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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-K/A**

(Mark One)



ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010

OR



TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from            to            .

Commission File Number 001-33147

**Constellation Energy Partners LLC**

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State of organization)

1801 Main Street, Suite 1300

Houston, Texas

(Address of Principal Executive Offices)

11-3742489

(I.R.S. Employer Identification No.)

77002

(Zip Code)

Telephone Number: (832) 308-3700

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Units representing Class B Limited Liability Company Interests	NYSE Arca, Inc.

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☒

(Do not check if a smaller reporting company)

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

**Aggregate market value of Constellation Energy Partners LLC Common Stock, without par value, held by non-affiliates as of June 30, 2010 was approximately \$57,972,310 based upon New York Stock Exchange composite transaction closing price.**

**Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.**

Common Units outstanding on February 25, 2011: 23,835,303 units.

**Documents Incorporated by Reference: None**

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#### EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A to the Constellation Energy Partners LLC (“CEP” or “Company”) Annual Report on Form 10-K for the year ended December 31, 2010 (“Form 10-K”), originally filed with the Securities and Exchange Commission on February 25, 2011, is being filed solely to furnish the information in Part III, Item 10, Item 11, Item 12, Item 13, and Item 14, which are being provided because CEP’s definitive proxy statement has not yet been finalized.

No other changes have been made to the Form 10-K other than furnishing the Part III items described above. This Amendment No. 1 does not reflect subsequent events occurring after February 25, 2011, the original filing date of the Form 10-K, or modify or update in any way disclosures made in the Form 10-K.

## PART III

### Item 10. Managers, Executive Officers and Corporate Governance

The following table shows information for members of our board of managers and our executive officers as of December 31, 2010. Members of our board of managers are elected for one-year terms, and our executive officers will hold office at the discretion of, and may be removed by, our board of managers in its discretion.

<u>Name</u>	<u>Age</u>	<u>Position with Constellation Energy Partners LLC</u>
John R. Collins	53	Chairman of the Board
Stephen R. Brunner	52	Manager, Chief Executive Officer, Chief Operating Officer and President
Richard H. Bachmann	57	Independent manager
Richard S. Langdon	60	Independent manager
John N. Seitz	59	Independent manager
Charles C. Ward	50	Chief Financial Officer and Treasurer
Michael B. Hiney	42	Chief Accounting Officer and Controller
Lisa J. Mellencamp	55	General Counsel and Secretary

*John R. Collins* has been a member of our board of managers since November 2006. Mr. Collins served as Senior Vice President of Constellation Energy Group, Inc., or Constellation, from October 2008 to December 2010. Prior to that, Mr. Collins was the Chief Financial Officer of Constellation from May 2007 to October 2008 and a member of Constellation’s Executive Committee, a Senior Vice President of Constellation from January 2004 to July 2007 and Constellation’s Chief Risk Officer from December 2001 to January 2008. Mr. Collins was also Managing Director-Finance and Treasurer of Constellation Power Source Holdings, Inc. from January 2000 to December 2001. From February 1997 to December 2001, Mr. Collins served as the senior financial officer of Constellation Energy Commodities Group, Inc., or CCG. Mr. Collins is the former Chairman of the Board of the Committee of Chief Risk Officers, an energy industry association of risk management professionals.

*Stephen R. Brunner* has been a member of our board of managers since March 2008 and also serves as our Chief Executive Officer, Chief Operating Officer, and President. He was appointed President and Chief Executive Officer of Constellation Energy Partners in March 2008 and became an employee of the company in January 2009. He continues to serve in the role of Chief Operating Officer of the company, a role he assumed in February 2008. Mr. Brunner has more than 26 years of experience operating oil and gas properties both domestically and internationally. Prior to joining Constellation Energy Partners, Mr. Brunner also served as a Vice President for CCG, where he provided support for Constellation Energy Partners in various operational activities. Prior to joining CCG in February 2008, Mr. Brunner served as the Executive Vice President of Operations for Pogo Producing Company, where he was responsible for all aspects of exploration, production, acquisition and divestiture activity for seven business units in the United States, Canada, New Zealand and Vietnam. During his 13-year tenure at Pogo, Mr. Brunner also served as Vice President of Operations, overseeing both domestic and international operations. He served as the Resident Manager of Thaipo Limited, a subsidiary of Pogo, as well as Offshore Operations Manager. Prior to his career with Pogo, he held various positions with Zilkha Energy Company, Chevron Corporation and Tenneco Oil Company.

*Richard H. Bachmann* has been an independent member of our board of managers and our audit, compensation, conflicts, and nominating and governance committees and chair of our conflicts committee since November 2006. Mr. Bachmann joined the general partner (the “General Partner”) of Enterprise Products Partners L.P. (“Enterprise”) and Enterprise Products Company, a privately-held affiliate of Enterprise, as Executive Vice President, Chief Legal Officer and Secretary in January, 1999. Mr. Bachmann resigned such positions in November 2010. Also since January 1999, Mr. Bachmann has served as a Director of Enterprise Products Company. He previously served as a Director of the General Partner from June 2000 to January 2004 and was re-elected and continued as a Director of the General Partner from February 2006 until April 2010. Mr. Bachmann was elected Group Vice Chairman, Chief Legal Officer and Secretary of Enterprise Products

Company in December 2007. Since April 2010, Mr. Bachmann has been and continues as the President and Chief Executive Officer of Enterprise Products Company. From August 2005 until April, 2010, Mr. Bachmann served as Executive Vice President, Chief Legal Officer and Secretary of EPE Holdings LLC, the sole general partner of Enterprise GP Holdings L.P., a publicly-traded partnership and an affiliate of Enterprise. Mr. Bachmann was also elected a Director of EPE Holdings in February 2006. In April 2010, Mr. Bachmann resigned his positions as Chief Legal Officer and Secretary of EPE Holdings LLC, but remained as a director and an Executive Vice President of that company until its merger with and into a subsidiary of Enterprise. After the merger in November 2010, Mr. Bachmann was elected a director of the post-merger general partner of Enterprise. In October 2006, Mr. Bachmann was elected President, Chief Executive Officer and a Director of DEP Holdings LLC, the sole general partner of Duncan Energy Partners L.P., a publicly-traded partnership, but resigned those positions in April 2010 to devote more time to his position at Enterprise Products Company. All of the foregoing entities perform various transportation and other services to the energy and petrochemical industries. Prior to joining Enterprise Products Company in 1999, Mr. Bachmann served as a Partner in the law firms of Snell & Smith P.C. from 1993 to 1998 and Butler & Binion from 1988 to 1993.

*Richard S. Langdon* has been an independent member of our board of managers and our audit, compensation, conflicts, and nominating and governance committees and chair of our audit committee since November 2006. Mr. Langdon is also currently the President and Chief Executive Officer of Matris Exploration Company L.P. (a position held since July 2004) and Sigma Energy Ventures, LLC (a position held since November 2007), and Executive Vice President of KMD Operating Company, LLC (a position held since August 2009), each of which is a privately held exploration and production company. From 1997 until 2002, Mr. Langdon served as Executive Vice President and Chief Financial Officer of EEX Corporation, a publicly traded exploration and production company that merged with Newfield Exploration Company in 2002. Prior to that, Mr. Langdon held various positions with the Pennzoil Companies from 1991 to 1996, including Executive Vice President—International Marketing—Pennzoil Products Company; Senior Vice President—Business Development—Pennzoil Company; and Senior Vice President—Commercial & Control—Pennzoil Exploration & Production Company. Mr. Langdon also serves as a director of Gasco Energy, Inc., a publicly traded exploration and production company.

