-U.S. persons will be reduced by withholding taxes imposed at the highest effective applicable tax rate, and non-U.S. persons will be required to file United States federal income tax returns and pay tax on their share of our taxable income.

***Tax gain or loss on the disposition of our units could be more or less than expected because prior distributions in excess of allocations of income will decrease our unitholders tax basis in their units.***

If our unitholders sell any of their units, they will recognize gain or loss equal to the difference between the amount realized and their tax basis in those units. Prior distributions to our unitholders in excess of the total net taxable income they were allocated for a unit, which decreased their tax basis in that unit, will, in effect, become taxable income to our unitholders if the unit is sold at a price greater than their tax basis in that unit, even if the price our unitholders receive is less than their original cost. A substantial portion of the amount realized, whether or not representing gain, may be ordinary income to our unitholders. In addition, if our unitholders sell their units, our unitholders may incur a tax liability in excess of the amount of cash our unitholders receive from the sale.

***We will treat each purchaser of our units as having the same tax benefits without regard to the units purchased. The IRS may challenge this treatment, which could adversely affect the value of the units.***

Because we cannot match transferors and transferees of units, we will adopt depletion, depreciation and amortization positions that may not conform with all aspects of existing Treasury regulations. Our counsel is unable to opine as to the validity of such filing positions. A successful IRS challenge to those positions could adversely affect the amount of tax benefits available to our unitholders. It also could affect the timing of these tax benefits or the amount of gain on the sale of units and could have a negative impact on the value of our units or result in audits of and adjustments to our unitholders' tax returns.

***A unitholder whose units are loaned to a short seller to cover a short sale of units may be considered as having disposed of those units. If so, the unitholder would no longer be treated for tax purposes as a partner with respect to those units during the period of the loan may recognize gain or loss from the disposition.***

Because a unitholder whose units are loaned to a short seller to cover a short sale of units may be considered as having disposed of the loaned units, he may no longer be treated for tax purposes as a partner with respect to those units during the period of the loan to the short seller and the unitholder may recognize gain or loss from such disposition. Moreover, during the period of the loan to the short seller, any of our income, gain, loss or deduction with respect to those units may not be reportable by the unitholder and any cash distributions received by the unitholder as to those units could be fully taxable as ordinary income. Our counsel has not rendered an opinion regarding the treatment of a unitholder where our units are loaned to a short seller to cover a short sale of our units; 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 their units. ***Our unitholders may be subject to state and local taxes and return filing requirements in states where they do not live as a result of investing in our units.***

In addition to federal income taxes, our unitholders will likely be subject to other taxes, including 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 now or in the future, even if they do not reside in any of those jurisdictions. Our unitholders will likely be required to file state and local income tax returns and pay state and local income taxes in some or all of these various jurisdictions. Further, our unitholders may be subject to penalties for failure to comply with those requirements. We currently do business and own assets in Texas, New Mexico, Oklahoma, Alabama, Mississippi, Wyoming, North Dakota, Colorado and Arkansas. As we make acquisitions or

expand our business, we may do business or own assets in other states in the future. It is the responsibility of each unitholder to file all United States federal, state and local tax returns that may be required of such unitholder. Our counsel has not rendered an opinion on the state or local tax consequences of an investment in our units.

***We will be considered to have terminated for tax purposes due to a sale or exchange of 50% or more of our interests within a twelve-month period.***

We will be considered to have terminated our partnership for federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a twelve-month period. Our termination would, among other things result in the closing of our taxable year for all unitholders and could result in a deferral of depreciation deductions allowable in computing our taxable income.

**Table of Contents**

**USE OF PROCEEDS**

The units to be offered and sold using this prospectus will be offered and sold by the selling unitholders named in this prospectus or in any supplement to this prospectus. We will not receive any proceeds from the sale of such units.

18

---

**Table of Contents**

**DESCRIPTION OF THE UNITS**

**The Units**

The units represent partnership interests in us. The holders of units are entitled to participate in 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 units in and to 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 Material Provisions of our Partnership Agreement.

**Transfer Agent and Registrar**

***Duties***

Computershare Trust Company, N.A. serves as registrar and transfer agent for the units. We pay all fees charged by the transfer agent for transfers of units, except the following fees that will be paid by unitholders:

surety bond premiums to replace lost or stolen certificates, taxes and other governmental charges;

special charges or services requested by a holder of a unit; and

other similar fees or charges.

There will be no charge to holders for disbursements of our cash distributions. We will indemnify the transfer agent against all claims and losses that may arise out of all actions of the transfer agent or its agents or subcontractors for their activities in that capacity, except for any liability due to any gross negligence or willful misconduct of the transfer agent or subcontractors.

***Resignation or Renewal***

The transfer agent may at any time 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 has accepted the appointment within 30 days after notice of its resignation or removal, our general partner is authorized to act as the transfer agent and registrar until a successor is appointed.

**Transfer of Units**

By transfer of units in accordance with our partnership agreement, each transferee of units will be admitted as a limited partner with respect to the units transferred when such transfer and admission is reflected on our books and records. Additionally, each transferee of units:

becomes the record holder of the units;

represents that the transferee has the capacity, power and authority to enter into our partnership agreement;

automatically agrees to be bound by the terms and conditions of, and is deemed to have executed, our partnership agreement; and

gives the consents, approvals and waivers contained in our partnership agreement, such as the approval of all transactions and agreements that we are entering into in connection with our formation.

A transferee will become a substituted limited partner of our partnership for the transferred units automatically upon the recording of the transfer on our books and records. Our general partner will cause any transfers to be recorded on our books and records no less frequently than quarterly.

**Table of Contents**

We may, at our discretion, treat the nominee holder of a 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.

Units are securities and are transferable according to the laws governing transfers of securities. In addition to other rights acquired upon transfer, the transferor gives the transferee the right to become a limited partner in our partnership for the transferred units.

Until a unit has been transferred on our books, we and the transfer agent, notwithstanding any notice to the contrary, 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.

***Non-Citizen Assignees; Redemption***

For a discussion of our general partner's ability to redeem the units held by persons other than U.S. citizens, please read Material Provisions of our Partnership Agreement Non-Citizen Assignees; Redemption.

**Table of Contents**

**CASH DISTRIBUTION POLICY**

Set forth below is a summary of our cash distribution policy, including a description of the significant provisions of our partnership agreement that relate to cash distributions as well as a description of restrictions on our ability to make cash distributions.

**General**

***Rationale for Our Cash Distribution Policy***

Our cash distribution policy reflects a basic judgment that our unitholders will be better served by distributing our available cash rather than retaining it. The amount of available cash will be determined by our general partner for each fiscal quarter. Our cash distribution policy is consistent with the terms of our partnership agreement, which requires that we distribute all of our available cash on a quarterly basis. Under our partnership agreement, available cash is defined generally to mean, cash on hand at the end of each quarter, plus working capital borrowings made after the end of the quarter, less cash reserves determined by our general partner, in its sole discretion, to be necessary and appropriate to provide for the conduct of our business (including reserves for future capital expenditures, future debt service requirements, and our anticipated capital needs), comply with applicable law, any of our debt instruments or other agreements or provide for future distributions to our unitholders for any one of the upcoming four quarters. Because we are not subject to an entity-level federal income tax, we have more cash to distribute to our unitholders than would be the case if we were subject to such tax.

***Limitations on our Ability to Make Quarterly Distributions***

There is no guarantee that unitholders will receive quarterly distributions from us. Our cash distribution policy is subject to limitations and restrictions, including the following:

Our general partner has broad discretion to establish reserves for the prudent conduct of our business. The establishment of those reserves could result in a reduction in the amount of cash available to pay distributions.

Our ability to make distributions of available cash will depend primarily on our cash flow from operations. Although our partnership agreement provides for quarterly distributions of available cash, we may be unable to make distributions to our unitholders.

If we fail to make acquisitions on economically attractive terms, we will not be able to replace our declining oil and natural gas reserves at a level that allows us to maintain our current quarterly distribution.

We will be prohibited from borrowing under our revolving credit facility to make distributions to unitholders if the amount of borrowing outstanding under our revolving credit facility reaches or exceeds 90% of our borrowing base. Further, we may enter into future debt arrangements that could subject our ability to pay distributions to compliance with certain tests or ratios or otherwise restrict our ability to pay distributions.

Under Section 17-607 of the Delaware Revised Uniform Limited Partnership Act, we may not make a distribution to you if the distribution could cause our liabilities to exceed the fair value of our assets.

Although our partnership agreement requires us to distribute our available cash, our partnership agreement, including the provisions requiring us to make cash distributions contained therein, may be amended. Our partnership agreement can be amended with the approval of a majority of the outstanding units. Our Founding Investors, including members of our management, own an aggregate of 43% of the outstanding units, and acting jointly have the ability to amend our partnership agreement.

**Table of Contents**

***Our Cash Distribution Policy May Limit Our Ability to Grow***

Because we distribute all of our available cash, our growth may not be as fast as that of businesses that reinvest most or all of their available cash to expand ongoing operations. We generally intend to rely upon external financing sources, including borrowings under our revolving credit facility and issuances of debt and equity securities, to fund a substantial portion of our acquisition expenditures and a portion of our exploitation project capital expenditures. However, to the extent we are unable to finance growth externally, our cash distribution policy will significantly impair our ability to grow.

***Our Cash Distribution Policy***

Our partnership agreement provides for the distribution of available cash on a quarterly basis. Available cash for any quarter consists of cash on hand at the end of that quarter, plus working capital borrowings made after the end of the quarter, less cash reserves determined by our general partner in its sole discretion, to be necessary and appropriate to provide for the conduct of our business (including reserves for future capital expenditures, future debt service requirements, and our anticipated capital needs), comply with applicable law, any of our debt instruments or other agreements or provide for future cash distributions to our unitholders for any one of the upcoming four quarters. The amount of available cash will be determined by our general partner for each calendar quarter of our operations.

**Definition of Available Cash**

Available cash is defined in our partnership agreement and generally means, for each fiscal quarter, all cash on hand at the end of the quarter:

less the amount of cash reserves established by our general partner, in its sole discretion, to:  
provide for the proper conduct of our business (including reserves for future capital expenditures, future debt service requirements, and for our anticipated credit needs);

comply with applicable law, any of our debt instruments or other agreements; or

provide funds for distribution to our unitholders for any one or more of the next four quarters;  
plus all cash on hand on the date of determination of available cash for the quarter resulting from working capital borrowings made after the end of the quarter for which the determination is being made. Working capital borrowings are generally borrowings that will be made under our revolving credit facility and in all cases are used solely for working capital purposes or to pay distributions to unitholders.

**Distributions of Cash Upon Liquidation**

If we dissolve in accordance with our partnership agreement, we will sell or otherwise dispose of our assets in a process called 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.

**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.



**Table of Contents**

**MATERIAL PROVISIONS OF OUR PARTNERSHIP AGREEMENT**

The following is a summary of the material provisions of our partnership agreement.

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

with regard to distributions of available cash, please read [Cash Distribution Policy](#) ;

with regard to the fiduciary duties of our general partner, please read [Conflicts of Interest and Fiduciary Duties](#) ;

with regard to the transfer of units, please read [Description of the Units](#) [Transfer of Units](#) ; and

with regard to allocations of taxable income and taxable loss, please read [Material Tax Consequences](#).

**Organization and Duration**

We were organized in October 2005 and will have a perpetual existence.

**Purpose**

Our purpose under the partnership agreement is to engage in any business activities that are approved by our general partner. Our general partner, however, may not cause us to engage in any business activities that it determines would cause us to be treated as a corporation for federal income tax purposes. Our general partner is authorized in general to perform all acts it determines to be necessary or appropriate 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, by accepting the unit, automatically grants to our general partner and, if appointed, a liquidator, a power of attorney, among other things, to 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 grant consents and waivers on behalf of the limited partners under, our partnership agreement. Please read [Amendment of the Partnership Agreement](#) below.

**Capital Contributions**

Unitholders are not obligated to make additional capital contributions, except as described below under [Limited Liability](#).

**Voting Rights**

The following is a summary of the unitholder vote required for the matters specified below. Matters requiring the approval of a unit majority require the approval of a majority of the units.

In voting their units, our general partner and its affiliates will have no fiduciary duty or obligation whatsoever to us or the limited partners, including any duty to act in good faith or in the best interests of us or the limited partners.

Issuance of additional units

No approval right.

Amendment of the partnership agreement

Certain amendments may be made by our general partner without the approval of our unitholders. Other amendments generally require the approval of a unit majority. Please read [Amendment of the Partnership Agreement](#).

**Table of Contents**

|  |   |
|--|---|
| Merger of our partnership or the sale of all or substantially all of our assets  | Unit majority in certain circumstances. Please read Merger, Sale or Other Disposition of Assets.  |
| Amendment of the limited partnership agreement of our operating partnership and other action taken by us as the sole member of its general partner | Unit majority if such amendment or other action would adversely affect our limited partners in any material respect. Please read Amendment of the Partnership Agreement Action Relating to the Operating Partnership and its General Partner.   |
| Dissolution of our partnership   | Unit majority. Please read Termination and Dissolution.   |
| Continuation of our partnership upon dissolution   | Unit majority. Please read Termination and Dissolution.   |
| Withdrawal of our general partner  | Under most circumstances, the approval of a unit majority, excluding units held by our general partner and its affiliates, is required for the withdrawal of our general partner prior to March 31, 2016 in a manner that would cause a dissolution of our partnership. Please read Withdrawal or Removal of the General Partner.   |
| Removal of the general partner   | Not less than 66 <sup>2</sup> / <sub>3</sub> % of our outstanding units, including units held by our general partner and its affiliates. Please read Withdrawal or Removal of the 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 or substantially all of its assets, to such person. The approval of a majority of the units, excluding 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 March 31, 2016. Please read Transfer of General Partner Interest. |
| Transfer of ownership interests in our general partner   | No approval required at any time. Please read Transfer of Ownership Interests in the General Partner.   |

**Limited Liability**

***Participation in the Control of Our Partnership***

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 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:

**Table of Contents**

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 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 the general partner if a limited partner were to lose limited liability through any fault of the 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.

***Unlawful Partnership Distribution***

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, a substituted limited partner of a limited partnership is liable for the obligations of the transferring limited partner to make contributions to the partnership, except that such person 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.

***Failure to Comply with the Limited Liability Provisions of Jurisdictions in Which We Do Business***

Our subsidiaries may be deemed to conduct business in Texas, New Mexico, Oklahoma, Alabama, Mississippi, Wyoming, North Dakota, Colorado and Arkansas. Our subsidiaries may conduct business in other states in the future. Maintenance of our limited liability as a limited partner of our 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 the general partner under the circumstances. We will operate in a manner that the general partner considers reasonable and necessary or appropriate to preserve the limited liability of the limited partners.

***Issuance of Additional Securities***

Our partnership agreement authorizes us to issue an unlimited number of additional partnership securities for the consideration and on the terms and conditions determined by our general partner without the approval of the unitholders.

**Table of Contents**

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

In accordance with Delaware law and the provisions of our partnership agreement, we may also issue additional partnership securities that, as determined by our general partner, may have special voting rights to which the units are not entitled. In addition, our partnership agreement does not prohibit the issuance by our subsidiaries of equity securities that may effectively rank senior to the units.