*John N. Seitz* has been an independent member of our board of managers and our audit, compensation, conflicts, and nominating and governance committees and chair of our compensation and nominating and governance committees since November 2006. Mr. Seitz is also currently Vice Chairman of the Board of Directors of Endeavour International Corporation, a publicly traded oil and gas exploration and production company which he founded in February 2004, and a director for ION Geophysical Corporation, f/k/a Input Output, Inc., a publicly traded provider of seismic products and services. In February 2004, Mr. Seitz co-founded Endeavour International Corporation and served as its co-Chief Executive Officer until September 2006. Prior to founding Endeavour International Corporation, Mr. Seitz served as Chief Executive Officer, President and Chief Operating Officer of Anadarko Petroleum Corporation from January 2002 to March 2003, and prior to being named Chief Executive Officer, President and Chief Operating Officer, Mr. Seitz was the Chief Operating Officer and President of Anadarko Petroleum Corporation beginning in 1999. Mr. Seitz also served as Anadarko Petroleum Corporation's Executive Vice President, Exploration and Production and as a member of its board of directors from 1997 to 1999.

*Charles C. Ward* was appointed chief financial officer and treasurer of Constellation Energy Partners in March 2008 and became an employee of the company in January 2009. Mr. Ward has over 16 years of finance and energy industry experience. Prior to joining Constellation Energy Partners, Mr. Ward also served as a vice president for CCG from November 2005 to December 2008 where he provided support for Constellation Energy Partners in various finance activities and helped to lead the company through its initial public offering in November 2006. Prior to joining CCG in November 2005, Mr. Ward was a Vice President of Enron North America Corp. from March 2002 to November 2005. Prior to that time, Mr. Ward also held various positions at Enron North America Corp., El Paso Corporation, and Tenneco Oil Company.

*Michael B. Hiney* has served as our Chief Accounting Officer and Controller since March 2008 and became an employee of the company in January 2009. Mr. Hiney has over 21 years of energy industry and energy related accounting and finance experience. He served as a Vice President of CCG from July 2006 until December 2008 where he served as Controller for Constellation Energy Partners and helped to lead the company through its initial public offering in November 2006. During the 16 years prior to that time, he held various positions at El Paso Exploration and Production Company, including Director and Assistant Controller from January 2004 to June 2006.

*Lisa J. Mellencamp* has served as our General Counsel and Secretary since January 2009. Ms. Mellencamp has over 26 years of legal experience with an extensive energy background. She served as Associate General Counsel for Constellation Energy Resources from March 2008 until December 2008 and as Senior Counsel of CCG from March 2005 to February 2008. Prior to that time she was Associate General Counsel at Duke Energy Americas from July 2003 to March 2005. Earlier in her career, she was Assistant General Counsel at Enron North America Corporation and served as a partner in the law firm of Gardere Wynne Sewell LLP from 1998 to 1999 and Hutcheson & Grundy L.L.P. from 1988 to 1998.

### **Independence of Board of Managers**

Each of Messrs. Bachmann, Langdon and Seitz is independent under the NYSE Arca listing standards. In addition, the audit, compensation and nominating and corporate governance committees are composed entirely of independent managers under NYSE Arca listing standards, SEC requirements and other applicable laws, rules and regulations. Other than as set forth below, there are no transactions, relationships or other arrangements between us and our independent managers that need to be considered under the NYSE Arca listing standards in determining that such managers are independent.

We sold natural gas from the Black Warrior Basin to an affiliate of EPCO Inc. in each of 2010, 2009 and 2008. Mr. Bachman is an executive officer of EPCO Inc. The sales did not exceed 2% of EPCO Inc.'s consolidated gross revenues in any of the years.

### **Qualifications of Board of Managers**

At the time of our initial public offering in November 2006, Class A and Class B managers were selected to serve on our board of managers. Annually, Constellation now appoints two Class A managers and our Class B unitholders elect three Class B managers. Some of the key criteria for serving on our board of managers as a Class B manager include independence from Constellation, experience in the E&P industry, familiarity with master limited partnerships, and corporate governance, financial, or other management experience. Our Class B managers, and the specific experience, qualifications, attributes and skills that led the board to conclude that they should serve as managers, are:

- Mr. Seitz brings to our board significant managerial and operational experience in the oil and gas industry. He is the current vice chairman of Endeavor International Corporation, a publicly traded oil and gas exploration company, and has served as the chief executive officer of Anadarko Petroleum, one of the largest independent oil and gas companies in North America. His specialized technical experience in the oil and gas industry adds significant value to the board's contribution to our performance. He also has prior public company board experience, which is beneficial for the operations of our board, and currently serves as a director of ION Geophysical Corporation, a publicly traded provider of seismic services to the E&P industry. Mr. Seitz is independent of Constellation.
- Mr. Langdon brings to our board considerable financial and managerial experience in the energy industry as well as his entrepreneurial abilities, which are valuable to a small growing company such as us. He has served as the chief financial officer of EEX Corporation, a publicly traded exploration and production company that merged with Newfield Exploration. He has also held significant commercial positions with the Pennzoil Companies, including roles in business development and marketing. He is

also the founder and owner of two privately held oil and gas companies. Mr. Langdon has extensive experience in finance and accounting that adds significant value to the board's oversight role of our financial reporting. He has prior public company board and audit committee experience, which is beneficial for our board operations, and currently serves as the chairman of the audit committee of Gasco Energy, Inc., a publicly traded exploration and production company. Mr. Langdon is independent of Constellation.

- Mr. Bachmann brings to our board significant experience in the master limited publicly traded partnership sector and extensive legal and corporate governance skills. Mr. Bachmann has had a long-time affiliation with the Enterprise family of master limited partnerships, a large and successful group of energy-focused master limited partnerships. He has served in key leadership roles for Enterprise and its affiliates, including chief legal officer, director, president and chief executive officer. His experiences with Enterprise contribute to our board's understanding of the business model for master limited partnerships. His experience and knowledge of legal affairs and corporate governance in the energy industry contributes to the efficiency and effectiveness of our board. Mr. Bachmann is independent of Constellation.

Constellation has appointed Messrs. Brunner and Collins as our two Class A managers to represent its interests on our board. Our Class A managers, and the specific experience, qualifications, attributes and skills that led Constellation and the board to conclude that they should serve as managers, are:

- Mr. Collins brings his substantial experiences in risk management, finance and investor relations to our board. He was a long-time Constellation employee who has held various executive-level positions with the diversified energy firm, including leadership roles in finance and risk management. He has valuable historical perspectives on our growth and operations. He contributes cross-industry experience and depth of knowledge of finance, risk management, and corporate processes which offers our board important insights into the role of finance and risk management in our business and strategy. He adds value to the board oversight role of investor communications. He acts as a liaison with Constellation and ensures our board has continuing dialogue with our largest unitholder.
- Mr. Brunner brings day-to-day leadership to our board. He is our chief executive officer, chief operating officer, and president and is a former Constellation employee. He gives our board a unique perspective on our growth and operations that contributes to its understanding of our business model. He offers detailed strategic perspectives and knowledge of our operations and industry, which are critical to our board's effectiveness. His extensive operational and managerial experiences in the oil and gas industry, including his position at Pogo Producing Company, contribute to our ability to achieve our business plans and objectives, which are intended to increase unitholder value.

Since our initial public offering, all of our Class B managers have been reelected by our unitholders. Constellation elects its Class A managers concurrent with our annual meeting.

## **Corporate Governance**

### **Board Leadership Structure and Risk Oversight**

Our board has three independent members as Class B managers and two managers appointed by Constellation as Class A managers. One of the Class A managers is currently our chief executive officer and the other Class A manager is our non-executive chairman of the board. Our independent board members are currently serving or have served as members of senior management of other public companies and have served as managers or directors of other public companies. We have four board committees comprised solely of independent managers, each with an independent manager serving as chair of the committee. We believe that the number of independent, experienced managers that make up our board, along with the oversight of the board by a Class A manager who is a non-executive chairman of the board, benefits our company and our unitholders.

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Under our operating agreement and corporate governance guidelines, the chairman of the board is responsible for

- chairing board meetings;
- scheduling and setting the agendas for these meetings; and
- providing information to board members in advance of each board meeting.

In addition, the board of managers has designated the chairman of the nominating and corporate governance committee to act as its “Lead Manager.” In that capacity, the current chairman, Mr. Seitz, has the following duties and authority:

- presiding at all board meetings where the Chairman of the board of managers is not present;
- serving as a liaison between the Chairman of the board of managers and the independent managers;
- approving (i) information sent to the board and (ii) agendas and meeting schedules for board meetings;
- calling meetings of the non-management managers;
- ensuring his availability for direct consultation upon request of a major unitholder;
- chairing the executive session of non-management managers; and
- serving as a contact for unitholder complaints, other than those involving auditing/accounting matters.