Upon issuance of additional partnership securities, our general partner will be entitled, but not required, to make additional capital contributions to the extent necessary to maintain its initial 0.1% general partner interest in us. Since our March 2006 private equity offering and the related formation transactions our general partner has not elected to make additional capital contributions to maintain its initial 0.1% general partner interest in us. Our general partner's initial 0.1% interest in us has been, and will continue to be reduced, if we issue additional units in the future and our general partner does not contribute a proportionate amount of capital to us to maintain its general partner interest. 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 units or other partnership 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 the percentage interest of the general partner, including such interest represented by units that existed immediately prior to each issuance. Unitholders will not have preemptive rights to acquire additional units or other partnership securities.

**Amendment of the Partnership Agreement**

***General***

Amendments to our partnership agreement may be proposed only by or with the consent of our general partner. Our general partner, however, will have no duty or obligation to propose any amendment and may decline to do so free of any fiduciary duty or obligation whatsoever to us or the limited partners, including any duty to act in good faith or in the best interests of us or the limited partners. 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 described 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; or

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 consent may be given or withheld at its option.

The provision of our partnership agreement preventing the amendments having the effects described in any of the clauses above can only be amended upon the approval of the holders of at least 90% of the outstanding units voting together at a single class (including units owned by our general partner and its affiliates). Affiliates of our general partner, including members of our management, own an aggregate of 43% of our outstanding units.

***No Unitholder Approval***

Our general partner may generally make amendments to our partnership agreement without the approval of any limited partner or assignee to reflect:

**Table of Contents**

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 our partnership agreement;

a change that our general partner determines to be necessary or appropriate to qualify or 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 nor 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, or ERISA, whether or not substantially similar to plan asset regulations currently applied or proposed;

an amendment that our general partner determines to be necessary or appropriate for the authorization of additional partnership securities or rights to acquire partnership securities;

any amendment expressly permitted in our 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 our partnership agreement;

any amendment that our general partner determines to be necessary or appropriate 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;

certain mergers or conveyances as set forth in our partnership agreement; or

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

In addition, our general partner may make amendments to our partnership agreement without the approval of any limited partner or transferee in connection with a merger or consolidation approved in connection with our partnership agreement, or if our general partner determines that those amendments:

do not adversely affect the limited partners (or any particular class of limited partners) in any material respect;

are necessary or appropriate 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 appropriate 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;

are necessary or appropriate for any action taken by our general partner relating to splits or combinations of units under the provisions of our partnership agreement; or

**Table of Contents**

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 in connection with any of the amendments described under No Unitholder Approval. No other amendments to our partnership agreement will become effective without the approval of holders of at least 90% of the outstanding units voting as a single class unless we first 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.

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 is required to be approved by the affirmative vote of limited partners whose aggregate outstanding units constitute not less than the voting requirement sought to be reduced.

***Action Relating to the Operating Partnership and its General Partner***

Without the approval of the holders of units representing a unit majority, our general partner is prohibited from consenting on our behalf, as the sole limited partner of the operating partnership, and the sole member of its general partner, to any amendment to the limited partnership agreement or limited liability company agreement of either such entities or taking any action on our behalf permitted to be taken by a limited partner of the operating partnership or a member of its general partner, in each case, that would adversely effect our limited partners (or any particular class of limited partners) in any material respect.

***Merger, Sale or Other Disposition of Assets***

A merger or consolidation of us requires the prior consent of our general partner. Our general partner, however, will have no duty or obligation to consent to any merger or consolidation and may decline to do so free of any fiduciary duty or obligation whatsoever to us or the limited partners, including any duty to act in good faith or in the best interest of us or the limited partners. In addition, the partnership agreement generally prohibits our general partner without the prior approval of the holders of a unit majority, from causing us, among other things, to 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. 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. Finally, our general partner may consummate any merger without the prior approval of our unitholders if we are the surviving entity in the transaction, the transaction would not result in an amendment to our partnership agreement that could not otherwise be adopted solely by our general partner, each of our units will be an identical unit of our partnership following the transaction, and the units to be issued do not exceed 20% of our outstanding units immediately prior to the transaction.

If the conditions specified in the partnership agreement are satisfied, our general partner may convert us or any of our subsidiaries into a new limited liability entity or merge us or any of our subsidiaries into, or convey all of our assets to, a newly formed entity if the sole purpose of that merger or conveyance is to effect a mere change in 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 conversion, merger or consolidation, a sale of substantially all of our assets or any other transaction or event.

**Table of Contents**

**Termination and Dissolution**

We will continue as a limited partnership until terminated under our 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;

there being no limited partners, unless we are continued without dissolution in accordance with applicable Delaware law;

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 our partnership agreement or withdrawal or removal following approval and admission of a successor.

Upon a dissolution under the last bullet point above, the holders of a unit majority may also elect, within specific time limitations, to continue our business on the same terms and conditions described in our partnership agreement by appointing as a successor 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

none of us, our operating partnership or any of our other subsidiaries, 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 are necessary or appropriate to liquidate our assets and apply the proceeds of the liquidation as provided in How We Make Cash Distributions Distributions of Cash upon Liquidation. The liquidator may defer liquidation or distribution 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 our partners.

**Withdrawal or Removal of the General Partner**

Except as described below, our general partner has agreed not to withdraw voluntarily as our general partner prior to March 31, 2016 without obtaining the approval of the holders of at least a majority of the outstanding units, excluding units held by the general partner and its affiliates, and furnishing an opinion of counsel regarding limited liability and tax matters. On or after March 31, 2016, 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 our 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 units are held or controlled by one person and its affiliates other than the 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 Interest.

Upon 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 unit majority 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



**Table of Contents**

within a specified period after that withdrawal, the holders of a unit majority 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 our 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 units. The ownership of more than  $33\frac{1}{3}\%$  of the outstanding units by our general partner and its affiliates would give them the practical ability to prevent our general partner's removal. Affiliates of our general partner, including members of our management, own an aggregate of 43% of our outstanding units.

Our partnership agreement also provides that if our general partner is removed as our general partner under circumstances where cause does not exist or our general partner withdraws where that withdrawal does not violate our partnership agreement, our general partner will have the right to convert its general partner interest into units or to receive cash in exchange for such interest based on the fair market value of its interest at that time.

In the event of removal of such a general partner under circumstances where cause exists or withdrawal of a general partner where that withdrawal violates our partnership agreement, a successor general partner will have the option to purchase the general partner interest for a cash payment equal to the fair market value of such interest. 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 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 will automatically convert into 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.

**Transfer of General Partner Interest**

Except for transfer by our general partner of all, but not less than all, of its general partner interest in us to:  
an affiliate of our 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 our partnership to another person prior to March 31, 2016 without the approval of the holders of at least a majority of the outstanding units, excluding units held by our general partner and its affiliates. As a condition of this transfer, the transferee must assume, among other things, the rights and duties of our general partner, agree to be bound by the provisions of our partnership agreement, and furnish an opinion of counsel regarding limited liability and tax matters.

Our general partner and its affiliates may at any time transfer units to one or more persons without unitholder approval.

**Table of Contents**

**Transfer of Ownership Interests in the General Partner**

At any time, the members of our general partner may sell or transfer all or part of their membership interest in our general partner to an affiliate or third party without the approval of our unitholders.

**Change of Management Provisions**

Our partnership agreement contains specific provisions that are intended to discourage a person or group from attempting to remove our general partner or otherwise change our 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 of our general partner.

**Limited Call Right**

If at any time our general partner and its affiliates own more than 85% of the then-issued and outstanding limited partner interests 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 10 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 either of 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 limited partner interests; 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. Our partnership agreement provides that the resolution of any conflict of interest that is fair and reasonable will not be a breach of the partnership agreement. Our general partner may, but is not obligated to, submit the conflict of interest represented by the exercise of the limited call right to the conflicts committee for approval or seek a fairness opinion from an investment banker. If our general partner exercises its limited call right, it will make a determination at the time, based on the facts and circumstances, and upon the advice of counsel, as to the appropriate method of determining the fairness and reasonableness of the transaction. Our general partner is not obligated to obtain a fairness opinion regarding the value of the units to be repurchased by it upon exercise of the limited call right.

There is no restriction in our partnership agreement that prevents our general partner from issuing additional units and exercising its call right. If our general partner exercised its limited call right, the effect would be to take us private and, if the units were subsequently deregistered, we would no longer be subject to the reporting requirements of the Securities Exchange Act of 1934.

The tax consequences to a unitholder of the exercise of this call right are the same as a sale by that unitholder of his units in the market. Please read **Material Tax Consequences** **Disposition of 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 transferees 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. 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 units will not be voted, except that, in the case of units held by our general partner on behalf of non-citizen assignees, our

**Table of Contents**

general partner will distribute the votes on those units in the same ratios as the votes of limited partners on other units are cast.

Our unitholders, including the general partner and its affiliates, are entitled to elect all of the directors of our general partner. The limited liability company agreement of our general partner provides for a seven member board of directors. Our partnership agreement provides that the annual meeting of limited partners for the directors of the board of our general partner shall be held on the second Wednesday of May or at such other date and time as may be fixed by our general partner.

Additionally, 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. 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.

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

**Status as Limited Partner**

By transfer of units in accordance with our partnership agreement, each transferee of units shall be admitted as a limited partner with respect to the units transferred when such transfer and admission is reflected in our books and records. Except as described under Limited Liability, the units will be fully paid, and unitholders will not be required to make additional contributions.

**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, our general partner may redeem the units held by the limited partner at their current market price. In order to avoid any cancellation or forfeiture, our general partner may require each limited partner to furnish information about his nationality, citizenship or related status. If a limited partner 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 is not an eligible citizen, our general partner may elect to treat the limited partner as a non-citizen assignee. A non-citizen assignee 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. 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.

**Table of Contents**

**Indemnification**

Under our 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 director, officer, member, partner, fiduciary or trustee of any entity set forth in the preceding three bullet points;

any person who is or was serving as director, officer, member, partner, fiduciary or trustee of another person at the request of our general partner or any departing general partner; and

any person designated by our general partner.

Any indemnification under these provisions will only be out of our assets. Unless it otherwise agrees, 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 our partnership agreement.

**Reimbursement of Expenses**

Our partnership agreement requires us to reimburse our general partner for all direct and indirect expenses it incurs or payments it makes on our behalf and all other expenses allocable to us or otherwise incurred by our general partner in connection with operating our business. These expenses include salary, bonus, incentive compensation and other amounts paid to persons who perform services for us or on our behalf and expenses allocated to our general partner by its affiliates. The general partner is entitled to determine in good faith the expenses that are allocable to us.

**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 financial reporting purposes, our fiscal year is the calendar year.

We will furnish or make available to record holders of 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 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.

**Table of Contents**

**Right to Inspect Our Books and Records**

Our 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 partner became a partner;

copies of our partnership agreement, our certificate of limited 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.

**Table of Contents**

**REGISTRATION RIGHTS**

**Founders Registration Rights Agreement**

The Founders Registration Rights Agreement gives the Founding Investors and their permitted transferees certain demand registration rights pursuant to which they will be entitled to cause us to register under the Securities Act all or a portion of their units. The Founding Investors and their permitted transferees are entitled to exercise up to three demand registration rights with respect to registrations on Form S-1, provided that the number of units that the Founding Investors and their permitted transferees propose to include in each such registration is at least ten percent of the total number of units they held following the completion of the private equity offering. The Founding Investors and their permitted transferees also have an unlimited number of demand registration rights with respect to registrations on Form S-3, provided that the gross proceeds to the selling unitholders in each such registration is expected to be at least \$1 million. We will not be required to effect more than three registrations on Form S-3 pursuant to the foregoing in any calendar year. If the employment of either Cary D. Brown or Kyle A. McGraw is terminated without cause (as defined in their respective employment agreements), the terminated officer will be entitled to one demand registration right allowing them to register the resale of their units.

In addition, the Founders Registration Rights Agreement provides that if we at any time intend to file on our behalf or on behalf of any of our other unitholders a registration statement in connection with a public offering of any of our securities on a form and in a manner that would permit the registration for offer and sale of our units held by the any of the Founding Investors or their permitted transferees, such groups will be able to exercise piggyback registration rights pursuant to which they will be entitled to participate in public offerings of our units. The Founding Investors and their permitted transferees also have piggyback registration rights with respect to any registration statement we file on behalf of any of our other unitholders in connection with a public offering of our units on a form and in a manner that would permit the registration for offer and sale of our units. The piggyback registration rights will be subject to:

compliance with the registration rights agreement;

cutback rights on the part of the underwriters; and

other conditions and limitations that may be imposed by the underwriters.

In the event underwriters exercise their cutback rights with respect to an offering, units to be sold in the offering by us will be excluded from the registration only after all units sold in such offering as to which piggyback registration rights have been exercised have been excluded. In other words, units to be sold by us in such an offering will have a higher priority for inclusion in the offering than units which piggyback registration rights have been exercised.

**Table of Contents**

**Henry Registration Rights Agreement**

On June 29, 2006 and November 10, 2006 we issued 138,000 units and 8,415 units, respectively, to Henry Holding LP as partial consideration for the acquisition of certain oil and gas properties from Henry Holding LP. In connection with such acquisition, we granted Henry Holding LP piggyback registration rights, which provide that if we at any time intend to file on our behalf or on behalf of any of our other unitholders a registration statement in connection with a public offering of any of our securities on a form and in a manner that would permit the registration for offer and sale of our units held by Henry Holding LP or its permitted transferees, Henry Holding LP or its permitted transferees will be able to exercise piggyback registration rights pursuant to which they will be entitled to participate in public offerings of our units. Henry Holding LP and its permitted transferees also have piggyback registration rights with respect to any registration statement we file on behalf of any of our other unitholders in connection with a public offering of our units on a form and in a manner that would permit the registration for offer and sale of our units. The piggyback registration rights will be subject to:

compliance with the Founders Registration Rights Agreement;

cutback rights on the part of the underwriters; and

other conditions and limitations that may be imposed by the underwriters.

In the event underwriters exercise their cutback rights with respect to an offering, units to be sold in the offering by us will be excluded from the registration only after all units sold in such offering as to which piggyback registration rights have been exercised have been excluded. In other words, units to be sold by us in such an offering will have a higher priority for inclusion in the offering than units which piggyback registration rights have been exercised. Furthermore, in the event the underwriters exercise their cutback rights with respect to an offering, the units held by Henry Holding and its permitted transferees will be excluded from the offering and then the Founding Investors and their respective permitted transferees will be excluded from the registration on a pro rata basis.

**Nielson Registration Rights Agreement**

On April 16, 2007, we issued 611,247 units as partial consideration for the acquisition of oil and natural gas properties from Nielson & Associates, Inc. ( Nielson ). In connection with the acquisition, we granted to Nielson and its permitted transferees certain demand registration rights pursuant to which they will be entitled to cause us to register under the Securities Act all or a portion of their units. Nielson and its permitted transferees are entitled to exercise up to two demand registration rights during any twelve-month period with respect to registrations on Form S-3, provided that the aggregate gross proceeds to the selling unitholders in each such registration are expected to be at least \$5 million.

Additionally, the Nielson Registration Rights Agreement provides that if we at any time intend to file on our behalf or on behalf of any of our other unitholders a registration statement in connection with a public offering of any of our securities on a form and in a manner that would permit the registration for offer and sale of our units held by Nielson or its permitted transferees, such holders will be able to exercise piggyback registration rights pursuant to which they will be entitled to participate in public offerings of our units. Nielson and its permitted transferees also have piggyback registration rights with respect to any registration statement we file on behalf of any of our other unitholders in connection with a public offering of our units on a form and in a manner that would permit the registration for offer and sale of our units. The piggyback registration rights will be subject to:

**Table of Contents**

compliance with the Founders Registration Rights Agreement;

compliance with the Henry Registration Rights Agreement;

cutback rights on the part of the underwriters; and

other conditions and limitations that may be imposed by the underwriters.

In the event underwriters exercise their cutback rights with respect to an offering, units to be sold in the offering by us will be excluded from the registration only after all units sold in such offering as to which piggyback registration rights have been exercised have been excluded. In other words, units to be sold by us in such an offering will have a higher priority for inclusion in the offering than units which piggyback registration rights have been exercised. Furthermore, in the event the underwriters exercise their cutback rights with respect to an offering, the units held by Nielson and its permitted transferees will be excluded from the offering, then Henry Holding and its permitted transferees will be excluded, then the Founding Investors and their permitted transferees will be excluded from the registration on a pro rata basis.

**Private Placement**

Legacy entered into a Unit Purchase Agreement, dated effective as of November 7, 2007, with Legacy Reserves GP, LLC and the institutional investors party thereto (the Purchasers ) to sell an aggregate of 3,642,369 units ( PIPE Units ) in a private placement at a purchase price of \$20.50 per unit, or approximately \$75 million in the aggregate. The PIPE Units were issued on November 8, 2007.

In connection with the Unit Purchase Agreement, we also entered into a Registration Rights Agreement dated November 8, 2007 (the PIPE Registration Rights Agreement ) with the Purchasers. The PIPE Registration Rights Agreement requires us to use our commercially reasonable efforts to cause the shelf registration statement to become effective no later than 180 days after November 8, 2007 (the Target Effective Date ). If the registration statement covering the PIPE Units is not declared effective by the Securities and Exchange Commission by the Target Effective Date, then we will be liable to each Purchaser for liquidated damages, and not as a penalty, of 0.25% of the product of \$20.50 (the purchase price) times the number of units purchased by the Purchaser (the Liquidated Damages Amount ) per the 30-day period for the first 30 days following the Target Effective Date, increasing by an additional 0.25% of the Liquidated Damages Amount per each non-overlapping 30-day period for each subsequent 30-day period subsequent to the 30 days following the Target Effective Date, up to a maximum of 1.00% of the Liquidated Damages Amount per each non-overlapping 30-day period (i.e., 0.25% for 1-30 days; 0.5% for 31-60 days; 0.75% for 61-90 days; and 1.0% thereafter); provided, that the aggregate amount of liquidated damages payable by us to each Purchaser shall not exceed 10.0% of the Liquidated Damages Amount with respect to such Purchaser. The PIPE Registration Rights Agreement also provides for the payment of liquidated damages in the event we suspend the use of the shelf registration statement in excess of permitted periods. The PIPE Registration Rights Agreement gives certain Purchasers piggyback registration rights with other shelf registration statements under specified circumstances.

**Other Matters**

We will bear certain expenses incident to our registration obligations upon exercise of these registration rights, including the payment of federal securities law and state blue sky registration fees, except that we will not bear any underwriting discounts or commissions or transfer taxes relating to resale of units by selling unitholders. We have agreed to indemnify each selling unitholder for certain violations of federal or state securities laws in connection with any registration statement in which such selling unitholder sells its units pursuant to these registration rights. Each selling unitholder has in turn agreed to indemnify us for federal or state securities law violations that occur in reliance upon written information it provides to us for use in the registration statement.



**Table of Contents**

**CONFLICTS OF INTEREST AND FIDUCIARY DUTIES**

**Conflicts of Interest**

***General***

Conflicts of interest exist and may arise in the future as a result of the relationships between our general partner and its affiliates (including our Founding Investors), on the one hand, and our partnership and our limited partners, on the other hand. The directors and officers of our general partner 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 us and our 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 hand, our general partner will resolve that conflict. Our partnership agreement contains provisions that modify and 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 will not be in breach of its obligations under the partnership agreement or its duties to us or our unitholders if the resolution of the conflict is:

approved by the conflicts committee, although our general partner is not obligated to seek such approval;

approved by the vote of a majority of the outstanding units, excluding any units owned by our general partner or any of its affiliates;

on terms no less favorable to us than those generally being provided to or available from unrelated third parties; or

fair and reasonable to us, taking into account the totality of the relationships among the parties involved, including other transactions that may be particularly favorable or advantageous to us.

Our general partner may, but is not required to, seek the approval of such resolution from the conflicts committee of the board of directors of our general partner. If our general partner does not seek approval from the conflicts committee and the board of directors of our general partner determines that the resolution or course of action taken with respect to the conflict of interest satisfies either of the standards set forth in the third and fourth bullet points above, then it will be presumed that, in making its decision, the board of directors acted in good faith, and in any proceeding brought by or on behalf of any limited partner or the partnership, the person bringing or prosecuting such proceeding will have the burden of overcoming such presumption. Unless the resolution of a conflict is specifically provided for in our partnership agreement, our general partner or the conflicts committee may consider any factors it determines in good faith to consider when resolving a conflict. When our partnership agreement requires that someone act in good faith, it requires that person to believe he is acting in the best interests of the partnership. Please read

Management Management of Legacy Reserves LP for information about the conflicts committee of the board of directors of our general partner.

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

***Certain of our general partner's affiliates may engage in competition with us.***

Our partnership agreement provides that our general partner will be restricted from engaging in any business activities other than those incidental to its ownership of interests in us. However, affiliates of our general partner, other than our executive officers and their affiliates, are not prohibited from engaging in other businesses or activities, including those that might be in direct competition with us. In addition, under our partnership agreement, the doctrine of corporate opportunity, or any analogous doctrine, will not apply to the general partner and its affiliates, other than our executive officers and their affiliates. As a result, neither the general partner nor any of its

**Table of Contents**

affiliates other than our executive officers and their affiliates, will have any obligation to present business opportunities to us.

***Our general partner is allowed to take into account the interests of parties other than us, such as its owners and their affiliates, in resolving conflicts of interest.***

Our partnership agreement contains provisions that reduce the standards to which our general partner would otherwise be held by state fiduciary duty law. For example, our partnership agreement permits our general partner to make a number of decisions in its individual capacity, as opposed to its capacity as our general partner. 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. Examples include the exercise of its limited call right, its voting rights with respect to the units it owns, its registration rights and its determination whether or not to consent to any merger or consolidation of the partnership.

***Our general partner has limited its liability and reduced its fiduciary duties, and has also restricted the remedies available to our unitholders for actions that, without the limitations, might constitute breaches of fiduciary duties.***

In addition to the provisions described above, our partnership agreement contains provisions that restrict the remedies available to our unitholders for actions that might otherwise constitute breaches of fiduciary duty. For example, our partnership agreement:

provides that the general partner shall not have any liability to us or our unitholders for decisions made in its capacity as a general partner so long as it acted in good faith, meaning it believed that the decision was in the best interests of our partnership;

generally provides that affiliated transactions and resolutions of conflicts of interest not approved by the conflicts committee of the board of directors of our general partner and not involving a vote of unitholders must be on terms no less favorable to us than those generally being provided to or available from unrelated third parties or be fair and reasonable to us, as determined by the board of directors of our general partner in good faith, and that, in determining whether a transaction or resolution is fair and reasonable, our general partner may consider the totality of the relationships between the parties involved, including other transactions that may be particularly advantageous or beneficial to us; and

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 any acts or omissions unless there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that our general partner or those other persons acted in bad faith or engaged in fraud or willful misconduct.

***Actions taken by our general partner may affect the amount of cash that is distributed to our unitholders.***

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

the 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.

**Table of Contents**

***Our general partner determines which costs incurred by it are reimbursable by us.***

We will reimburse our general partner and its affiliates for costs incurred in managing and operating us, including costs incurred in rendering support services to us. The partnership agreement provides that our general partner will determine the expenses that are allocable to us in good faith.

***Our partnership agreement does not restrict our general partner from causing us to pay it or its affiliates for any services rendered to us or entering into additional contractual arrangements with any of these entities on our behalf.***

Our partnership agreement allows our general partner to determine, in good faith, any amounts to pay itself or its affiliates for any services rendered to us. Our general partner does not charge us a management fee. 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, on the one hand, and our general partner and its affiliates, on the other hand, are or will be the result of arm's-length negotiations. Our general partner will determine, in good faith, the terms of any of these transactions entered into.

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.

***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. The partnership agreement provides that any action taken by our general partner to limit its liability or our liability is not a breach of our general partner's fiduciary duties, even if we could have obtained more favorable terms without the limitation on liability.

***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.

***Our general partner may exercise its right to call and purchase units if it and its affiliates own more than 80% of the units.***

If at any time our general partner and its affiliates own more than 80% of our units, our general partner may exercise its right to call and purchase units as provided in the partnership agreement or assign this right to one of its affiliates or to us. Our general partner is not bound by fiduciary duty restrictions in determining whether to exercise this right. As a result, a unitholder may have his units purchased from him at an undesirable time or price. Our general partner and its affiliates, including members of our management, own an aggregate of 43% of our outstanding units. Please read Material Provisions of our Partnership Agreement Limited Call Right.

***Our general partner decides whether to retain separate counsel, accountants or others to perform services for us.***

The attorneys, independent accountants and others who have performed services for us regarding our formation have been retained by our general partner, its affiliates and us and may continue to be retained by our general partner, its affiliates and us. 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 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 units, on the other, depending on the nature of the conflict. We do not intend to do so in most cases.

**Table of Contents**

***Except in limited circumstances our general partner has the power and authority to conduct our business without unitholder approval.***

Under our partnership agreement, our general partner has full power and authority to do all things, other than those items that require unitholder approval or with respect to which our general partner has sought conflicts committee approval, on such terms as it determines to be necessary or appropriate to conduct our business including, but not limited to, the following:

the making of any expenditures, the lending or borrowing of money, the assumption or guarantee of, or other contracting for, indebtedness and other liabilities, the issuance of evidences of indebtedness, including indebtedness that is convertible into securities of the partnership, and the incurring of any other obligations;

the making of tax, regulatory and other filings, or rendering of periodic or other reports to governmental or other agencies having jurisdiction over our business or assets;

the acquisition, disposition, mortgage, pledge, encumbrance, hypothecation or exchange of any or all of our assets or the merger or other combination of us with or into another person;

the negotiation, execution and performance of any contracts, conveyances or other instruments;

the distribution of partnership cash;

the selection and dismissal of employees and agents, outside attorneys, accountants, consultants and contractors and the determination of their compensation and other terms of employment or hiring;

the maintenance of insurance for our benefit and the benefit of our partners;

the formation of, or acquisition of an interest in, and the contribution of property and the making of loans to, any further limited or general partnerships, joint ventures, corporations, limited liability companies or other relationships;

the control of any matters affecting our rights and obligations, including the bringing and defending of actions at law or in equity and otherwise engaging in the conduct of litigation, arbitration or mediation and the incurring of legal expense and the settlement of claims and litigation;

the indemnification of any person against liabilities and contingencies to the extent permitted by law;

the purchase, sale or other acquisition or disposition of our securities, or the issuance of additional options, rights, warrants and appreciation rights relating to our securities; and

the entering into of agreements with any of its affiliates to render services to us or to itself in the discharge of its duties as our general partner.

Our partnership agreement provides that our general partner must act in good faith when making decisions on our behalf, and our partnership agreement further provides that in order for a determination by our general partner to be made in good faith, our general partner must believe that the determination is in our best interests. Please read **Material Provisions of our Partnership Agreement** **Voting Rights** for information regarding matters that require unitholder approval.

**Fiduciary Duties**

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 the partnership agreement. The Delaware Revised Uniform Limited



**Table of Contents**

Partnership Act, which we refer to in this prospectus as the Delaware Act, provides that Delaware limited partnerships may, in their partnership agreements, modify, restrict or expand the fiduciary duties otherwise owed by a general partner to limited partners and the partnership.

Our partnership agreement contains various provisions modifying and restricting the fiduciary duties that might otherwise be owed by our general partner. We have adopted these restrictions to allow our general partner or its affiliates to engage in transactions with us that would otherwise be prohibited by state-law fiduciary duty standards and 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 our general partner's board of directors has fiduciary duties to manage our general partner in a manner beneficial 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 enable the general partner to take into consideration all parties involved in the proposed action, so long as the resolution is fair and reasonable to us. These modifications also enable our general partner to attract and retain experienced and capable directors. These modifications are detrimental to the unitholders because they restrict the remedies available to unitholders for actions that, without those limitations, might constitute breaches of fiduciary duty, as described below, and permit our general partner to take into account the interests of third parties in addition to our interests when resolving conflicts of interest. 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 in good faith and 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 the 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 pursuant to which limited partners waive or consent to conduct by our general partner and its affiliates that might otherwise raise issues about compliance with fiduciary duties or applicable law. For example, our partnership agreement provides that when our general partner is acting in its capacity as our general partner, as opposed to in its individual capacity, it must act in good faith and will not be subject to any other standard under applicable law. In addition, when our general partner is acting in its individual capacity, as opposed to its capacity as our general partner, it may act without any fiduciary obligation to us or the unitholders whatsoever. 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 vote of unitholders and that are not

approved by the conflicts committee of the board of directors of our general partner must be:

on terms no less favorable to us than those generally being provided to or available from unrelated third parties;  
or

42

---

**Table of Contents**

fair and reasonable to us, which may take into account the totality of the relationships between the parties involved (including other transactions that may be particularly favorable or advantageous, or unfavorable or disadvantageous, to us).

If our general partner does not seek approval from the conflicts committee and its board of directors determines that the resolution or course of action taken with respect to the conflict of interest satisfies either of the standards set forth in the bullet points above, then it will be presumed that, in making its decision, the board of directors, which may include board members affected by the conflict of interest, acted in good faith and in any proceeding brought by or on behalf of any limited partner or the partnership, the person bringing or prosecuting such proceeding will have the burden of overcoming such presumption. 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, its affiliates and their 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 unless there has been a final and non-appealable judgment by a court of competent jurisdiction determining that our general partner or its officers and directors acted in bad faith or engaged in fraud or willful misconduct.

**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 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.

By purchasing our units, each unitholder automatically agrees 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, managers and certain other specified persons, 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 unless there has been a final and non-appealable judgment by a court of competent jurisdiction determining that these persons acted in bad faith or engaged in fraud or willful misconduct. We must also provide this indemnification for criminal proceedings unless our general partner or these other persons acted with knowledge that their conduct was unlawful. Thus, our general partner could be indemnified

**Table of Contents**

for its negligent acts if it meets the requirements set forth above. To the extent these provisions purport to include indemnification for liabilities arising under the Securities Act, in the opinion of the SEC, such indemnification is contrary to public policy and, therefore, unenforceable. Please read Material Provisions of our Partnership Agreement Indemnification.

**Table of Contents**

**MATERIAL TAX CONSEQUENCES**

This section is a discussion of the material United States federal income tax consequences that may be relevant to prospective unitholders who are individual citizens or residents of the United States and, unless otherwise noted in the following discussion, is the opinion of Andrews Kurth LLP, counsel to us, insofar as it relates to matters of United States federal income tax law and legal conclusions with respect to these matters. This section is based on current provisions of the Internal Revenue Code, existing and proposed regulations 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 Legacy Reserves LP and our operating subsidiaries.

This section does not address all federal income tax matters that affect us or the unitholders. Furthermore, this section focuses on unitholders who are individual citizens or residents of the United States and has only limited application to corporations, estates, trusts, non-resident aliens or other unitholders subject to specialized tax treatment, such as tax-exempt institutions, foreign persons, individual retirement accounts (IRAs), employee benefit plans, real estate investment trusts (REITs) or mutual funds. Accordingly, we urge each prospective unitholder to 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 our units.