Interested parties may communicate directly with Mr. Seitz in his capacity as Lead Manager by writing to the Secretary, Constellation Energy Partners LLC, 1801 Main Street, Suite 1300, Houston, Texas 77002.

In accordance with NYSE Arca requirements, our audit committee charter provides that the audit committee is responsible for overseeing the risk management function in the company. While the audit committee has primary responsibility for overseeing risk management, our entire board of managers is actively involved in overseeing risk management for the company. For example, on at least a quarterly basis, our audit committee and our full board receive a risk management report from the company’s chief financial officer. The full board also engages in periodic discussion with other company officers as the board may deem appropriate. In addition, each of our board committees considers the risks within its area of responsibilities. For example, our compensation committee considers the risks that may be implicated by our executive compensation programs. We believe that the leadership structure of our board supports the board’s effective oversight of our risk management.

On an annual basis, as part of our review of corporate governance, the board evaluates our board leadership structure to ensure that it remains the optimal structure for our company and our unitholders. We recognize that different board leadership structures may be appropriate for companies with different histories and cultures, as well as companies with varying sizes and performance characteristics. We believe our current leadership structure under which Mr. Collins, a Class A manager, serves as chairman of the board, the board committees are chaired by independent managers and a lead manager assumes specified responsibilities remains the optimal board leadership structure for our company and our unitholders at this time.

During 2010, the board of managers met 5 times. Each manager attended at least 75% of the meetings of the board and of each committee on which he served.

The board of managers has adopted a policy that encourages each manager to attend the annual meeting of unitholders. All of our managers attended the 2010 Annual Meeting of Unitholders.

#### **Committees of the Board of Managers**

##### *Audit Committee*

As described in the audit committee charter, the audit committee is directly responsible for the appointment, compensation, retention and oversight of the work of the independent public accountants to audit our financial

statements, including assessing the independent auditor’s qualifications and independence, and establishes the scope of, and oversees, the annual audit. The committee also approves any other services provided by public accounting firms. The audit committee provides assistance to the board in fulfilling its oversight responsibility to the unitholders, the investment community and others relating to the integrity of our financial statements, our compliance with legal and regulatory requirements, the independent auditor’s qualifications and independence and the performance of our internal audit function. The audit committee oversees our system of disclosure controls and procedures and system of internal controls regarding financial, accounting, legal compliance and ethics that management and our board of managers established. In doing so, it will be the responsibility of the audit committee to maintain free and open communication between the committee and our independent auditors, the internal accounting function and management of our company.

The board of managers has determined that the chairman of the audit committee is an “audit committee financial expert” as that term is defined in the applicable rules of the SEC. The audit committee held 5 meetings in 2010. Mr. Langdon is Chairman, and Messrs. Seitz and Bachmann are members.

#### *Compensation Committee*

As described in the compensation committee charter, the compensation committee establishes and reviews general policies related to our compensation and benefits. The compensation committee determines and approves, or makes recommendations to the board of managers with respect to, the compensation and benefits of our board of managers and our named executive officers and employees. The role of the compensation committee is further discussed in *Compensation Discussion and Analysis*.

The compensation committee held 7 meetings in 2010. Mr. Seitz is Chairman, and Messrs. Bachmann and Langdon are members.

#### *Conflicts Committee*

Our board of managers has established a conflicts committee to review specific matters that the board believes may involve conflicts of interest, including transactions with related persons such as Constellation or its affiliates or our managers and executive officers. The conflicts committee determines if the resolution of the conflict of interest is fair and reasonable to our company. Our limited liability company agreement provides that members of the conflicts committee may not be officers or employees of our company, or directors, officers or employees of any of our affiliates, and must meet the independence standards for service on an audit committee of a board of directors as established by NYSE Arca and SEC rules. Any matters approved by the conflicts committee will be conclusively deemed to be fair and reasonable to our company and approved by all of our unitholders. However, the board is not required by the terms of our limited liability company agreement to submit the resolution of a potential conflict of interest to the conflicts committee, and may itself resolve such conflict of interest if the board determines that (i) the terms of the related person transaction are no less favorable to us than those generally being provided to or available from unrelated third parties or (ii) the transaction is fair and reasonable to us, taking into account the totality of the relationships between the parties involved. Any matters approved by the board in this manner will be deemed approved by all of our unitholders.

The conflicts committee held 4 meetings in 2010. Mr. Bachmann is Chairman, and Messrs. Seitz and Langdon are members.

#### *Nominating and Governance Committee*

As described in the nominating and governance committee charter, the nominating and governance committee nominates candidates to serve on our board of managers. The nominating and governance committee is also responsible for monitoring a process to review manager, board and committee effectiveness, developing and implementing our corporate governance guidelines, recommending committee members and committee chairpersons and otherwise taking a leadership role in shaping the corporate governance of our company.



The nominating and governance committee held 4 meetings in 2010. Mr. Seitz is Chairman, and Messrs. Bachmann and Langdon are members.

We maintain on our website, [www.constellationenergypartners.com](http://www.constellationenergypartners.com), copies of the charters of each of the committees of the board of managers (except the conflicts committee which does not have a charter), as well as copies of our Corporate Governance Guidelines, Code of Ethics for Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer, and Code of Business Conduct and Ethics. Copies of these documents are also available in print upon request of our Corporate Secretary. The Code of Business Conduct and Ethics provides guidance on a wide range of conduct, conflicts of interest and legal compliance issues for all of our managers, officers and employees, including the chief executive officer, chief financial officer and chief accounting officer. We will post any amendments to, or waivers of, the Code of Business Conduct and Ethics applicable to our Chief Executive Officer, Chief Financial Officer or Principal Accounting Officer on our website.

#### **Nominations for Manager**

The board of managers seeks diverse candidates who possess the background, skills and expertise to make a significant contribution to the board of managers, us and our unitholders. Annually, the nominating and corporate governance committee reviews the qualifications and backgrounds of the managers, as well as the overall composition of the board of managers, and recommends to the full board of managers the slate of Class B manager candidates to be nominated for election at the next annual meeting of unitholders. The board of managers has adopted a policy whereby the nominating and corporate governance committee shall consider the recommendations of unitholders with respect to candidates for election to the board of managers and the process and criteria for such candidates shall be the same as those currently used by us for manager candidates recommended by the board of managers or management.

Our Corporate Governance Guidelines, a copy of which is maintained on our website, [www.constellationenergypartners.com](http://www.constellationenergypartners.com), include criteria that are to be considered by the nominating and corporate governance committee and board of managers in considering candidates for nomination to the board of managers. These criteria require that a candidate:

- has the business and/or professional knowledge and experience applicable to us, our business and the goals and perspectives of our unitholders;
- is well regarded in the community, with a long-term, good reputation for highest ethical standards;
- has good common sense and judgment;
- has a positive record of accomplishment in present and prior positions;
- has an excellent reputation for preparation, attendance, participation, interest and initiative on other boards on which he or she may serve; and
- has the time, energy, interest and willingness to become involved with us and our future.

Within our Corporate Governance Guidelines there is no specific requirement that the nominating and corporate governance committee or the board of managers consider diversity in identifying candidates for nomination to the board of managers.

#### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires our directors and executive officers, and persons who own more than 10% of a registered class of our equity securities, to file initial reports of ownership of our equity securities and reports of changes in ownership of our equity securities with the SEC. Such persons are also required by SEC regulation to furnish us with copies of all Section 16(a) forms they file.

Based solely on our review of the copies of such forms furnished to us and written representations from our executive officers and directors, we believe that during 2010 all Section 16(a) reporting persons complied with all applicable filing requirements in a timely manner.

## **Certifications**

The NYSE Arca requires the Chief Executive Officer of each listed company to certify annually that he is not aware of any violation by the company of the NYSE Arca's corporate governance listing standards, qualifying the certification to the extent necessary. In accordance with the rules of the NYSE Arca, we provided such a certification within 30 days after our 2010 annual meeting. The certifications of our Chief Executive Officer and Chief Financial officer required by Sections 302 and 906 of the Sarbanes-Oxley Act have been included as exhibits to our Annual Report on Form 10-K which was filed on February 25, 2011.