No ruling has been or will be requested from the IRS regarding any matter that affects us or prospective unitholders. Instead, we will rely on opinions and advice of Andrews Kurth LLP. Unlike a ruling, 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 in this discussion 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 our units and the prices at which our units trade. In addition, the costs of any contest with the IRS, principally legal, accounting and related fees, will result in a reduction in cash available for distribution to our unitholders and thus will be borne directly by our unitholders. 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, Andrews Kurth LLP has not rendered an opinion with respect to the following specific federal income tax issues:

- (1) the treatment of a unitholder whose units are loaned to a short seller to cover a short sale of units (please read Tax Consequences of Unit Ownership – Treatment of Short Sales );
- (2) whether our monthly convention for allocating taxable income and losses is permitted by existing Treasury regulations (please read Disposition of Units – Allocations Between Transferors and Transferees ); and
- (3) whether our method for depreciating Section 743 adjustments is sustainable in certain cases (please read Tax Consequences of Unit Ownership – Section 754 Election and Uniformity of Units ).

**Partnership Status**

A partnership is not a taxable entity and incurs no federal income tax liability. Instead, each partner 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. Distributions by a partnership to a partner

**Table of Contents**

are generally not taxable to the partner unless the amount of cash distributed to him is in excess of his adjusted basis in his partnership interest.

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 in this discussion as the Qualifying Income Exception, exists with respect to publicly traded partnerships 90% or more of the gross income of which for every taxable year consists of qualifying income. Qualifying income includes income and gains derived from the exploration, development, mining or production, processing, transportation and marketing of natural resources, including 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 less than 3% of our current income does not constitute qualifying income; however, this estimate could change from time to time. Based on and subject to this estimate, the factual representations made by us, and a review of the applicable legal authorities, Andrews Kurth LLP is of the opinion that more than 90% of our current gross income constitutes qualifying income. The portion of our income that is qualifying income can change from time to time.

No ruling has been or will be sought from the IRS, and the IRS has made no determination as to our status or the status of our operating subsidiaries 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 Andrews Kurth LLP. Andrews Kurth LLP is of the opinion, based upon the Internal Revenue Code, its regulations, published revenue rulings, court decisions and the representations described below, that we will be classified as a partnership, and each of our operating subsidiaries (other than the entity employing our employees) will be disregarded as an entity separate from us, for federal income tax purposes.

In rendering its opinion, Andrews Kurth LLP has relied on factual representations made by us. The representations made by us upon which Andrews Kurth LLP has relied include:

- (a) Neither we, nor any of our partnership or limited liability company subsidiaries, have elected nor will we elect to be treated as a corporation; and
- (b) For each taxable year, more than 90% of our gross income has been and will be income that Andrews Kurth LLP has opined or will opine is qualifying income within the meaning of Section 7704(d) of the Internal Revenue Code.

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 then distributed that stock to the unitholders in liquidation of their interests in us. This deemed contribution and liquidation would 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 taxable 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 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 units, or taxable capital gain, after the unitholder's tax basis in his units is reduced to zero. Accordingly, taxation 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 units.

The remainder of this section is based on Andrews Kurth LLP's opinion that we are and will be classified as a partnership for federal income tax purposes.

**Table of Contents****Unitholder Status**

Unitholders who become partners of Legacy Reserves LP will be treated as partners of Legacy Reserves LP for federal income tax purposes. Also, unitholders whose 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 units will be treated as partners of Legacy Reserves LP for federal income tax purposes.

A beneficial owner of units whose units have been transferred to a short seller to complete a short sale would appear to lose his status as a partner with respect to those units for federal income tax purposes. Please read **Tax Consequences of Unit Ownership** **Treatment of Short Sales**.

Items of our income, gain, loss, or deduction are not reportable by a unitholder who is not a partner for federal income tax purposes, and any cash distributions received by a unitholder who is not a partner for federal income tax purposes would therefore be fully taxable as ordinary income. These unitholders are urged to consult their own tax advisors with respect to their status as partners in us for federal income tax purposes. The reference to unitholder in the discussion that follows are to persons who are treated as partners in Legacy Reserves LP for federal income tax purposes.

**Tax Consequences of Unit Ownership*****Flow-Through of Taxable Income***

We will not pay any federal income tax. Instead, each unitholder will be required to report on his income tax return his share of our income, gains, losses and deductions without regard to whether corresponding cash distributions are received by him. Consequently, we may allocate income to a unitholder even if he has not received a cash distribution. Each unitholder will be required to include in income his share of our income, gain, loss and deduction for our taxable year or years ending with or within his taxable year. Our taxable year ends on December 31.

***Treatment of Distributions***

Distributions made by us to a unitholder generally will not be taxable to him for federal income tax purposes to the extent of his tax basis in his units immediately before the distribution. Cash distributions made by us to a unitholder in an amount in excess of his tax basis in his units generally will be considered to be gain from the sale or exchange of those units, taxable in accordance with the rules described under **Disposition of Units** below. To the extent that cash distributions made by us 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**.

Any reduction in a unitholder's share of our liabilities for which no partner bears the economic risk of loss, known as non-recourse liabilities, will be treated as a distribution of cash to that unitholder. A decrease in a unitholder's percentage interest in us because of our issuance of additional units will decrease his share of our nonrecourse liabilities and thus will result in a corresponding deemed distribution of cash, which may constitute a non-pro rata distribution. A non-pro rata distribution of money or property may result in ordinary income to a unitholder, regardless of his tax basis in his units, if the distribution reduces the unitholder's share of our unrealized receivables, including recapture of intangible drilling costs, depletion and depreciation recapture, and/or substantially appreciated inventory items, both as defined in Section 751 of the Internal Revenue Code, and collectively, **Section 751 Assets**. To that extent, he will be treated as having received his proportionate share of the **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. That income will equal the excess of (i) the non-pro rata portion of that distribution over (ii) the unitholder's tax basis for the share of **Section 751 Assets** deemed relinquished in the exchange.

**Table of Contents*****Basis of Units***

A unitholder's initial tax basis for his units will be the amount he paid for the 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 generally will be decreased, but not below zero, by distributions to him from us, by his share of our losses, by depletion deductions taken by him to the extent such deductions do not exceed his proportionate share of the adjusted tax basis of the underlying producing properties, 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's share of our nonrecourse liabilities will generally be based on his share of our profits. Please read *Disposition of 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 his tax basis in his units and, in the case of an individual unitholder or a corporate unitholder, if more than 50% of the value of its stock is owned directly or indirectly by or for 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 amount 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 as a deduction in a later year 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 his tax basis in his 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 units, if the lender of those borrowed funds owns an interest in us, is related to the unitholder or can look only to the units for repayment. A unitholder's at-risk amount will increase or decrease as the tax basis of the unitholder's units increases or decreases, other than tax basis increases or decreases attributable to increases or decreases in his share of our nonrecourse liabilities. Moreover, a unitholder's at risk amount will decrease by the amount of the unitholder's depletion deductions and will increase to the extent of the amount by which the unitholder's percentage depletion deductions with respect to our property exceed the unitholder's share of the basis of that property.

The at risk limitation applies on an activity-by-activity basis, and in the case of oil and natural gas properties, each property is treated as a separate activity. Thus, a taxpayer's interest in each oil or natural gas property is generally required to be treated separately so that a loss from any one property would be limited to the at risk amount for that property and not the at risk amount for all the taxpayer's oil and natural gas properties. It is uncertain how this rule is implemented in the case of multiple oil and natural gas properties owned by a single entity treated as a partnership for federal income tax purposes. However, for taxable years ending on or before the date on which further guidance is published, the IRS will permit aggregation of oil or natural gas properties we own in computing a unitholder's at risk limitation with respect to us. If a unitholder must compute his at risk amount separately with respect to each oil or natural gas property we own, he may not be allowed to utilize his share of losses or deductions attributable to a particular property even though he has a positive at risk amount with respect to his units as a whole.

The passive loss limitation generally provides that individuals, estates, trusts and some closely held corporations and personal service corporations are permitted to deduct losses from passive activities, which are generally defined as 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 limitation is applied separately with respect to each publicly traded partnership. Consequently, any 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 or investments in other publicly traded partnerships, or a unitholder's salary or active business income. If we dispose of only part of our interest in a property, unitholders will be able to offset only their suspended passive activity losses attributable to that property against the gain on the disposition. Any



**Table of Contents**

remaining suspected passive activity losses will remain suspended. Notwithstanding whether a oil and natural gas property is a separate activity, passive losses that are not deductible because they exceed a unitholder's share of income we generate 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.

***Limitation 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 attributable 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 net passive income earned by a publicly traded partnership will be treated as investment income to its unitholders. In addition, the 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 or local income tax on behalf of any unitholder 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 our partnership agreement in the manner necessary to maintain uniformity of intrinsic tax characteristics of units and to adjust later distributions, so that after giving effect to these distributions, the priority and characterization of distributions otherwise applicable under our 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 unitholders in accordance with their percentage interests in us. If we have a net loss for an entire year, the loss will be allocated to our unitholders according to their percentage interests in us to the extent of their positive capital account balances.

Specified items of our income, gain, loss and deduction will be allocated under Section 704(c) of the Internal Revenue Code to account for the difference between the tax basis and fair market value of our assets at the time we issue units in an offering, which assets are referred to in this discussion as Contributed Property. These allocations are required to



**Table of Contents**

eliminate the difference between a partner's book capital account, credited with the fair market value of Contributed Property, and the tax capital account, credited with the tax basis of Contributed Property, referred to in this discussion as the book-tax disparity. The effect of these allocations combined with our Section 754 election to a unitholder who purchases units in this offering will be essentially the same as if the tax basis of our assets were equal to their fair market value at the time of the offering. In the event we issue additional units or engage in certain other transactions in the future, Section 704(c) allocations will be made to all holders of partnership interests, including purchasers of units in this offering, to account for the difference between the book basis for purposes of maintaining capital accounts and the fair market value of all property held by us at the time of the future transaction. In addition, items of 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 sufficient to eliminate the negative balance as quickly as possible.

An allocation of items of our income, gain, loss or deduction, other than an allocation required by Section 704(c), will generally be given effect for federal income tax purposes in determining a unitholder's share of an item of income, gain, loss or deduction only if the allocation has substantial economic effect. In any other case, a unitholder's share of an item will be determined on the basis of his interest in us, which will be determined by taking into account all the facts and circumstances, including:

- his relative contributions to us;

- the interests of all the unitholders in profits and losses;

- the interest of all the unitholders in cash flow; and

- the rights of all the unitholders to distributions of capital upon liquidation.

Andrews Kurth LLP is of the opinion that, with the exception of the issues described in Tax Consequences of Unit Ownership Section 754 Election, Uniformity of Units and Disposition of Units Allocations Between Transferors and Transferees, allocations under our partnership agreement will be given effect for federal income tax purposes in determining a unitholder's share of an item of income, gain, loss or deduction.

***Treatment of Short Sales***

A unitholder whose units are loaned to a short seller to cover a short sale of units may be considered as having disposed of those units. If so, he would no longer be a partner for tax purposes with respect to those units during the period of the loan and may recognize gain or loss from the disposition. As a result, during this period:

- none of our income, gain, loss or deduction with respect to those units would be reportable by the unitholder;

- any cash distributions received by the unitholder with respect to those units would be fully taxable; and

- all of these distributions would appear to be ordinary income.

Andrews Kurth LLP has not rendered an opinion regarding the treatment of a unitholder whose units are loaned to a short seller. Therefore, unitholders desiring to assure their status as partners and avoid the risk of gain recognition are urged to modify any applicable brokerage account agreements to prohibit their brokers from loaning their units. The IRS has announced that it is studying issues relating to the tax treatment of short sales of partnership interests. Please also read Disposition of Units Recognition of Gain or Loss.

***Alternative Minimum Tax***

Each unitholder will be required to take into account his distributive share of any items of our income, gain, loss or deduction for purposes of the alternative minimum tax. The current minimum tax rate for non-corporate taxpayers is 26% on the first \$175,000 of alternative minimum taxable income in excess of the exemption amount and 28% on any additional alternative minimum taxable income. Prospective unitholders are urged to consult their tax advisors with respect to the impact of an investment in our units on their liability for the alternative minimum tax.

***Tax Rates***

In general, the highest effective federal income tax rate for individuals currently is 35% and the maximum federal income tax rate for net capital gains of an individual currently is 15% if the asset disposed of was held for more than twelve months at the time of disposition.

***Section 754 Election***

We have made the election permitted by Section 754 of the Internal Revenue Code. That election is irrevocable without the consent of the IRS. That election will generally permit us to adjust a unit purchaser's tax basis in our assets (inside basis) under Section 743(b) of the Internal Revenue Code to reflect his purchase price. The Section 743(b) adjustment does not apply to a person who purchases units directly from us, and it belongs only to the purchaser and not to other unitholders. Please also read, however, Allocation of Income, Gain, Loss and Deduction above. For purposes of this discussion, a unitholder's inside basis in our assets has two components: (1) his share of our tax basis in our assets (common basis) and (2) his Section 743(b) adjustment to that basis.

Treasury regulations under Section 743 of the Internal Revenue Code require, if the remedial allocation method is adopted (which we have adopted), a portion of the Section 743(b) adjustment attributable to recovery property to be depreciated over the remaining cost recovery period for the Section 704(c) built-in gain. Under Treasury Regulation Section 1.167(c)-1(a)(6), a Section 743(b) adjustment attributable to property subject to depreciation under Section 167 of the Internal Revenue Code rather than cost recovery deductions under Section 168 is generally required to be depreciated using either the straight-line method or the 150% declining balance method. Under our partnership agreement, we are authorized to take a position to preserve the uniformity of units even if that position is not consistent with these Treasury regulations. Please read Tax Treatment of Operations Uniformity of Units.

**Table of Contents**

Although Andrews Kurth LLP is unable to opine on the validity of this approach because there is no clear authority on this issue, we intend to depreciate the portion of any Section 743(b) adjustment attributable to unrealized appreciation in the value of Contributed Property, to the extent of any unamortized book-tax disparity, using a rate of depreciation or amortization derived from the depreciation or amortization method and useful life applied to the unamortized book-tax disparity of the property, or treat that portion as non-amortizable to the extent attributable to property which is not amortizable. This method is consistent with the regulations under Section 743 but is arguably inconsistent with Treasury regulation Section 1.167(c)-1(a)(6), which is not expected to directly apply to a material portion of our assets. To the extent a Section 743(b) adjustment is attributable to appreciation in value in excess of the unamortized book-tax disparity, we will apply the rules described in the Treasury regulations and legislative history. If we determine that this position cannot reasonably be taken, we may take a depreciation or amortization position under which all purchasers acquiring units in the same month would receive depreciation or amortization, whether attributable to common basis or a Section 743(b) adjustment, based upon the same applicable rate as if they had purchased a direct interest in our assets. This kind of aggregate approach may result in lower annual depreciation or amortization deductions than would otherwise be allowable to some unitholders. Please read *Tax Treatment of Operations* *Uniformity of Units*.

A Section 754 election is advantageous if the transferee's tax basis in his units is higher than the 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 depletion and 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 units is lower than those units' share of the aggregate tax basis of our assets immediately prior to the transfer. Thus, the fair market value of the units may be affected either favorably or unfavorably by the election. A basis adjustment is required regardless of whether a Section 754 election is made in the case of a transfer of an interest in us if we have a substantial built-in loss immediately after the transfer, or if we distribute property and have a substantial basis reduction. Generally a built-in loss or a basis reduction is substantial if it exceeds \$250,000.