## **Item 11. Executive Compensation**

During 2008, we did not directly employ any of the persons responsible for managing our business. Our named executive officers were compensated by CCG under the compensation policies of Constellation. We reimbursed CEPM for a portion of the compensation paid to our executive officers by CCG pursuant to the management services agreement. Beginning January 1, 2009, we transitioned from Constellation to us the employment of those executive officers and certain other employees who provided services to our company, and we began compensating our executive officers and other employees directly. Constellation terminated the master services agreement with us effective December 15, 2009. This ended Constellation's role as our sponsor. During 2009, we transitioned our executive officers, certain employees, and services from being provided by CEPM to CEP. The transition of our executive management team and our compensation actions taken during 2010 are further described below. Through December 31, 2008, all of our executive officers were employees of Constellation or its affiliates, and they received no additional compensation from us. As discussed in Item 13, "Certain Relationships and Related Transactions, and Manager Independence—Distributions and Payments to Constellation Entities—Payments to CEPM", we reimbursed CEPM for direct and indirect general and administrative expenses incurred on our behalf, including the compensation of our executive officers. Each quarter, CEPM charged us an amount for services provided. This amount was agreed to annually and included a portion of the compensation paid by CEPM and its affiliates to personnel who spent time on our business and affairs. The allocation of compensation expense for the chief executive officer, chief financial officer and chief accounting officer was fixed at \$150,000 each by agreement between the parties for 2008. The allocation of compensation expense for other personnel of CEPM and its affiliates was determined based on the percentage of time spent by such personnel on our business and affairs. The conflicts committee of our board of managers reviewed at least annually the services that were provided by CEPM and the costs charged to us under the management services agreement and reviewed the cost allocation quarterly. The conflicts committee also determined that the amounts to be paid by us for the services performed were fair to and in our best interests. During the year, the cost allocation was adjusted upwards to reflect additional services provided by CEPM and its affiliates or downwards to reflect the reduction of services provided by CEPM and its affiliates and the transition of services to CEP employees.

### **Transition of the Executive Management Team to CEP**

During 2009, the services of our chief executive officer, chief operating officer, and president; chief financial officer and treasurer; and chief accounting officer and controller were transitioned from being provided by CEPM under the management services agreement to being provided as direct employees of a subsidiary of CEP. In addition, a general counsel was appointed and transitioned from being an employee of CCG. This transition was undertaken because of concerns about Constellation's commitment to sponsor us, in part due to its announcement that it intended to sell its upstream gas assets and concerns about the strength and focus of its business and its financial position. The transition was intended to align our management team with the interests of our unitholders and to increase their focus on our business operations. Previously, the executive management

team, certain other employees, and most administrative services were provided by Constellation under the management services agreement. Constellation terminated this management services agreement on December 15, 2009, which effectively ended Constellation's role as our sponsor.

As part of this transition, the compensation committee of the board of managers retained Hewitt Associates LLC ("Hewitt") to develop and review proposed compensation structures for the named executive officers. Hewitt benchmarked compensation of the named executive officers relative to comparable positions among a peer group of 11 exploration and production companies intended to generally reflect the market in which we compete for executive talent. The primary considerations used in the selection of the peer group companies included financial, valuation and operational criteria. The peer group used to benchmark 2009 compensation for our named executive officers consisted of the following companies:

- Callon Petroleum Company, Carrizo Oil & Gas, Inc., Delta Petroleum Corp., Edge Petroleum Corp., Goodrich Petroleum Corp., Legacy Reserves LP, McMoRan Exploration Company, Petroquest Energy, Inc., Rosetta Resources, Inc., Venoco, Inc., and Vanguard Natural Resources, LLC.

Based on the benchmarking data, Hewitt assisted the compensation committee in developing a compensation mix that included a base salary, performance-based bonus awards, long-term incentives consisting of unit-based compensation, and one-time, inducement sign-on bonuses. The compensation mix was developed such that total direct compensation for the named executive officers approximated competitive market median levels and was heavily weighted to time based compensation, including restricted common units of CEP. The total direct compensation, as approved by the compensation committee, included a base salary and bonus award payouts based on future performance on selected performance measures. The performance awards were intended to be correlated to the creation of value for our unitholders and to balance growth, profitability, and efficient utilization of capital resources. The performance measures corresponded to our board-approved business plan and included measures that are commonly used at other comparable E&P companies. The payout against the performance award opportunities was made at the discretion of the compensation committee and was intended to include a threshold level of minimum acceptable performance, a target level of performance, and a maximum level of performance that reflected the achievement of superior performance. The time based compensation was intended to retain the management team and align it with the interests of the unitholders. The compensation committee did not require specific unit ownership targets for the executive officers.

### ***Employment Agreements***

As part of the transition, we entered into definitive employment agreements on May 1, 2009, with each of our named executive officers. The terms of these employment agreements were effective for 2009 and 2010.

Pursuant to the terms of his employment agreement, Mr. Brunner received in 2010:

- a \$300,000 annual base salary;
- the right to participate in the 2009 Omnibus Incentive Compensation Plan, including an annual performance award under the plan that will be determined by the compensation committee of our board of managers, and that may pay up to 200% of Mr. Brunner's base salary for superior performance (100% for target-level performance);
- a grant pursuant to a grant agreement (a "Grant Agreement") of 233,577 units under the 2009 Omnibus Incentive Compensation Plan, vested based on time in five equal annual installments beginning in March 2011; and
- an inducement bonus (an "Inducement Bonus") of \$450,000 cash and 53,957 restricted common units of the company with an aggregate grant-date value of approximately \$166,727 based on the closing price per unit on May 1, 2009, with 50% of the total value of the Inducement Bonus vesting and becoming payable on each of January 1, 2010 and 2011.

Pursuant to the terms of his employment agreement, Mr. Ward received in 2010:

- a \$225,000 annual base salary;
- the right to participate in the 2009 Omnibus Incentive Compensation Plan, including an annual performance award under the plan that will be determined by the compensation committee, and that may pay up to 150% of Mr. Ward's base salary for superior performance (75% for target-level performance);
- a grant pursuant to a Grant Agreement of 77,859 units under the 2009 Omnibus Incentive Compensation Plan, vested based on time in five equal annual installments beginning in March 2011; and
- an Inducement Bonus of \$337,500 cash and 40,468 restricted common units with an aggregate grant-date value of approximately \$125,046 based on the closing price per unit on May 1, 2009, with 50% of the total value of the Inducement Bonus vesting and becoming payable on each of January 1, 2010 and 2011.

Pursuant to the terms of her employment agreement, Ms. Mellencamp received in 2010:

- a \$200,000 annual base salary;
- the right to participate in the 2009 Omnibus Incentive Compensation Plan, including an annual performance award under the plan that will be determined by the compensation committee, and that may pay up to 130% of Ms. Mellencamp's base salary for superior performance (65% for target-level performance);
- a grant pursuant to a Grant Agreement of 58,395 units under the 2009 Omnibus Incentive Compensation Plan, vested based on time in five equal annual installments beginning in March 2011; and
- an Inducement Bonus of \$300,000 cash and 35,971 restricted common units with an aggregate grant-date value of approximately \$111,150 based on the closing price per unit on May 1, 2009, with 50% of the total value of the Inducement Bonus vesting and becoming payable on each of January 1, 2010 and 2011.

Pursuant to the terms of his employment agreement, Mr. Hiney received in 2010:

- a \$175,000 annual base salary;
- the right to participate in the 2009 Omnibus Incentive Compensation Plan, including an annual performance award under the plan that will be determined by the compensation committee, and that may pay up to 80% of Mr. Hiney's base salary for superior performance (55% for target-level performance);
- a grant pursuant to a Grant Agreement of 25,548 units under the 2009 Omnibus Incentive Compensation Plan, vested based on time in five equal annual installments beginning in March 2011; and
- an Inducement Bonus of \$262,500 cash and 31,475 restricted common units with an aggregate grant-date value of approximately \$97,258 based on the closing price per unit on May 1, 2009, with 50% of the total value of the Inducement Bonus vesting and becoming payable on each of January 1, 2010 and 2011.

#### *Termination of Employment*

Each executive's employment may be terminated at any time and for any reason by either or both of the company and the executive. Except as described below, if the executive terminates his or her employment, all unvested or unearned awards (including the awards made under the Grant Agreements and the Inducement Bonus) will be forfeited.

If the executive's employment is terminated in connection with an "Involuntary Termination" at any time prior to a change of control of the company or after two years have elapsed following a change of control, the company will, pursuant to the terms of the employment agreements, make payments and take actions as follows (such payments and actions, the "Severance Amount"):

- make a cash payment of (i) one and one-half times the executive's then-current annual compensation, which includes (A) the target-level bonus plus (B) the greater of the annual base salary in effect on the date of the Involuntary Termination or the annual base salary in effect 180 days prior to the Involuntary Termination, plus (ii) any part of the Inducement Bonus not already paid;
- cause any unvested awards granted under the Plan or pursuant to the Inducement Award Agreement to become immediately vested and cause any and all nonqualified deferred compensation to become immediately nonforfeitable; and
- cause a continuation of medical and dental benefits for one year following the Involuntary Termination.

If the executive's employment is terminated (i) by the executive through the exercise of the Special Termination Option (described below) or (ii) in connection with an Involuntary Termination during the two-year period following a change of control of the company, the company will, pursuant to the terms of his or her Employment Agreement, make payments and take actions as follows (such payments and actions, the "Enhanced Severance Amount"):

- make a cash payment of (i) two times the executive's then-current annual compensation, which includes (A) the target level bonus plus (B) the greater of the annual base salary in effect on the date of the Involuntary Termination, the annual base salary in effect 180 days prior to the Involuntary Termination, or the annual base salary in effect immediately prior to the change of control, plus (ii) any part of the Inducement Bonus not already paid, plus (iii) the performance award and target-based grants payable under the Plan for the then-current year, paid as if the target-level performance was achieved for the entire year, prorated based on the number of whole or partial months completed at the time of the Involuntary Termination;
- cause any unvested awards granted under the 2009 Omnibus Incentive Compensation Plan or pursuant to the Inducement Award Agreement to become immediately vested and cause any and all nonqualified deferred compensation to become immediately nonforfeitable;
- cause a continuation of medical and dental benefits for one year following the change of control; and
- provide for a full tax gross-up in connection with any excise tax levied on the items described in the preceding three bullets.

The "Special Termination Option" permits each executive to terminate his or her employment at any time within the one-year period following the acquisition by Constellation or its affiliates of at least 49% of our outstanding common units.

The Severance Amount and Enhanced Severance Amount are contingent on the execution of a release of any claims the terminated executive may have against us and our affiliates. In addition, any such amounts must be repaid if a final and non-appealable judgment is entered by a court of competent jurisdiction finding that the executive's conduct in performance of his or her duties under the employment agreement constituted willful misconduct.

The initial term of the employment agreements will expire on the third anniversary of each employment agreement unless sooner terminated in accordance with the employment agreement. If the agreements have not otherwise been terminated prior to the expiration of the initial term, the employment agreements will automatically be extended for an additional one-year period unless either party to such employment agreement delivers written notice 180 days prior to the expiration of the initial term. We guaranteed the obligations of CEP Services Company, Inc. under the employment agreements.

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***Grant Agreements Related to Notional Units to Executive Officers******Grants Made Under the 2009 Omnibus Incentive Compensation Plan***

To further align the interests of the management team with unitholders, notional unit grants have been made under the 2009 Omnibus Incentive Compensation Plan pursuant to Grant Agreements, dated May 1, 2009, by and between the company and each of Messrs. Brunner, Ward and Hiney and Ms. Mellencamp. The 2009 Omnibus Incentive Compensation Plan was adopted and approved by our board of managers on April 28, 2009, subject to approval by the company's common unitholders. Upon approval of the plan by the common unitholders on December 1, 2009, the notional units granted to Messrs. Brunner, Ward and Hiney and Ms. Mellencamp automatically converted into the same number of restricted common units. Grants of restricted common units under this plan were also made to each of Messrs. Brunner, Ward and Hiney and Ms. Mellencamp during 2010.

***Distribution Equivalent Rights***

Each notional unit and restricted common unit granted under the Grant Agreements carries the right to receive distribution credits when any distributions are made by us on our common units. Any distribution credits will accrue under the Grant Agreement and be settled in cash or common units in the discretion of the compensation committee on the vesting date for the underlying notional unit or restricted common unit, as applicable. Upon approval of the 2009 Omnibus Incentive Compensation Plan by the common unitholders, the accrued distribution credits on the notional units increased the number of restricted common units that are issued upon conversion of the notional units as described above.

***Vesting; Forfeiture; Change of Control***

The restricted common units under the Grant Agreements will vest ratably on January 1, 2010 and the next four anniversaries of that date. The terms of the employment agreements will govern the forfeiture or accelerated vesting of the restricted common units.

***Inducement Award Agreements With Executive Officers***

The Inducement Bonuses were granted pursuant to Inducement Award Agreements entered into on May 1, 2009 by and between the company and each of Messrs. Brunner, Ward and Hiney and Ms. Mellencamp, without unitholder approval in reliance on the exemption provided in NYSE Arca rule 5.3(d)(5)(A).

Each restricted common unit granted in the Inducement Bonuses carries the right to receive distribution credits when any distributions are made on our common units. Any distribution credits will accrue under the Grant Agreement and be settled in cash or common units in the discretion of the compensation committee on the vesting date for the underlying restricted common unit. The terms of the employment agreements will govern the forfeiture or accelerated vesting of the Inducement Bonuses.

An explanation of our 2010 compensation actions and our plans for 2011 is discussed below in the *Compensation Discussion and Analysis*.

## Summary Compensation Table

The following table sets forth the compensation of our named executive officers for 2010 and 2009 and the compensation of our named executive officers for 2008 for which we paid or reimbursed CEPM:

<u>Name and Principal Position</u>	<u>Year</u>	<u>Salary</u>	<u>Cash Bonus<sup>(a)</sup></u>	<u>Unit Grants<sup>(b)</sup></u>	<u>All Other Compensation<sup>(c)</sup></u>	<u>Total</u>
<b>Stephen R. Brunner</b>	2010	\$ 300,000	\$ 300,000	\$ 808,176	\$ 248,260	\$ 1,656,436
Chief Executive Officer, Chief Operating Officer, and President <sup>(d) (e)</sup>	2009	\$ 300,000	\$ 300,000	\$ 1,563,672	\$ 18,492	\$ 2,182,164
	2008	\$ 120,000	\$ —	\$ —	\$ —	\$ 120,000
<b>Michael B. Hiney</b>	2010	\$ 175,000	\$ 96,250	\$ 88,396	\$ 141,916	\$ 501,562
Chief Accounting Officer and Controller <sup>(d) (e)</sup>	2009	\$ 175,000	\$ 70,000	\$ 253,429	\$ 10,726	\$ 509,155
	2008	\$ 150,000	\$ —	\$ —	\$ —	\$ 150,000
<b>Lisa J. Mellencamp</b>	2010	\$ 200,000	\$ 130,000	\$ 202,047	\$ 167,340	\$ 699,387
General Counsel and Secretary	2009	\$ 200,000	\$ 130,000	\$ 463,309	\$ 12,538	\$ 805,847
	2008	\$ —	\$ —	\$ —	\$ —	\$ —
<b>Charles C. Ward</b>	2010	\$ 225,000	\$ 168,750	\$ 269,392	\$ 187,015	\$ 850,157
Chief Financial Officer and Treasurer <sup>(d) (e)</sup>	2009	\$ 225,000	\$ 168,750	\$ 651,531	\$ 12,988	\$ 1,058,269
	2008	\$ 120,000	\$ —	\$ —	\$ —	\$ 120,000