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 we allocated to our tangible assets to goodwill instead. Goodwill, an intangible asset, is generally either nonamortizable or amortizable over a longer period of time or under a less accelerated method than our tangible assets. We cannot assure you that the determinations we make will not be successfully challenged by the IRS or that the resulting deductions will not 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 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 will 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 units following the close of our taxable year but before the close of his taxable year must include his share of our income, gain, loss and deduction in income for his taxable year, with the result that he will be required to include in income for his taxable year his share of more than twelve months of our income, gain, loss and deduction. Please read *Disposition of Units* *Allocations Between Transferors and Transferees*.

***Depletion Deductions***

Subject to the limitations on deductibility of losses discussed above, unitholders will be entitled to deductions for the greater of either cost depletion or (if otherwise allowable) percentage depletion with respect to our oil and natural gas interests. Although the Internal Revenue Code requires each unitholder to compute his own depletion allowance

and maintain records of his share of the adjusted tax basis of the underlying property for depletion and other purposes, we intend to furnish each of our unitholders with information relating to this computation for federal income tax purposes.

Percentage depletion is generally available with respect to unitholders who qualify under the independent producer exemption contained in Section 613A(c) of the Internal Revenue Code. For this purpose, an independent producer is a person not directly or indirectly involved in the retail sale of oil, natural gas, or derivative products or the operation of a major refinery. Percentage depletion is calculated as an amount generally equal to 15% (and, in the case of marginal production, potentially a higher percentage) of the unitholder's gross income from the depletable property for the taxable year. The percentage depletion deduction with respect to any property is limited to 100% of the taxable income of the unitholder from the property for each taxable year, computed without the depletion allowance. A unitholder that qualifies as an independent producer may deduct percentage depletion only to the extent the unitholder's daily production of domestic crude oil, or the natural gas equivalent, does not exceed 1,000 Bbls. This depletable amount may be allocated between oil and natural gas production, with six Mcf of domestic natural gas production regarded as equivalent to one Bbl of crude oil. The 1,000 Bbl limitation must be allocated among the independent producer and controlled or related persons and family members in proportion to the respective production by such persons during the period in question.

In addition to the foregoing limitations, the percentage depletion deduction otherwise available is limited to 65% of a unitholder's total taxable income from all sources for the year, computed without the depletion allowance, net operating loss carrybacks, or capital loss carrybacks. Any percentage depletion deduction disallowed because of

**Table of Contents**

the 65% limitation may be deducted in the following taxable year if the percentage depletion deduction for such year plus the deduction carryover does not exceed 65% of the unitholder's total taxable income for that year. The carryover period resulting from the 65% net income limitation is indefinite.

Unitholders that do not qualify under the independent producer exemption are generally restricted to depletion deductions based on cost depletion. Cost depletion deductions are calculated by (i) dividing the unitholder's share of the adjusted tax basis in the underlying mineral property by the number of mineral units (Bbls of oil and thousand cubic feet, or Mcf, of natural gas) remaining as of the beginning of the taxable year and (ii) multiplying the result by the number of mineral units sold within the taxable year. The total amount of deductions based on cost depletion cannot exceed the unitholder's share of the total adjusted tax basis in the property.

All or a portion of any gain recognized by a unitholder as a result of either the disposition by us of some or all of our oil and natural gas interests or the disposition by the unitholder of some or all of his units may be taxed as ordinary income to the extent of recapture of depletion deductions, except for percentage depletion deductions in excess of the basis of the property. The amount of the recapture is generally limited to the amount of gain recognized on the disposition.

The foregoing discussion of depletion deductions does not purport to be a complete analysis of the complex legislation and Treasury regulations relating to the availability and calculation of depletion deductions by the unitholders. We encourage each prospective unitholder to consult his tax advisor to determine whether percentage depletion would be available to him.

***Deductions for Intangible Drilling and Development Costs***

We will elect to currently deduct intangible drilling and development costs (IDCs). IDCs generally include our expenses for wages, fuel, repairs, hauling, supplies and other items that are incidental to, and necessary for, the drilling and preparation of wells for the production of oil, natural gas, or geothermal energy. The option to currently deduct IDCs applies only to those items that do not have a salvage value.

Although we will elect to currently deduct IDCs, each unitholder will have the option of either currently deducting IDCs or capitalizing all or part of the IDCs and amortizing them on a straight-line basis over a 60-month period, beginning with the taxable month in which the expenditure is made. If a unitholder makes the election to amortize the IDCs over a 60-month period, no IDC preference amount will result for alternative minimum tax purposes.

Integrated oil companies must capitalize 30% of all their IDCs (other than IDCs paid or incurred with respect to oil and natural gas wells located outside of the United States) and amortize these IDCs over 60 months beginning in the month in which those costs are paid or incurred. If the taxpayer ceases to be an integrated oil company, it must continue to amortize those costs as long as it continues to own the property to which the IDCs relate. An integrated oil company is a taxpayer that has economic interests in crude oil deposits and also carries on substantial retailing or refining operations. An oil or natural gas producer is deemed to be a substantial retailer or refiner if it is subject to the rules disqualifying retailers and refiners from taking percentage depletion. In order to qualify as an independent producer that is not subject to these IDC deduction limits, a unitholder, either directly or indirectly through certain related parties, may not be involved in the refining of more than 75,000 Bbls of oil (or the equivalent amount of natural gas) on average for any day during the taxable year or in the retail marketing of oil and natural gas products exceeding \$5 million per year in the aggregate.

IDCs previously deducted that are allocable to property (directly or through ownership of an interest in a partnership) and that would have been included in the adjusted basis of the property had the IDC deduction not been taken are recaptured to the extent of any gain realized upon the disposition of the property or upon the disposition by a unitholder of interests in us. Recapture is generally determined at the unitholder level. Where only a portion of the recapture property is sold, any IDCs related to the entire property are recaptured to the extent of the gain realized on the portion of the property sold. In the case of a disposition of an undivided interest in a property, a

**Table of Contents**

proportionate amount of the IDCs with respect to the property is treated as allocable to the transferred undivided interest to the extent of any unrealized gain. Please read [Disposition of Units](#) [Recognition of Gain or Loss](#).

***Deduction for United States Production Activities***

Subject to the limitations on the deductibility of losses discussed above and the limitation discussed below, unitholders will be entitled to a deduction, herein referred to as the Section 199 deduction, equal to a specified percentage of our qualified production activities income that is allocated to such unitholder. The percentages are 3% for qualified production activities income generated in the year 2006; 6% for the years 2007, 2008, and 2009; and 9% thereafter.

Qualified production activities income is generally equal to gross receipts from domestic production activities reduced by cost of goods sold allocable to those receipts, other expenses directly associated with those receipts, and a share of other deductions, expenses and losses that are not directly allocable to those receipts or another class of income. The products produced must be manufactured, produced, grown or extracted in whole or in significant part by the taxpayer in the United States.

For a partnership, the Section 199 deduction is determined at the partner level. To determine his Section 199 deduction, each unitholder will aggregate his share of the qualified production activities income allocated to him from us with the unitholder's qualified production activities income from other sources. Each unitholder must take into account his distributive share of the expenses allocated to him from our qualified production activities regardless of whether we otherwise have taxable income. However, our expenses that otherwise would be taken into account for purposes of computing the Section 199 deduction are only taken into account if and to the extent the unitholder's share of losses and deductions from all of our activities is not disallowed by the basis rules, the at-risk rules or the passive activity loss rules. Please read [Tax Consequences of Unit Ownership](#) [Limitations on Deductibility of Losses](#).

The amount of a unitholder's Section 199 deduction for each year is limited to 50% of the IRS Form W-2 wages paid by the unitholder during the calendar year and properly allocable to gross receipts from domestic production activities. Each unitholder is treated as having been allocated IRS Form W-2 wages from us equal to the unitholder's allocable share of our wages. It is not anticipated that we or our subsidiaries will pay material wages that will be allocated to our unitholders.

This discussion of the Section 199 deduction does not purport to be a complete analysis of the complex legislation and Treasury authority relating to the calculation of domestic production gross receipts, qualified production activities income, or IRS Form W-2 Wages, or how such items are allocated by us to unitholders. Each prospective unitholder is encouraged to consult his tax advisor to determine whether the Section 199 deduction would be available to him.

*Lease Acquisition Costs.* The cost of acquiring oil and natural gas leaseholder or similar property interests is a capital expenditure that must be recovered through depletion deductions if the lease is productive. If a lease is proved worthless and abandoned, the cost of acquisition less any depletion claimed may be deducted as an ordinary loss in the year the lease becomes worthless. Please read [Tax Treatment of Operations](#) [Depletion Deductions](#).

*Geophysical Costs.* Geophysical costs paid or incurred in connection with the exploration for, or development of, oil or gas within the United States are allowed as a deduction ratably over the 24-month period beginning on the date that such expense was paid or incurred.

*Operating and Administrative Costs.* Amounts paid for operating a producing well are deductible as ordinary business expenses, as are administrative costs to the extent they constitute ordinary and necessary business expenses which are reasonable in amount.

**Table of Contents**

***Tax Basis, Depreciation and Amortization***

The tax basis of our assets, such as casing, tubing, tanks, pumping units and other similar property, will be 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 (i) this offering will be borne by our existing unitholders, and (ii) any other offering will be borne by our 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 subsequently acquire or construct 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 interest in us. Please read Tax Consequences of Unit Ownership Allocation of Income, Gain, Loss and Deduction and Disposition of Units Recognition of Gain or Loss.

The costs incurred in selling our units (called syndication expenses ) must be capitalized and cannot be deducted currently, ratably or upon our termination. There are uncertainties regarding the classification of costs as organization expenses, which we may be able to amortize, and as syndication expenses, which we may not amortize. 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 units will depend in part on our estimates of the relative fair market values and the 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 relative fair market value estimates ourselves. These estimates and determinations of basis are subject to challenge and will not be binding on the IRS or the courts. If the estimates of fair market value or basis are later found to be incorrect, the character and amount of items of income, gain, loss or deduction 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 Units***

***Recognition of Gain or Loss***

Gain or loss will be recognized on a sale of units equal to the difference between the unitholder's amount realized and the unitholder's tax basis for the units sold. A unitholder's amount realized will equal the sum of the cash or the fair market value of other property he receives 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 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 unit that decreased a unitholder's tax basis in that unit will, in effect, become taxable income if the unit is sold at a price greater than the unitholder's tax basis in that 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 units, on the sale or exchange of a unit held for more than one year will generally be taxable as capital gain or loss. A portion of this gain or loss, which may be substantial, however, 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 unrealized

**Table of Contents**

receivables or inventory items that we own. The term unrealized receivables includes potential recapture items, including depreciation, depletion, and IDC recapture. Ordinary income attributable to unrealized receivables and inventory items may exceed net taxable gain realized on 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 units. Net capital loss 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 gain 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 units transferred with an ascertainable holding period to elect to use the actual holding period of the units transferred. Thus, according to the ruling, a unitholder will be unable to select high or low basis units to sell as would be the case with corporate stock, but, according to the regulations, may designate specific units sold for purposes of determining the holding period of units transferred. A unitholder electing to use the actual holding period of units transferred must consistently use that identification method for all subsequent sales or exchanges of units. A unitholder considering the purchase of additional units or a sale of units purchased in separate transactions is urged to consult his tax advisor as to the possible consequences of this ruling and those Treasury regulations.

Specific provisions of the Internal Revenue Code affect the taxation of some financial products and securities, including partnership interests, by treating a taxpayer as having sold an appreciated partnership interest, one in which gain would be recognized if it were sold, assigned or terminated at its fair market value, if the taxpayer or related persons enter(s) 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. The Secretary of the Treasury is also authorized to issue regulations that treat a taxpayer who enters into transactions or positions that have substantially the same effect as the preceding transactions as having constructively sold the financial position.

***Allocations Between Transferors and Transferees***

In general, our taxable income or loss 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 units owned by each of them as of the first business day of the month (or once traded on an exchange, as of the opening of the applicable exchange on the first business day of the month) (the Allocation Date). 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 Allocation Date in the month in which that gain or loss is recognized. As a result, a unitholder transferring units may be allocated income, gain, loss and deduction realized after the date of transfer.

Although simplifying conventions are contemplated by the Code and most publicly traded partnerships use similar simplifying convention, the use of this method may not be permitted under existing Treasury regulations. Accordingly, Andrews Kurth LLP is unable to opine on the validity of this method of allocating income and deductions between unitholders. 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 unitholders, as well as among unitholders whose interests vary during a taxable year, to conform to a method permitted under future Treasury regulations.



**Table of Contents**

A unitholder who owns 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 unitholder who sells any of his units, other than through a broker, generally is required to notify us in writing of that sale within 30 days after the sale (or, if earlier, January 15 of the year following the sale). A person who purchases units is required to notify us in writing of that purchase within 30 days after the purchase, unless a broker or nominee will satisfy such requirement. We are required to notify the IRS of any such transfers of units and to furnish specified information to the transferor and transferee. Failure to notify us of a transfer of units may lead to the imposition of substantial penalties.

***Constructive Termination***

We will be considered to have terminated our partnership for federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a twelve-month period. Our termination would, among other things, result in the closing of our taxable year for all unitholders and could result in a deferral of depreciation deductions allowable in computing our taxable income. 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 twelve months of our taxable income or loss being includable in his taxable income for the year of termination. A constructive termination occurring on a date other than December 31 will result in us filing two tax returns (and unitholders receiving two Schedule K-1s) for one fiscal year and the cost of the preparation of these returns will be borne by all unitholders. We would be required to make new tax elections after a termination, including a new election under Section 754 of the Internal Revenue Code. 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.

***Uniformity of Units***

Because we cannot match transferors and transferees of units, we must maintain uniformity of the economic and tax characteristics of the units to a purchaser of these units. In the absence of uniformity, we may be unable to completely comply with a number of federal income tax requirements, both statutory and regulatory. A lack of uniformity can result from a literal application of Treasury Regulation Section 1.167(c)-1(a)(6). Any non-uniformity could have a negative impact on the value of the units. Please read [Tax Consequences of Unit Ownership Section 754 Election](#).

We intend to depreciate the portion of a Section 743(b) adjustment attributable to unrealized appreciation in the value of Contributed Property, to the extent of any unamortized book-tax disparity, using a rate of depreciation or amortization derived from the depreciation or amortization method and useful life applied to the unamortized book-tax disparity of that property, or treat that portion as nonamortizable, to the extent attributable to property which is not amortizable, consistent with the regulations under Section 743 of the Internal Revenue Code. This method is consistent with the Treasury regulations applicable to property depreciable under the accelerated cost recovery system or the modified accelerated cost recovery system, which we expect will apply to substantially all, if not all, of our depreciable property. We also intend to use this method with respect to property that we own, if any, depreciable under Section 167 of the Internal Revenue Code, even though that position may be inconsistent with Treasury Regulation Section 1.167(c)-1(a)(6). We do not expect Section 167 to apply to a material portion, if any, of our assets. Please read [Tax Consequences of Unit Ownership Section 754 Election](#). To the extent that the Section 743(b) adjustment is attributable to appreciation in value in excess of the unamortized book-tax disparity, we will apply the rules described in the Treasury regulations and legislative history. If we determine that this position cannot reasonably be taken, we may adopt a depreciation and amortization position under which all purchasers acquiring units in the same month would receive depreciation and amortization deductions, whether attributable to a common basis or Section 743(b) adjustment, based upon the same applicable rate as if they had purchased a direct interest in our property. If we adopt this position, it may result in lower annual deductions than would otherwise be allowable to some unitholders and risk the loss of depreciation and amortization deductions not taken in the year that these deductions are otherwise allowable. We will not adopt this position if we determine that



**Table of Contents**

the loss of depreciation and amortization deductions will have a material adverse effect on the unitholders. If we choose not to utilize this aggregate method, we may use any other reasonable depreciation and amortization method to preserve the uniformity of the intrinsic tax characteristics of any units that would not have a material adverse effect on the unitholders. Our counsel, Andrews Kurth LLP, is unable to opine on the validity of any of these positions. The IRS may challenge any method of depreciating the Section 743(b) adjustment described in this paragraph. If this challenge were sustained, the uniformity of units might be affected, and the gain from the sale of units might be increased without the benefit of additional deductions. Please read **Disposition of Units** **Recognition of Gain or Loss**.

**Tax-Exempt Organizations and Other Investors**

Ownership of units by employee benefit plans, other tax-exempt organizations, non-resident aliens, foreign corporations and other foreign persons 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 them.

Non-resident aliens and foreign corporations, trusts or estates that own units will be considered to be engaged in business in the United States because of the ownership of 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. Under rules applicable to publicly traded partnerships, we will withhold tax, at the highest effective applicable rate, 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-8BEN or applicable substitute form in order to obtain credit for these withholding taxes. A change in applicable law may require us to change these procedures.

In addition, because a foreign corporation that owns 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, that is 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 issued by 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 the 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 units during the five-year period ending on the date of the disposition and if the 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 will not be reviewed by counsel, we will take various accounting and reporting positions, some of which have been mentioned earlier, to determine each unitholder's share of income, gain, loss and deduction.

**Table of Contents**

We cannot assure you that those positions will yield a result that conforms to the requirements of the Internal Revenue Code, Treasury regulations or administrative interpretations of the IRS. Neither we nor counsel can assure prospective unitholders that the IRS will not successfully contend in court that those positions are impermissible. Any challenge by the IRS could negatively affect the value of the 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 own 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 appoints our general partner as our Tax Matters Partner.

The Tax Matters Partner 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:

- (a) the name, address and taxpayer identification number of the beneficial owner and the nominee;
- (b) a statement regarding 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;
- (c) the amount and description of units held, acquired or transferred for the beneficial owner; and
- (d) 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 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 units with the information furnished to us.

**Table of Contents**

***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. The amount of any understatement subject to penalty generally is reduced if any portion is attributable to a position adopted on the return:

(1) for which there is, or was, substantial authority, or

(2) as to which there is a reasonable basis and the relevant facts of that position are disclosed on the return.

If any item of income, gain, loss or deduction included in the distributive shares of unitholders could result in that kind of an understatement of income for which no substantial authority exists, we would be required to 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. More stringent rules would apply to an understatement of tax resulting from ownership of units if we were classified as a tax shelter. We believe we will not be classified as a tax shelter. For individuals, a substantial valuation misstatement exists if the value of any property, or the adjusted basis of any property, claimed on a tax return is 150% 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 a corporation other than an S Corporation or a personal holding company). If the valuation claimed on a return is 200% or more than the correct valuation, the penalty imposed increases to 40%.

***Reportable Transactions***

If we were to engage in a reportable transaction, we (and possibly you and others) would be required to make a detailed disclosure of the transaction to the IRS. A transaction may be a reportable transaction based upon any of several factors, including the fact that it is a type of transaction publicly identified by the IRS as a listed transaction or that it produces certain kinds of losses in excess of \$2 million. Our participation in a reportable transaction could increase the likelihood that our federal income tax information return (and possibly your tax return) is audited by the IRS. Please read Information Returns and Audit Procedures above.

Moreover, if we were to participate in a listed transaction or a reportable transaction (other than a listed transaction) with a significant purpose to avoid or evade tax, you could be subject to the following provisions of the American Jobs Creation Act of 2004:

accuracy-related penalties with a broader scope, significantly narrower exceptions, and potentially greater amounts than described above at Accuracy-related Penalties,

for those persons otherwise entitled to deduct interest on federal tax deficiencies, nondeductibility of interest on any resulting tax liability, and

in the case of a listed transaction, an extended statute of limitations.

We do not expect to engage in any reportable transactions.

**Table of Contents**

**State, Local and Other Tax Considerations**

In addition to federal income taxes, you will be subject to other taxes, including state and local 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. We currently do business and own property in Texas, New Mexico, Oklahoma, Alabama, Mississippi, Wyoming, North Dakota, Colorado and Arkansas. We may also own property or do business in other states in the future. Although an analysis of those various taxes is not presented here, each prospective unitholder should consider their potential impact on his investment in us. You may not be required to file a return and pay taxes in some states because your income from that state falls below the filing and payment requirement. You will be required, however, to file state income tax returns and to pay state income taxes in many of the states in which we may do business or own property, and you may be subject to penalties for failure to comply with those requirements. In some states, tax losses may not produce a tax benefit in the year incurred and also may not be available to offset income in subsequent taxable years. Some of the states 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 state. Withholding, the amount of which may be greater or less than a particular unitholder's income tax liability to the state, generally does not relieve a nonresident unitholder from the obligation to file an income tax return. Amounts withheld may 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 states and localities, of his investment in us. Andrews Kurth LLP has not rendered an opinion on the state local, or foreign tax consequences of an investment in us. We strongly recommend that each prospective unitholder consult, and depend on, his own tax counsel or other advisor with regard to those matters. It is the responsibility of each unitholder to file all tax returns, that may be required of him.*

**Table of Contents**

**SELLING UNITHOLDERS**

The following table sets forth information relating to the selling unitholders' beneficial ownership of our units as of November 21, 2007 with respect to the purchases of units in our November 8, 2007 private equity offering and as of February 12, 2008 with respect to the other selling unitholders listed herein. This prospectus covers the offering for resale from time to time of up to 17,116,497 units owned by the selling unitholders. As used herein, "selling unitholders" includes donees and pledgees selling units received from a named selling unitholder after the date of this prospectus.

No offer or sale under this prospectus may be made by a unitholder unless that holder is listed in the table below, in a supplement to this prospectus or in an amendment to the related registration statement that has become effective under the Securities Act of 1933. We will supplement or amend this prospectus to include additional selling unitholders upon request and upon provision of all required information to us, subject to the terms of registration rights agreements between us and certain of the selling unitholders with respect to units owned by those selling unitholders.

The following table and related footnotes set forth:

the name of each selling unitholder;

if different, the name of the natural person(s) who exercise(s) sole/shared voting and/or investment power with respect to the units;

the amount of our units beneficially owned by such unitholder prior to the offering;

the amount being offered for the unitholder's account;

the amount to be owned by such unitholder after completion of the offering (assuming the sale of all units offered by this prospectus);

the nature of any position, office, or other material relationship which the selling unitholders have had within the past three years with us or with any of our predecessors or affiliates.

Unless otherwise indicated, none of the selling unitholders is a broker dealer registered under Section 15 of the Securities Exchange Act of 1934, as amended, or an affiliate of a broker dealer registered under Section 15 of the Securities Exchange Act of 1934, as amended.

We prepared the table based on information supplied to us by the selling unitholders. We have not sought to verify such information. The percentages of shares of units beneficially owned and being offered are based on the number of units that were outstanding as of February 4, 2008, unless otherwise stated in the footnotes to the table below. Additionally, some or all of the selling unitholders may have sold or transferred some or all of their units in exempt or non-exempt transactions, since such date. Other information about the selling unitholders may also change over time.

**Table of Contents**

|   | <b>Number of<br/>Units<br/>Beneficially<br/>Owned<br/>Prior to<br/>Offering</b> | <b>Number of<br/>Units<br/>Being Offered</b> | <b>Number of<br/>Units<br/>Beneficially<br/>Owned<br/>After<br/>Completion<br/>of the Offering</b> | <b>Percent<br/>Owned after<br/>offering</b> |
|---|---|--|--|---|
| Blackstone Investments I, Ltd.(1)                 | 63,474  | 63,474                                       |  | *   |
| Blackstone Investments II, Ltd.(2)                | 23,301  | 23,301                                       |  | *   |
| Blackstone Investments III, Ltd.(3)               | 6,534   | 6,534  |  | *   |
| Brothers Employee GRAT(4)                         | 47,615  | 47,615                                       |  | *   |
| Brothers Operating Company, Inc.(5)               | 35,976  | 31,897                                       |  | *   |
| Brothers Production Company, Inc.(6)              | 186,360   | 167,989                                      |  | *   |
| Brothers Production Properties, Ltd.(7)           | 2,739,616   | 2,356,199                                    |  | *   |
| Calm Waters Partnership(8)                        | 1,455,353   | 182,118                                      | 1,273,235  | *   |
| Capital Ventures International(9)                 | 140,000   | 140,000                                      |  | *   |
| Cary D. Brown(10)                                 | 5,145,408   | 570,029                                      |  | *   |
| Cary D. Brown GRAT(11)                            | 82,449  | 82,449                                       |  | *   |
| DAB Resources, Ltd.(12)                           | 542,281   | 519,400                                      |  | *   |
| Dale A. Brown(13)                                 | 6,048,934   | 357,749                                      | 3,500  | *   |
| Emily Jill Brown GRAT(14)                         | 82,449  | 82,449                                       |  | *   |
| H2K Holdings, Ltd.(15)                            | 121,683   | 62,289                                       |  | *   |
| Hartz Capital Investments, LLC(16)                | 97,560  | 97,560                                       |  | *   |
| Harvest Infrastructure Partners Fund<br>LLC(17)   | 117,103   | 57,560                                       | 59,543   | *   |
| Harvest Sharing LLC(18)                           | 89,079  | 40,000                                       | 49,079   | *   |
| HITE Hedge LP(19)                                 | 75,400  | 75,400                                       |  | *   |
| HITE MLP LP(20)                                   | 5,100   | 5,100  |  | *   |
| John H. Campbell, Jr.(21)                         | 21,200  | 6,200  | 15,000   | *   |
| John W. Donovan, Jr.(22)                          | 13,401  | 12,401                                       | 1,000  | *   |
| J&W McGraw Properties, Ltd.(23)                   | 546,737   | 546,737                                      |  | *   |
| Kyle A. McGraw Family Holdings,<br>Ltd.(24)       | 146,928   | 146,928                                      |  | *   |
| Lehman Brothers Inc.(25)                          | 866,700   | 219,500                                      | 647,200  | *   |
| Michael A. Denham(26)                             | 6,200   | 6,200  |  | *   |
| MBN Properties LP(27)                             | 2,642,438   | 2,642,438                                    |  | *   |
| Michael P. Dalton(28)                             | 6,200   | 6,200  |  | *   |
| Morgan Stanley Strategic Investments,<br>Inc.(29) | 1,046,232   | 837,304                                      | 208,928  | *   |
| Moriah Employees GRAT(30)                         | 134,954   | 134,954                                      |  | *   |
| Moriah Properties, Ltd.(31)                       | 5,118,968   | 4,391,398                                    |  | *   |
| Moriah Resources, Inc.(32)                        | 26,440  | 13,756                                       |  | *   |
| Nielson & Associates, Inc.(33)                    | 611,247   | 611,247                                      |  | *   |
| RCH Energy MLP Fund, L.P.(34)                     | 240,902   | 240,902                                      |  | *   |
| RCH Energy MLP Fund A, L.P.(35)                   | 3,000   | 3,000  |  | *   |
| RCH Energy Opportunity Fund II,<br>L.P.(36)       | 243,902   | 243,902                                      |  | *   |



Edgar Filing: LEGACY RESERVES LP - Form S-3/A

|                                      |         |         |        |   |
|--------------------------------------|---------|---------|--------|---|
| Salient Trust Co., LTA(37)           | 58,537  | 58,537  |        | * |
| Salient Total Return Fund, LP(38)    | 9,756   | 9,756   |        | * |
| Salient Total Return Fund QP, LP(39) | 29,268  | 29,268  |        | * |
| SbarM Family Holdings, Ltd.(40)      | 146,927 | 146,927 |        | * |
| SHP Capital LP(41)                   | 296,935 | 48,476  |        | * |
| Stanley R. Smith(42)                 | 2,240   | 1,240   | 1,000  | * |
| Structured Finance Americas, LLC(43) | 284,152 | 243,902 | 40,250 | * |

62

---

**Table of Contents**

|  | <b>Number of<br/>Units<br/>Beneficially<br/>Owned<br/>Prior to<br/>Offering</b> | <b>Number of<br/>Units<br/>Being Offered</b> | <b>Number of<br/>Units<br/>Beneficially<br/>Owned<br/>After<br/>Completion<br/>of the<br/>Offering</b> | <b>Percent<br/>Owned after<br/>offering</b> |
|--|---|--|--|---|
| TDMN Heritage Holdings, Ltd.(44)           | 146,928   | 146,928                                      |  | *   |
| Telemus Income Opportunity Fund,<br>LP(45) | 61,000  | 61,000                                       |  | *   |
| Tortoise Gas and Oil Corporation(46)       | 731,707   | 731,707                                      |  | *   |
| Trinity Equity Partners I, LP(47)          | 93,470  | 93,470                                       |  | *   |
| TW McGraw Family Holdings, Ltd.(48)        | 146,927   | 146,927                                      |  | *   |
| T&W Management, LLC.(49)                   | 327   | 327  |  | *   |
| Wingate Capital Ltd.(50)                   | 365,853   | 365,853                                      |  | *   |
| <b>Total</b>                               |   | 17,116,497                                   |  |   |

\* Percentage beneficially owned after completion of the offering is less than 1%.

(1) Blackstone Investments I, Ltd. was a recipient of units distributed by a Founding Investor to its partners or members, as the case may be. Skytop Holdings, LLC is the sole general partner of Blackstone Investments I, LP. Toby R. Neugebauer is the President of Skytop Holdings, LLC. Toby R.

Neugebauer, as the President of Skytop Holdings, LLC, has sole voting and investment power over the units held by Blackstone Investments I, LP.

- (2) Blackstone Investments II, Ltd. was a recipient of units distributed by a Founding Investor to its partners or members, as the case may be. Skytop Holdings, LLC is the sole general partner of Blackstone Investments II, LP. Toby R. Neugebauer is the President of Skytop Holdings, LLC. Toby R. Neugebauer, as the President of Skytop Holdings, LLC, has sole voting and investment power over the units held by Blackstone Investments II, LP.

- (3) Blackstone Investments III, Ltd. was a recipient of units distributed

by a Founding Investor to its partners or members, as the case may be.

Skytop Holdings, LLC is the sole general partner of each of Blackstone Investments III, LP. Toby R. Neugebauer is the President of Skytop Holdings, LLC. Toby R.

Neugebauer, as the President of Skytop Holdings, LLC, has sole voting and investment power over the units held by Blackstone Investments III, LP.

- (4) Brothers Employee GRAT was a recipient of units distributed by a Founding Investor to its partners or members, as the case may be. Alan Brown, son of Dale A. Brown and brother of Cary Brown, is the trustee of Brothers Employee GRAT.

(5)

Brothers  
Operating  
Company, Inc.  
is a Founding  
Investor and  
member of our  
general partner.  
Brother  
Operating  
Company, Inc.  
directly owns  
31,897 units and  
indirectly  
beneficially  
owns an  
additional 4,079  
units through its  
interest in MBN  
Properties, LP.