- (a) The amount in this column for 2010 and 2009 reflects each named employee's annual cash incentive bonus earned for 2010 and 2009 performance. The annual cash incentive bonuses were determined by our compensation committee based on assessments of both company and individual performance. The amounts for each of Messrs. Brunner, Hiney, and Ward and Ms. Mellencamp were awarded in recognition of the achievement of overall performance at a target level.
- (b) The amount in this column reflects the grant date fair value of all unit awards in 2009 and 2010 calculated in accordance with FASB ASC Topic 718. The grant amount was computed based on the average of the closing price of our common units on the NYSE Arca for the 20 trading days prior to the date of grant, rounded to the nearest unit. These unit awards vest between 2011 and 2015. See Part IV. "Exhibits and Financial Statements Schedules—Notes to Consolidated Financial Statements-12. Unit-Based Compensation" for further information.
- (c) The amount in this column reflects the vested amount of the one-time inducement sign-on bonus, the amount of matching contributions made to each employee under our 401k plan and the cost of life insurance equal to the executive officer's salary. The one-time inducement sign-on bonus for Messrs. Brunner, Ward and Hiney and Ms. Mellencamp was \$225,000, \$168,750, \$131,250, and \$150,000, respectively.
- (d) The amounts for our executive officers in 2008 represents the fixed amount that we agreed to pay for the services of these named executive officers under the management services agreement and excludes the amount of any bonus, benefits, and cash and non-cash incentive awards to such officers paid by CCG, which amounts we were not required to reimburse. Messrs. Brunner and Ward became executive officers March 14, 2008 and their fixed base salaries were reimbursed through the management services agreement. Mr. Hiney's fixed base salary was reimbursed through the management services agreement for 2008.
- (e) During 2008, our executive officers may have participated in the benefit plans of Constellation and its affiliates. During 2008, there were no CEP benefits plans in which such officers participated.

The following table sets forth the grants of plan-based awards to our named executive officers for 2010:

**Grants of Plan-Based Awards for 2010**

<u>Name</u>		<u>Grant date</u>	<u>Compensation Committee approval date</u>	<u>All other unit awards: number of units</u>	<u>Grant date fair value of units awarded</u>
Stephen R. Brunner	(a)	3/1/2010	3/1/2010	233,577	\$ 808,176
				233,577	\$ 808,176
Michael B. Hiney	(a)	3/1/2010	3/1/2010	25,548	\$ 88,396
				25,548	\$ 88,396
Lisa J. Mellencamp	(a)	3/1/2010	3/1/2010	58,395	\$ 202,047
				58,395	\$ 202,047
Charles C. Ward	(a)	3/1/2010	3/1/2010	77,859	\$ 269,047
				77,859	\$ 269,047

(a) Issued pursuant to the 2009 Omnibus Incentive Compensation Plan. "See"—Compensation Discussion and Analysis—Elements of Compensation—Unit-Based Compensation—2009 Omnibus Incentive Compensation Plan."

**Outstanding Equity Awards at Fiscal Year-End**

The following table sets forth the outstanding equity awards and their market value using the closing price of our common units at December 31, 2010 for our named executive officers:

<u>Name</u>	<u>Outstanding Equity Awards at December 31, 2010</u>		
	<u>Number of Units Not Vested</u>	<u>Market Value of Units Not Vested</u>	<u>Vesting Dates</u>
Stephen R. Brunner	27,915	\$ 77,604	1/1/2011
	357,296	\$ 993,283	25% over 4 years beginning 1/1/2011
	233,577	\$ 649,344	20% over 5 years beginning 3/1/2011
	618,788	\$ 1,720,231	
Michael B. Hiney	16,284	\$ 45,270	1/1/2011
	39,094	\$ 108,681	25% over 4 years beginning 1/1/2011
	25,548	\$ 71,023	20% over 5 years beginning 3/1/2011
	80,926	\$ 224,974	
Lisa J. Mellencamp	18,610	\$ 51,736	1/1/2011
	89,325	\$ 248,324	25% over 4 years beginning 1/1/2011
	58,395	\$ 162,338	20% over 5 years beginning 3/1/2011
	166,330	\$ 462,398	
Charles C. Ward	20,936	\$ 58,202	1/1/2011
	133,987	\$ 372,484	25% over 4 years beginning 1/1/2011
	77,859	\$ 216,448	20% over 5 years beginning 3/1/2011
	232,782	\$ 647,134	



## Vested Equity Awards for the Fiscal Year

The following table sets forth the outstanding equity awards and their market value using the closing price of our common units on the vesting date for our named executive officers that were realized by each named executive officer in 2010:

	Number of Restricted Common Units Vested in 2010	Value of Restricted Common Units Vested in 2010
Stephen R. Brunner	113,309	\$ 484,963
Michael B. Hiney	25,183	\$ 107,783
Lisa J. Mellencamp	39,567	\$ 169,347
Charles C. Ward	52,608	\$ 225,162

## Potential Payments Upon Voluntary Termination, Involuntary Termination or Change In Control

As of December 31, 2010, we have employment agreements in place that provide for payments to the named executive officers in connection with certain voluntary or involuntary terminations of the individual or a change in control of CEP. These change of control provisions were approved by our compensation committee and were based on market data and input from Hewitt. See "Item 11. Executive Compensation—Transition of the Executive Management Team to CEP—Employment Agreements—Termination of Employment" beginning on page 10 for additional information.

The following table summarizes the value of these provisions of these employment agreements if the named executive officer is entitled to a severance amount because of an involuntary termination (including a resignation by the officer for an event of good reason thereunder) other than during a change of control as of December 31, 2010:

Name	Severance Amount			
	Cash Value of Salary and Bonus	Market Value of Units To Be Vested	All Other Compensation <sup>(a)</sup>	Total Severance
Stephen R. Brunner	\$ 900,000	\$ 1,720,231	\$ 244,068	\$ 2,864,299
Michael B. Hiney	\$ 406,875	\$ 224,974	\$ 138,378	\$ 770,227
Lisa J. Mellencamp	\$ 495,000	\$ 462,397	\$ 150,000	\$ 1,107,397
Charles C. Ward	\$ 590,625	\$ 647,134	\$ 187,818	\$ 1,425,577

(a) All Other Compensation represents the cash value of 50% of the one-time cash inducement bonus that vested on January 1, 2011, as well as the value of medical and dental insurance for one year. The one-time inducement sign-on bonus for Messrs. Brunner, Ward and Hiney and Ms. Mellencamp was \$225,000, \$168,750, \$131,250, and \$150,000, respectively.

The following table summarizes the value of these provisions of these employment agreements if the named executive officer is entitled to an enhanced severance amount because of an involuntary termination (including a resignation by the officer for an event of good reason thereunder) during a change of control period or the named executive terminates his or her employment within a one year period following the acquisition by Constellation or its affiliates of at least 49% of our outstanding common units as of December 31, 2010:

	Enhanced Severance Amount				
<u>Name</u>	Cash Value of Salary and Bonus	Market Value of Units To Be Vested	All Other Compensation <sup>(a)</sup>	Excise Tax <sup>(b)</sup>	Total Enhanced Severance
Stephen R. Brunner	\$ 1,500,000	\$ 1,720,231	\$ 244,068	\$759,134	\$ 4,223,433
Michael B. Hiney	\$ 560,000	\$ 224,974	\$ 138,378	\$216,774	\$ 1,140,126
Lisa J. Mellencamp	\$ 790,000	\$ 462,397	\$ 150,000	\$332,342	\$ 1,734,739
Charles C. Ward	\$ 956,250	\$ 647,134	\$ 187,818	\$433,278	\$ 2,224,480

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- (a) All Other Compensation represents the cash value of 50% of the one-time inducement cash bonus that vested on January 1, 2011, as well as the value of medical and dental insurance for one year. The one-time inducement sign-on bonus for Messrs. Brunner, Ward and Hiney and Ms. Mellencamp was \$225,000, \$168,750, \$131,250, and \$150,000, respectively.
- (b) Excise tax is calculated in accordance with IRS Regulation 1.280G-1 and using 2010 Form W-2 income from CEP Services Company, Inc.

## **Compensation Discussion and Analysis**

### ***Overview***

This compensation discussion and analysis provides a description of the material elements of our executive compensation programs, as well as perspective and context for decisions made during 2010 regarding the compensation for our named executive officers who are identified below:

- Mr. Stephen R. Brunner, Manager, Chief Executive Officer, Chief Operating Officer and President
- Mr. Charles C. Ward, Chief Financial Officer and Treasurer
- Ms. Lisa J. Mellencamp, General Counsel and Secretary
- Mr. Michael B. Hiney, Chief Accounting Officer and Controller

We have a compensation committee that consists of three managers who are all independent under the independence standards established by NYSE Arca and SEC rules. The compensation committee establishes and reviews general policies related to our compensation and benefits. The compensation committee determines and approves the compensation and benefits of our Chief Executive Officer and our other executive officers. The compensation committee is authorized to retain compensation consultants at company expense and obtain any compensation surveys or reports regarding the design and implementation of compensation programs that it may find necessary in designing, implementing or administering compensation programs. During 2010 and 2009, the compensation committee retained Hewitt to assist with compensation matters. On October 1, 2010 the lead Hewitt consultant transitioned to Meridian Compensation Partners, LLC (“Meridian”), an independent firm which was formed through a planned separation of a significant portion of the executive compensation consulting practice from Hewitt. After a review of the independence factors approved by the Dodd-Frank Wall Street Reform and Consumer Protection Act for compensation consultants and considering Meridian’s independence based on such factors, the committee confirmed the retention of Meridian in November 2010. The amounts paid to each of Meridian and Hewitt in 2010 were less than \$120,000.

### ***Executive Summary***

Our overall compensation structure is designed to align our executive’s compensation with our business strategies and annual business plan that is approved by our board of managers. We maintain a compensation mix that includes a base salary, annual performance-based cash bonus awards, long-term incentives consisting of unit-based compensation, and one-time, inducement sign-on bonuses.

### ***Compensation Philosophy***

Our compensation philosophy is founded on the guiding principles that the company’s compensation programs will be:

- aligned with the long-term interest of the company’s unitholders;
- performance-based to motivate strong company and individual performance and reward management for achieving results;
- competitive with market practices to enable the company to attract and retain management and technical talent;

- flexible to optimize the value and efficiency of compensation programs; and
- transparent, straightforward, and well-communicated to facilitate a strong understanding by all stakeholders, both internally and externally.

In developing our compensation program, we also considered: 1) the necessity of transitioning and inducing our management from being employees of an affiliate of our former sponsor to being employees of our company, 2) the positioning of our company in its early life cycle to ensure that we have the necessary leadership, experience and technical skills to operate our company, 3) the current competitive environment for oilfield executive and managerial talent, and 4) our financial position.

Our compensation policies are also intended to focus the efforts of our named executive officers and our employees on the achievement of our 2010 business plan which included both operational and financial targets. During 2010, our company's performance exceeded or achieved the metrics and goals set forth in our 2010 business plan that was approved by our board of managers. Actual compensation awarded to individuals is generally based on the company's achievement of its annual business plan that was reviewed and approved by our board of managers as well as such individual's contribution towards meeting the plan.

For 2010, in light of our focus on debt reduction and continued low natural gas prices, the compensation committee determined it would be appropriate to freeze base salaries at the 2009 levels for our named executive officers and all employees except for salary increases related to promotions. In addition, the compensation committee determined it would be appropriate to reduce the 2010 unit grants made to our executive officers and certain other key employees under our unit-based compensation programs to 80% of targeted value for unit-based compensation. These actions were intended to limit total cash compensation expenses and reflected the number of remaining units available from which to make grants under our unit-based compensation programs due to a decline in the market price of our common units. In recognition of performance that exceeded or achieved the metrics and goals set forth in our 2010 business plan, the compensation committee approved the annual performance-based awards for our named executive officers at target levels. Additionally for 2010, the compensation committee requested that Hewitt conduct a review of the overall competitiveness of the compensation for Mr. Brunner. This review indicated that Mr. Brunner's base salary and target total cash compensation were below the 25<sup>th</sup> percentile of that of the CEOs of a peer group of 13 selected E&P companies and that his total compensation was positioned between the median and the 75% percentile relative to 2009 peer company levels largely as a result of the value of his long-term incentive awards. The study confirmed that the compensation for Mr. Brunner was heavily weighted towards long-term incentives, particularly grants of restricted common units that vest over 5 years. The compensation committee took no actions as result of this study but Hewitt was to continue to monitor developments among the peer companies and determine if further changes to the peer group may be appropriate for 2011.

#### *Benchmarking Compensation*

In setting the compensation of our named executive officers for 2009, our compensation committee analyzed the market compensation practices of a peer group of 11 E&P companies for each executive position and considered such information when setting total compensation. The peer group was intended to generally reflect the market in which we compete for executive talent. The primary considerations used in the selection of the peer group companies included financial, valuation and operational criteria. The peer group used to benchmark 2009 compensation for the named executive officers consisted of the following companies: Callon Petroleum Company; Carrizo Oil & Gas, Inc.; Delta Petroleum Corp.; Edge Petroleum Corp.; Goodrich Petroleum Corp.; Legacy Reserves LP; McMoRan Exploration Company; Petroquest Energy, Inc.; Rosetta Resources, Inc.; Venoco, Inc.; and Vanguard Natural Resources, LLC. Compensation for each executive was set giving a heavy weighting to time-based compensation in the form of restricted units of our company and notional units which automatically converted to restricted units of our company when our 2009 Omnibus Incentive Compensation Plan was approved by our unitholders so as to align the management team with the interests of our unitholders. Although the compensation committee did not establish any particular benchmark as a percentile of

the industry median for the particular elements of our named executives' compensation, the committee did desire that our named executives' total compensation be approximately in the median of the peer group. For 2009, our compensation committee set total compensation consisting of base salary, performance-based cash bonus awards (assuming a target performance bonus award), and long-term incentives consisting of unit-based compensation at approximately 10% to 20% below the peer group median based on the benchmarking data developed for each of the named executive officers. As a one-time incentive to induce the named executive officers to become our employees and to provide a retention incentive, the compensation committee also awarded each named executive a one-time inducement sign-on bonus, vesting 50% on each of January 1, 2010 and 2011. With the addition of the inducement bonus, the total compensation of the named executive officers for 2009 was generally just above the median of the peer group.

During the first quarter of 2011, the compensation committee reviewed the compensation levels for our named executive officers and our other employees. The committee examined comparable market compensation data for 2010 contained in E&P industry compensation surveys and an executive compensation analysis prepared by Meridian. As part of this review, Meridian updated the peer group of E&P companies used to assess the overall competitiveness of the executives' compensation based on assets, revenues, reserves, standardized measure, market capitalization, enterprise value, and scope of operations. As a result, 4 companies were added (Gastar Exploration Ltd., GMX Resources Inc., PostRock Energy Corporation, and Stone Energy Corporation) while 7 companies were removed (Approach Reserves Inc., Goodrich Petroleum Corp., Legacy Reserves LP, McMoRan Exploration Company, Petroleum Development Corporation, and Venoco, Inc.). The resulting peer group now contains 10 companies, 6 of which remain constant from the peer groups used to benchmark compensation for 2010 and 2009. The peer group used to benchmark 2011 compensation for the named executive officers now includes the following companies: Brigham Exploration Company; Carrizo Oil & Gas, Inc.; Crimson Exploration Inc.; Gastar Exploration Ltd.; GMX Resources Inc.; PetroQuest Energy, Inc.; PostRock Energy Corporation; Rosetta Resources Inc.; Stone Energy Corporation; and Vanguard Natural Resources, LLC. The peer companies provide an overall fit with our geographic footprint and our strategic focus on unconventional natural gas resources. The E&P industry surveys indicated that the 2010 compensation levels for our named executive officers and certain of our other employees were below median levels of comparable companies. The Meridian peer group analysis confirmed that the total compensation for our named executive officers was positioned 34% below peer benchmark median levels and that total compensation for our named executive officers also fell below the 25<sup>th</sup> percentile. Additionally, for 2010, the total cash compensation was positioned 20% below the median and long-term incentive award values were 29% below the median and were generally aligned at below the 25<sup>th</sup> percentile of peer benchmark levels, partially as a result of the decision to freeze base salaries for 2010 and the vesting of 50% of the inducement bonus.