- (6) Brothers  
Production  
Company, Inc.  
is a Founding  
Investor and  
member of our  
general partner.  
Brothers  
Production  
Company, Inc.  
directly owns  
167,989 units  
and indirectly  
beneficially  
owns an  
additional  
18,371 units  
through its  
interest in MBN  
Properties, LP.

- (7) Brothers  
Production  
Properties, Ltd.  
is a Founding  
Investor and a  
member of our  
general partner.  
Brothers  
Production  
Properties, Ltd.

directly owns  
2,356,199 units  
and indirectly  
beneficially  
owns an  
additional  
383,417 units  
through its  
interest in MBN  
Properties LP,  
which holds  
2,642,438 units.

- (8) By virtue of his position with Calm Waters Partnership, Richard S. Strong has investment and voting control.
- (9) By virtue of his position with Heights Capital Management, Inc., the authorized agent of Capital Ventures International, Martin Kobinger is deemed to hold investment and voting control.
- (10) Cary D. Brown is the Chairman of the Board of Directors and Chief Executive Officer of our general partner and son of Dale A. Brown. Includes 4,391,408 units held by Moriah Properties, Ltd (Moriah

Properties ) and  
13,756 units  
owned by  
Moriah  
Resources, Inc.  
( Moriah  
Resources ).  
Moriah  
Resources and  
Moriah  
Properties are  
entities owned  
and controlled  
by Dale A.  
Brown and Cary  
D. Brown. Cary  
D. Brown also  
indirectly  
beneficially  
owns an  
additional  
740,244 units  
through Moriah  
Properties  
(727,560 units)  
and Moriah  
Resources  
(12,684 units)

**Table of Contents**

interest in MBN Properties, which holds 2,642,438 units. Cary D. Brown beneficially owns all of the units held or beneficially owned by Moriah Properties and Moriah Resources.

(11) The Cary D. Brown GRAT was a recipient of units distributed by a Founding Investor to its partners or members, as the case may be. Alan Brown, son of Dale A. Brown and brother of Cary D. Brown, is the trustee of the Cary D. Brown GRAT. Cary D. Brown was the grantor of the Cary D. Brown GRAT.

(12) DAB Resources, Ltd. is a Founding Investor and member of our general partner. DAB Resources, Ltd. directly owns 519,400 units and indirectly



beneficially owns an additional 22,881 units though its interest in MBN Properties, LP, which holds 2,642,438 units. Dale A. Brown beneficially owns all of the units held or beneficially owned by DAB Resources, Ltd.

- (13) Dale A. Brown is a member of the Board of Directors of our general partner and is the father of Cary D. Brown. Includes 4,391,408 units held by Moriah Properties, Ltd ( Moriah Properties ) and 13,756 units owned by Moriah Resources, Inc. ( Moriah Resources ). Moriah Resources and Moriah Properties are entities owned and controlled by Dale A. Brown and Cary D. Brown. Dale A. Brown also indirectly beneficially owns an additional 519,400 units

owned by DAB Resources, Ltd. ( DAB Resources ), an entity partially owned by Dale A. Brown, and an additional 763,125 units through Moriah Properties (727,560 units), Moriah Resources (12,684 units) and DAB Resources (22,881 units) interests in MBN Properties, which holds 2,642,438 units. Dale A. Brown beneficially owns all of the units held or beneficially owned by Moriah Properties, Moriah Resources and DAB Resources.

- (14) The Emily Jill Brown GRAT was a recipient of units distributed by a Founding Investor to its partners or members, as the case may be. Alan Brown, son of Dale A. Brown and brother of Cary D. Brown, is the

trustee of the  
Emily Jill  
Brown GRAT.  
Emily Jill  
Brown, the wife  
of Cary D.  
Brown, was the  
grantor of the  
Emily Jill  
Brown GRAT.

- (15) H2K Holdings,  
Ltd. is a  
Founding  
Investor and  
member of our  
general partner.  
Includes 59,394  
units indirectly  
beneficially  
owned by H2K  
Holdings, Ltd.  
through its  
interest in MBN  
Properties LP,  
which holds  
2,642,438 units.  
Paul Horne,  
Vice President  
of Operations of  
our general  
partner,  
beneficially  
owns all of the  
units held or  
beneficially  
owned by H2K  
Holdings, Ltd.

- (16) By virtue of  
their positions  
with Hartz  
Capital, Inc., the  
manager of  
Hartz Capital  
Investments,  
LLC, Edward J.  
Stern, Ronald J.  
Bangs and  
Jonathan  
Schinder have

investment and  
voting control.

- (17) By virtue of their positions with Harvest Fund Advisors LLC, the investment advisor of Harvest Infrastructure Partners Fund LLC, David J. Martinelli and Eric M. Conklin have investment and voting control.
- (18) By virtue of their positions with Harvest Fund Advisors LLC, the investment advisor of Harvest Sharing LLC, David J. Martinelli and Eric M. Conklin have investment and voting control.
- (19) James Jampel has investment and voting control.
- (20) James Jampel has investment and voting control.
- (21) John H. Campbell, Jr. was a recipient of units distributed by a Founding

Investor to its partners or members, as the case may be.

(22) John W. Donovan, Jr. was a recipient of units distributed by a Founding Investor to its partners or members, as the case may be.

(23) J&W McGraw Properties, Ltd. is a Founding Investor and member of our general partner. Wanda McGraw is the mother of Kyle A. McGraw who is a member of the Board of Directors and Executive Vice President of Business Development and Land of our general partner, and Wanda McGraw beneficially owns all of the units held or beneficially owned by J&W McGraw Properties, Ltd.

(24) Kyle A. McGraw is a member of the Board of Directors and Executive Vice

President of  
Business  
Development  
and Land of our  
general partner.  
Kyle A.  
McGraw Family  
Holdings, Ltd.  
was a recipient  
of units  
distributed by a  
Founding  
Investor to its  
partners or  
members, as the  
case may be.  
Kyle McGraw  
beneficially  
owns all of the  
units held or  
beneficially  
owned by Kyle  
A. McGraw  
Family  
Holdings, Ltd.

**Table of Contents**

- (25) Lehman Brothers Inc. is a direct, wholly owned subsidiary of Lehman Brothers Holdings Inc. Lehman Brothers Holdings Inc. is therefore deemed to share voting and investment control.
- (26) Michael A. Denham was a recipient of units distributed by a Founding Investor to its partners or members, as the case may be.
- (27) MBN Properties LP is a Founding Investor and member of our general partner.
- (28) Michael P. Dalton was a recipient of units distributed by a Founding Investor to its partners or members, as the case may be.
- (29) Morgan Stanley Strategic Investments, Inc. is an affiliate of

Morgan Stanley  
& Co.  
Incorporated, a  
member of the  
Financial  
Industry  
Regulatory  
Authority.

(30) Moriah  
Employees  
GRAT was a  
recipient of  
units distributed  
by a Founding  
Investor to its  
partners or  
members, as the  
case may be.  
Alan Brown,  
son of Dale A.  
Brown and  
brother of Cary  
D. Brown, is the  
trustee of the  
Moriah  
Employees  
GRAT.

(31) Moriah  
Properties, Ltd.  
is a Founding  
Investor and  
member of our  
general partner.  
Includes  
727,560 units  
indirectly  
beneficially  
owned by  
Moriah  
Properties, Ltd.  
through its  
interest in MBN  
Properties LP,  
which holds  
2,642,438 units.  
Dale A. Brown  
and Cary D.  
Brown  
beneficially own



all of the units  
held or  
beneficially  
owned by  
Moriah  
Properties, Ltd.

- (32) Moriah  
Resources, Inc.  
was a recipient  
of units  
distributed by a  
Founding  
Investor to its  
partners or  
members, as the  
case may be.  
Includes 12,684  
units indirectly  
beneficially  
owned by  
Moriah  
Resources, Inc.  
through its  
interest in MBN  
Properties LP,  
which holds  
2,642,438 units.  
Dale A. Brown  
and Cary D.  
Brown  
beneficially own  
all of the units  
held or  
beneficially  
owned by  
Moriah  
Resources, Inc.

- (33) Seller of  
properties to  
Legacy in  
April 2007.  
James E.  
Nielson, Jay  
Nielson,  
Thomas  
Fitzsimmons  
and Richard  
Stader have  
voting and

investment  
control.

(34) Robert  
Raymond has  
investment and  
voting control.  
RCH Energy  
MLP Fund A,  
L.P. and RCH  
Energy  
Opportunity  
Fund II, L.P.  
beneficially own  
all of the units  
held or  
beneficially  
owned by RCH  
Energy MLP  
Fund, L.P.

(35) Robert  
Raymond has  
investment and  
voting control.  
RCH Energy  
MLP Fund, L.P.  
and RCH  
Energy  
Opportunity  
Fund II, L.P.  
beneficially own  
all of the units  
held or  
beneficially  
owned by RCH  
Energy MLP  
Fund A, L.P.

(36) Robert  
Raymond has  
investment and  
voting control.  
RCH Energy  
MLP Fund, L.P.  
and RCH  
Energy MLP  
Fund A, L.P.  
beneficially own  
all of the units  
held or

beneficially  
owned by RCH  
Energy  
Opportunity  
Fund II, L.P.

(37) By virtue of his  
position with  
Salient Trust  
Co., LTA,  
Stephen  
Reckling has  
investment and  
voting control.

(38) Salient  
Advisors, LP is  
the general  
partner of  
Salient Total  
Return Fund, LP  
and has voting  
and investment  
control.

(39) Salient  
Advisors, LP is  
the general  
partner of  
Salient Total  
Return Fund  
QP, LP and has  
voting and  
investment  
control.

(40) SbarM Family  
Holdings, Ltd.  
was a recipient  
of units  
distributed by a  
Founding  
Investor to its  
partners or  
members, as the  
case may be.

(41) SHP Capital LP  
was a recipient  
of units  
distributed by a

Founding  
Investor to its  
partners or  
members, as the  
case may be.  
Includes  
248,459 units  
indirectly  
beneficially  
owned by SHP  
Capital LP  
through its  
interest in MBN

**Table of Contents**

Properties LP,  
which holds  
2,642,438 units.  
Steven H.  
Pruett,  
President, Chief  
Financial  
Officer and  
Secretary of our  
general partner,  
beneficially  
owns all of the  
units held or  
beneficially  
owned by SHP  
Capital LP.

(42) Stanley R.  
Smith was a  
recipient of  
units distributed  
by a Founding  
Investor to its  
partners or  
members, as the  
case may be.

(43) Structured  
Finance  
Americas, LLC  
is a subsidiary  
of Deutsche  
Bank Securities,  
Inc., a broker  
dealer registered  
under  
Section 15 of  
the Securities  
Exchange Act  
of 1934, as  
amended.  
Structured  
Finance  
Americas, LLC  
has represented  
to us that it is  
not acting as an  
underwriter in  
this offering, it

purchased the units it is offering under this prospectus in the ordinary course of business, and at the time of such purchase, it had no arrangement or understanding, directly or indirectly, with any person to distribute the securities. Deutsche Bank AG is the ultimate parent of the unitholder and has sole investment and voting power; Deutsche Bank AG is a publicly traded entity.

- (44) TDMN Heritage Holdings, Ltd. was a recipient of units distributed by a Founding Investor to its partners or members, as the case may be.
- (45) Greg Reid and Steven Greenwald have investment and voting control.
- (46) By virtue of their positions on the investment committee of Tortoise Capital

Advisors,  
L.L.C., the  
investment  
advisor to  
Tortoise Gas  
and Oil  
Corporation, H.  
Kevin Birzer,  
Zachary A.  
Hamel, Kenneth  
P. Malvey,  
Terry C.  
Matlack and  
David J. Schulte  
have investment  
and voting  
control.

- (47) Trinity Equity  
Partners I, LP  
was a recipient  
of units  
distributed by a  
Founding  
Investor to its  
partners or  
members, as the  
case may be.  
Trinity Equity  
Holdings, LLC  
is the sole  
general partner  
of Trinity  
Capital Partners  
I, LP. S. Wil  
VanLoh, Jr. is  
the President of  
Trinity Equity  
Holdings, LLC.  
S. Wil VanLoh,  
Jr., as the  
President of  
Trinity Equity  
Holdings, LLC,  
has sole voting  
and investment  
power over the  
units held by  
Trinity Capital  
Partners I, LP.  
S. Wil VanLoh,

Jr. was formerly a director of our general partner.

(48) TW McGraw Family Holdings, Ltd. was a recipient of units distributed by a Founding Investor to its partners or members, as the case may be.

(49) T&W Management, LLC was a recipient of units distributed by a Founding Investor to its partners or members, as the case may be. S. Wil VanLoh, Jr. and Toby R. Neugebauer, as the President and Vice President, respectively, of T&W Management, LLC, have sole voting and investment power over the units held by T&W Management, LLC. S. Wil VanLoh, Jr. was formerly a director of our general partner.

(50) Kenneth C. Griffin controls Citadel



Investment Group, L.L.C., which controls Citadel Limited Partnership, the trading manager of Wingate Capital Ltd. By virtue of his position with Citadel Investment Group, L.L.C., Mr. Griffin has voting and investment power.

**Table of Contents**

**PLAN OF DISTRIBUTION**

We are registering the units representing limited partner interests to permit the resale of these units by the holders from time to time after the date of this prospectus. We will not receive any of the proceeds from the sale by the selling unitholders of the units. We will bear all fees and expenses incident to our obligation to register the units.

The selling unitholders may sell all or a portion of the units beneficially owned and offered hereby from time to time directly or through one or more underwriters, broker-dealers or agents. If the units are sold through underwriters or broker-dealers, the selling unitholders will be responsible for underwriting discounts or commissions or agents commissions and their professional fees. The units may be sold in one or more transactions at fixed prices, at prevailing market prices at the time of the sale, at varying prices determined at the time of sale, or at negotiated prices. These sales may be effected in transactions, which may involve crosses or block transactions,

on any national securities exchange or quotation service on which the units may be listed or quoted at the time of sale;

in the over-the-counter market;

in transactions otherwise than on these exchanges or systems or in the over-the-counter market;

through the writing of options, whether such options are listed on an options exchange or otherwise;

ordinary brokerage transactions and transactions in which the broker-dealer solicits purchasers;

block trades in which the broker-dealer will attempt to sell the shares as agent but may position and resell a portion of the block as principal to facilitate the transaction;

purchases by a broker-dealer as principal and resale by the broker-dealer for its account;

an exchange distribution in accordance with the rules of the applicable exchange;

privately negotiated transactions;

short sales;

broker-dealers may agree with the selling unitholder to sell a specified number of such units at a stipulated price per share;

as a distribution to such selling unitholder's partners, members, or equity owners;

a combination of any such methods of sale; and

any other method permitted pursuant to applicable law.

If the selling unitholders effect such transactions by selling units to or through underwriters, broker-dealers or agents, such underwriters, broker-dealers or agents may receive commissions in the form of discounts, concessions or commissions from the selling unitholders or commissions from purchasers of the units for whom they may act as agent or to whom they may sell as principal (which discounts, concessions or commissions as to particular underwriters, broker-dealers or agents may be in excess of those customary in the types of transactions involved). In connection with sales of the units or otherwise, the selling unitholders may enter into hedging transactions with broker-dealers, which may in turn engage in short sales of the units in the course of hedging in positions they assume. The selling unitholders may also sell units short and deliver units covered by this prospectus to close out short positions and to return borrowed units in connection with such short sales. The selling unitholders may also loan or

pledge units to broker-dealers that in turn may sell such units.

**Table of Contents**

The selling unitholders may pledge or grant a security interest in some or all of the units owned by them and, if they default in the performance of their secured obligations, the pledgees or secured parties may offer and sell the units from time to time pursuant to this prospectus or any amendment to this prospectus under Rule 424(b)(3) or other applicable provision of the Securities Act, amending, if necessary, the list of selling unitholders to include the pledgee, transferee or other successors in interest as selling unitholders under this prospectus. The selling unitholders also may transfer and donate the units in other circumstances in which case the transferees, donees, pledgees or other successors in interest may be the selling beneficial owners for purposes of this prospectus.

The selling unitholders and any broker-dealer participating in the distribution of the units may be deemed to be underwriters within the meaning of the Securities Act, and any commission paid, or any discounts or concessions allowed to, any such broker-dealer may be deemed to be underwriting commissions or discounts under the Securities Act. At the time a particular offering of the units is made, a prospectus supplement, if required, will be distributed which will set forth the aggregate amount of units being offered and the terms of the offering, including the name or names of any broker-dealers or agents, any discounts, commissions and other terms constituting compensation from the selling stockholder and any discounts, commissions or concessions allowed or reallocated or paid to broker-dealers.

Under the securities laws of some states, the units may be sold in such states only through registered or licensed brokers or dealers. In addition, in some states the units may not be sold unless such units have been registered or qualified for sale in such state or an exemption from registration or qualification is available and is complied with.

There can be no assurance that the selling unitholders will sell any or all of the units registered pursuant to the shelf registration statement, of which this prospectus forms a part.

The selling unitholders and any other person participating in such distribution will be subject to applicable provisions of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and the rules and regulations there under, including, without limitation, Regulation M of the Exchange Act, which may limit the timing of purchases and sales of any of the units by the selling unitholders and any other participating person. Regulation M may also restrict the ability of any person engaged in the distribution of the units to engage in market-making activities with respect to the units. All of the foregoing may affect the marketability of the units and the ability of any person or entity to engage in market-making activities with respect to the units.

We will pay all expenses of the registration of the units pursuant to the applicable registration rights agreements, including, without limitation, SEC filing fees and expenses of compliance with state securities or blue sky laws; provided, however, that the selling unitholders will pay all underwriting discounts and selling commissions, if any. We will indemnify the selling unitholders against liabilities, including some liabilities under the Securities Act, in accordance with the applicable registration rights agreements, or the selling unitholders will be entitled to contribution. We may be indemnified by the selling unitholders against civil liabilities, including liabilities under the Securities Act, that may arise from any written information furnished to us by the selling unitholders specifically for use in this prospectus, in accordance with the related applicable registration rights agreements, or we may be entitled to contribution.

Once sold under the registration statement, of which this prospectus forms a part, the units will be freely tradable in the hands of persons other than our affiliates.

**Table of Contents**

**LEGAL MATTERS**

The validity of the units, as to matters of United States law and other customary legal matters relating to the offering of the units issued by us, will be passed upon for us by Andrews Kurth LLP, Houston, Texas. If the units are being distributed through underwriters or agents, the validity of the units will be passed upon for the underwriters or agents by counsel identified in the related prospectus supplement.

**EXPERTS**

The audited financial statements of Legacy Reserves LP, Brothers Group, TSF Properties, Ameristate Properties, Binger Properties, and Raven OBO Properties incorporated by reference in this prospectus, have been so incorporated in reliance on the reports of BDO Seidman, LLP, an independent registered public accounting firm, incorporated herein by reference, given on the authority of said firm as experts in auditing and accounting.

The audited financial statements of the Selected Interests of Paul T. Horne and Selected Properties of the Charities Support Foundation Inc. and Affiliates, incorporated by reference in this prospectus, have been so incorporated in reliance on the reports of Johnson Miller & Co., CPAs PC, an independent registered public accounting firm, incorporated herein by reference, given on the authority of said firm as experts in auditing and accounting.

Information incorporated by reference and included in this prospectus regarding our estimated quantities of oil and natural gas reserves was prepared by LaRoche Petroleum Consultants, Ltd., independent petroleum engineers, geologists and geophysicists, as stated in their reserve reports with respect thereto.

**WHERE YOU CAN FIND MORE INFORMATION**

We have filed a registration statement with the SEC under the Securities Act that registers the securities offered by this prospectus. The registration statement, including the exhibits, contains additional relevant information about us. The rules and regulations of the SEC allow us to omit from this prospectus some information included in the registration statement.

We file annual, quarterly, and other reports and other information with the SEC under the Securities Exchange Act of 1934, as amended (the Exchange Act). You may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. The SEC maintains an Internet website at <http://www.sec.gov> that contains reports, proxy and information statements, and other information regarding issuers, including us, that file electronically with the SEC. General information about us, including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, is available free of charge through our website at <http://www.legacylp.com> as soon as reasonably practicable after we electronically file them with, or furnish them to, the SEC. Information on our website is not incorporated into this prospectus or our other securities filings and is not a part of these filings.

**INCORPORATION BY REFERENCE**

The SEC allows us to incorporate by reference information into this document. This means that we can disclose important information to you by referring you to another document filed separately with the SEC. The information incorporated by reference is considered to be part of this prospectus, and information that we file later with the SEC will automatically update and supersede the previously filed information. We incorporate by reference the documents listed below and any future filings made by us with the SEC pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act, excluding information deemed to be furnished and not filed with the SEC, until all the securities are sold:

Annual Report on Form 10-K (File No. 333-134056) for the year ended December 31, 2007, filed on March 14, 2008;

**Table of Contents**

Current Reports on Form 8-K filed on June 29, 2007, October 18, 2007, January 2, 2008, January 25, 2008, February 4, 2008, February 14, 2008 and March 14, 2008;

The description of our units contained in our registration statement on Form 8-A (File No. 001-33249), filed on January 10, 2007; and

The financial statements of Brothers Group, Selected Interests of Paul T. Horne and the Selected Properties of Charities Support Foundation included in our prospectus filed on January 12, 2007 pursuant to Rule 424(b) (File No. 333-138637) under the Securities Act.

All documents filed by us under the Exchange Act after the date of the initial registration statement and prior to the effectiveness of the registration statement shall also be deemed to be incorporated by reference into this prospectus.

Each of these documents is available from the SEC's website and public reference rooms described above. Through our website, <http://www.legacylp.com>, you can access electronic copies of documents we file with the SEC, including our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and any amendments to those reports. Information on our website is not incorporated by reference in this prospectus. Access to those electronic filings is available as soon as practical after filing with the SEC. You may also request a copy of those filings, excluding exhibits, at no cost by writing or telephoning Investor Relations, Legacy Reserves LP, at our principal executive office, which is: 303 W. Wall St., Ste. 1400, Midland, Texas 79701; Telephone: (432) 689-5200.

**Table of Contents**

**Table of Contents**

**PART II**  
**INFORMATION NOT REQUIRED IN PROSPECTUS**

**ITEM 14. Other Expenses of Issuance and Distribution.**

The following sets forth the expenses in connection with the issuance and distribution of the securities being registered hereby, other than underwriting discounts and commissions. All amounts set forth below, other than the SEC registration fee and FINRA filing fee, are estimates.

|                               |                   |
|-------------------------------|-------------------|
| SEC Registration Fee          | \$ 12,939         |
| FINRA Filing Fee              | \$ 33,423         |
| Legal Fees and Expenses       | \$ 60,000         |
| Accountants Fees and Expenses | \$ 40,000         |
| Printing Expenses             | \$ 20,000         |
| Miscellaneous                 | \$ 3,638          |
| <b>TOTAL</b>                  | <b>\$ 170,000</b> |

**ITEM 15. Indemnification of Directors and Officers.**

The section of the prospectus entitled "Material Provisions of our Partnership Agreement - Indemnification" is incorporated herein by this reference. 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 person from and against all claims and demands whatsoever.

We have obtained directors' and officers' insurance to cover our director, officers and some of our employees for certain liabilities.

To the extent that the indemnification provisions of our partnership agreement purport to include indemnification for liabilities arising under the Securities Act of 1933, in the opinion of the SEC, such indemnification is contrary to public policy and is therefore unenforceable.

**ITEM 16. Exhibits.**

(a) See the Exhibit Index on the page immediately preceding the exhibits for a list of exhibits filed as part of this registration statement on Form S-3, which Exhibit Index is incorporated herein by reference.

(b) Financial Statement Schedules  
Not Applicable.

**ITEM 17. Undertakings.**

(a) The undersigned registrants hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total



**Table of Contents**

dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20% change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement; and

- (iii) to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement; *provided, however*, that paragraphs (a)(1)(i), (a)(1)(ii) and (a)(1)(iii) do not apply if the registration statement is on Form S-3 and the information required to be included in a post-effective amendment by those paragraphs is contained in reports filed with or furnished to the Commission by the registrants pursuant to section 13 or section 15(d) of the Securities Exchange Act of 1934 that are incorporated by reference in the registration statement, or is contained in a form of prospectus filed pursuant to Rule 424(b) that is part of the registration statement.
- (2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment 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.
- (3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.
- (4) That, for the purpose of determining liability under the Securities Act to any purchaser:
- (i) Each prospectus filed by the registrants pursuant to Rule 424(b)(3) shall be deemed to be part of the registration statement as of the date the filed prospectus was deemed part of and included in the registration statement; and
- (ii) Each prospectus required to be filed pursuant to Rule 424(b)(2), (b)(5) or (b)(7) as part of a registration statement in reliance on Rule 430B relating to an offering made pursuant to Rule 415(a)(1)(i), (vii) or (x) for the purpose of providing the information required by section 10(a) of the Securities Act of 1933 shall be deemed to be part of and included in the registration statement as of the earlier of the date such form of prospectus is first used after effectiveness or the date of the first contract of sale of securities in the offering described in the prospectus. As provided in Rule 430B, for liability purposes of the issuer and any person that is at that date an underwriter, such date shall be deemed to be a new effective date of the registration statement relating to the securities in the registration statement to which the prospectus relates, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof. *Provided, however*, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such effective date, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such effective date.
- (5) That, for the purpose of determining liability of the registrants under the Securities Act to any purchaser in the initial distribution of the securities, the undersigned registrants undertake that in a primary offering of securities of the undersigned registrants pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, each of the undersigned registrants will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:
- (i) Any preliminary prospectus or prospectus of the undersigned registrants relating to the offering required to be filed pursuant to Rule 424;



**Table of Contents**

- (ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned registrants or used or referred to by such undersigned registrants;
  - (iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned registrants or their securities provided by or on behalf of the undersigned registrants; and
  - (iv) Any other communication that is an offer in the offering made by the undersigned registrants to the purchaser.
- (b) The undersigned registrants hereby undertake that, for purposes of determining any liability under the Securities Act, each filing of the registrant's annual report pursuant to section 13(a) or section 15(d) of the Exchange Act (and, where applicable, each filing of an employee benefit plan's annual report pursuant to section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement 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.
- (c) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrants pursuant to the foregoing provisions, or otherwise, the registrants have 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 registrants of expenses incurred or paid by a director, officer or controlling person of the registrants 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 registrants 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.

**Table of Contents****SIGNATURES**

Pursuant to the requirements of the Securities Act, the following registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Midland, State of Texas, on March 14, 2008.

**LEGACY RESERVES LP**

By: LEGACY RESERVES GP, LLC  
its general partner

By: /s/ Steven H. Pruett

Name: Steven H. Pruett  
Title: President, Chief Financial Officer and  
Secretary

Pursuant to the requirements of the Securities Act of 1933, as amended, this Registration Statement has been signed below by the following persons in the capacities and on the dates indicated.

| <b>Signature</b>     | <b>Title</b>  | <b>Date</b>    |
|----------------------|---|----------------|
| *                    | Chief Executive Officer and<br>Director                       | March 14, 2008 |
| Cary D. Brown        | (Principal Executive Officer)                                 |                |
| /s/ Steven H. Pruett | President, Chief Financial Officer<br>and Secretary           | March 14, 2008 |
| Steven H. Pruett     | (Principal Financial Officer)                                 |                |
| *                    | Vice President, Chief Accounting<br>Officer<br>and Controller | March 14, 2008 |
| William M. Morris    | (Principal Accounting Officer)                                |                |
| *                    | Executive Vice President and<br>Director                      | March 14, 2008 |
| Kyle A. McGraw       |   |                |
| *                    | Director  | March 14, 2008 |
| Dale A. Brown        |   |                |
| *                    | Director  | March 14, 2008 |
| William R. Granberry |   |                |

|                     |          |                |
|---------------------|----------|----------------|
| *                   | Director | March 14, 2008 |
| G. Larry Lawrence   |          |                |
| *                   | Director | March 14, 2008 |
| William D. Sullivan |          |                |
| *                   | Director | March 14, 2008 |
| Kyle D. Vann        |          |                |

\*By: /s/ Steven H. Pruett  
Steven H. Pruett  
Attorney-In-Fact

II-4

---

**Table of Contents****EXHIBIT LIST**

| <b>Exhibit Number</b> | <b>Previously Filed With File Number (Form) (Period Ending or Date)</b> | <b>As Exhibit</b> | <b>Exhibit</b>   |
|-----------------------|---|-------------------|--|
| 1.1**                 |   |                   | Form of Underwriting Agreement.  |
| 4.1                   | 333-134056<br>(S-1) (5/12/06)   | 4.1               | Registration Rights Agreement dated as of March 15, 2006 by and among Legacy Reserves LP, Legacy Reserves GP, LLC and Friedman, Billings, Ramsey & Co. |
| 4.2                   | 333-134056<br>(S-1) (9/5/06)  | 4.2               | Registration Rights Agreement dated June 29, 2006 between Henry Holdings LP, Legacy Reserves LP and Legacy Reserves GP, LLC.                           |
| 4.3                   | 333-134056<br>(S-1) (9/5/06)  | 4.3               | Founders Registration Rights Agreement dated March 15, 2006 by and among Legacy Reserves LP, Legacy Reserves GP, LLC and other parties thereto.        |
| 4.4                   | 001-33249<br>(10-Q) (5/14/07)   | 4.4               | Registration Rights Agreement dated April 16, 2007 by and among Nielson & Associates, Inc., Legacy Reserves GP, LLC and Legacy Reserves LP.            |
| 4.5                   | 001-33249<br>(8-K) (11/9/07)  | 4.1               | Registration Rights Agreement dated November 8, 2007 by and among Legacy Reserves LP and the Purchasers named therein.                                 |
| 5.1*                  |   |                   | Opinion of Andrews Kurth LLP regarding the legality of the securities being registered.  |
| 8.1*                  |   |                   | Opinion of Andrews Kurth LLP regarding tax matters.  |
| 23.1*                 |   |                   | Consent of BDO Seidman, LLP.   |
| 23.2*                 |   |                   | Consent of Johnson Miller & Co., CPA's PC.   |
| 23.3*                 |   |                   | Consent of LaRoche Petroleum Consultants, Ltd.   |
| 23.4*                 |   |                   | Consent of Andrews Kurth LLP (contained in Exhibit 5.1).   |
| 23.5*                 |   |                   | Consent of Andrews Kurth LLP (contained in Exhibit 8.1).   |
| 24.1                  |   |                   | Powers of Attorney (set forth on the signature page contained in Part II of this Registration Statement as filed on February 14, 2008).                |

\* Filed herewith.

\*\* To be filed by amendment or as an exhibit to

a current report  
on Form 8-K of  
the registrant.