Based on this review, the compensation committee undertook actions that would narrow the gap between our compensation levels and the benchmark median. As further discussed below, the compensation committee increased the 2011 base salaries for our named executive officers and other employees and granted unit-based awards under our 2009 Omnibus Incentive Compensation Plan to our named executive officers. These actions were necessary in order to make our compensation more comparable with market practices and to enable the company to retain management and operational and technical talent needed to operate the business.

### ***Elements of Compensation***

With the help of our compensation consultant, we have developed a compensation mix that includes a base salary, annual performance-based cash bonus awards, long-term incentives consisting of unit-based compensation, and one-time, inducement sign-on bonuses. Our compensation committee annually reviews and approves the compensation paid to our non-employee managers, executive officers, and employees. The committee approves our annual salary budgets, including increases to base pay, and approves our annual performance-based bonus award pool and long-term incentive equity award pool for all employees. The base salaries, performance-based bonus awards and long-term incentive equity awards for the executive officers, other than the chief executive officer, are proposed to the compensation committee by our chief executive officer; the

compensation recommendations for the chief executive officer are developed by the compensation committee. The compensation committee, in its discretion, makes the final determination about the amount of each executive officer's compensation using comparative market data, the level of achievement of our annual business plans, our performance against our peer group, individual executive officer performance, scope of job responsibilities, and the individual's industry experience, technical skills and tenure. From November 2010, the compensation committee, in its discretion, makes the final determination about the amount of our chief executive officer's compensation, and recommends to our board of managers the amount of our other named executive officers' compensation, which our board, in its discretion, finally determines.

The following is a discussion of the major components of our compensation program:

#### *Base Salary*

Our base salaries are intended to provide an assured base level of sufficient cash compensation to motivate our executives and employees. Base salaries are reviewed annually with adjustments made based on market conditions, individual performance, and internal equity considerations. For 2010, in light of market conditions and our desire to reduce expenses to provide for additional funds to reduce our outstanding debt level, the compensation committee determined it would be appropriate to freeze base salaries at the 2009 levels for our named executive officers and all employees except for salary increases related to promotions.

During 2009, an increase in the base salary pool was approved by the compensation committee for our employees was approximately 5% above our base salary pool for 2008, excluding our named executive officers and any other new employees hired by us in 2009. This increase in the base salary pool for 2009 was lower than comparable market data suggested was the industry median for an increase from 2008 to 2009. The actual base salary increases that were awarded were based on individual performance and contribution to the achievement of our annual business plans. For our non-management employees hired by us in 2009, base salaries were set at market levels. With respect to our named executive officers, in January 2009, we executed employment agreements with them and our compensation committee set their base salaries after considering Hewitt's input and market data based on our exploration and production industry peers. See "—Transition of the Executive Management Team to CEP—Employment Agreements" above. The primary considerations used to select the peer group companies included financial, valuation and operational criteria. For our executive officers, the actual base salaries set for 2009 generally were set below the 25<sup>th</sup> percentile with respect to Mr. Brunner and Ms. Mellencamp, just above the 25<sup>th</sup> percentile for Mr. Ward, and between the 25<sup>th</sup> and 50<sup>th</sup> percentiles for Mr. Hiney of the peer group industry median according to the Hewitt survey. In 2010, the actual base salaries were frozen at 2009 levels, which resulted in base salaries for our executive officers to fall further below comparable market salaries.

For 2011, the compensation committee determined it would be appropriate to increase the base salary pool for our named executive officers and other employees because of market conditions and increased employee turnover. In addition, the freeze of base salaries in 2010 resulted in base salaries for certain of our employees falling significantly below comparable market salaries. This increase in the base salary pool for 2011 still remained lower than comparable market data suggested was the industry median for an increase from 2010 to 2011. The 2011 base salaries for Messrs. Brunner, Ward and Hiney and Ms. Mellencamp were set at \$330,000, \$247,500, \$220,000, and \$192,500, respectively. This increase leaves Mr. Brunner below the 25<sup>th</sup> percentile of benchmark peer group base salaries and leaves Messrs. Ward and Hiney and Ms. Mellencamp approximately 10% below the median of benchmark peer group base salaries. The increase in the 2011 base salary pool for our other employees was approximately 3.5% above our base salary pool for 2010, excluding our named executive officers. The actual base salary increases that were awarded in March 2011 were based on job category, individual performance and contribution to the achievement of our annual business plans. A significant portion of the total increased base salary pool was directed toward field employees in job categories where the annual base salaries were at or below \$50,000.

We maintain an annual performance-based annual bonus award program covering all of our employees, including our named executive officers. The goal of our performance-based bonus award program is to motivate and reward both financial and operational contributions to the achievement of our annual business plan. Our annual business plans are reviewed and approved by our board of managers. Our compensation committee establishes the annual performance-based bonus award pool at the end of the year after reviewing the company's performance during the year. Each employee's bonus opportunity is generally specified as percentage of his or her base salary. The annual bonus opportunity for our named executive officers is set pursuant to their employment agreements. Any cash performance-based awards are paid in March of the following year after the compensation committee has reviewed our company performance against our annual business plan and after the committee has approved the recommended level of performance-based awards, and from November 2010, our board of managers has approved the recommended level of performance-based awards for our named executive officers other than our chief executive officer.

The compensation committee specifically reviews and approves the bonus awards for our named executive officers. The compensation committee believes that cash-based performance awards motivate and reward for achievement of performance objectives, and also support a total compensation program that is competitive within our industry. The target and maximum bonus opportunities for our named executive officers were based on Meridian's input and market data. See "—Transition of the Executive Management Team to CEP—Employment Agreements" above. The target bonus opportunities (as a percentage of base salary) were generally set at the median of the respective peer group benchmarks. For 2010, the compensation committee increased Mr. Hiney's target bonus opportunity from 40% of base salary to 55% of base salary for internal equity considerations. The compensation committee has complete discretion about the amount of performance-based bonus awards that is paid to each of our named executive officers, and from November 2010, the board of managers for our named executive officers other than our chief executive officer.

The compensation committee reviewed and approved our performance-based annual bonus awards for our employees generally at their respective 2010 target levels, subject to individual performance measures, which we paid in March 2011. In recognition of performance that exceeded or achieved the metrics and goals set forth in our 2010 business plan, the compensation committee approved the performance-based awards for our named executive officers at target levels, which are 100% of base salary (or \$300,000) for Mr. Brunner, 75% of base salary (or \$168,750) for Mr. Ward, 65% of base salary (or \$130,000) for Ms. Mellencamp, and 55% of base salary (or \$96,250) for Mr. Hiney. These payouts are based, in the compensation committee's and board of manager's discretion and business judgment, upon satisfactory achievement of our 2010 business plan goals, including those relating to production, operating expenses, drilling capital efficiency, debt reduction, and acquisition activity. In addition, the compensation committee and the board of managers considered the individual performance of the named executive officers toward achievement of our 2010 business plan in establishing the amount of their performance-based awards. For Mr. Brunner, the compensation committee considered his implementation of our company strategy, his ability to improve our operational execution, capital efficiency, risk management and financial performance, and his ability to manage the organization to focus on personnel safety, environmental stewardship and regulatory compliance; for Mr. Ward, the compensation committee and the board of managers considered his ability to manage our borrowing base, his leadership of our business development and acquisition activities, as well as his execution of our risk management plans; for Ms. Mellencamp, the compensation committee and board of managers considered her support in organizing company records, her additional responsibilities of supervising land staff and environmental, health and safety matters, and her efforts to favorably resolve outstanding litigation and legal matters; and for Mr. Hiney, the compensation committee and the board of managers considered his leadership of our accounting and tax functions, his efforts to reduce our costs for administrative and overhead functions, and his efforts to comply with SEC disclosure changes, trends and best practices.

For 2011, we expect that the compensation committee and the board of managers will continue to set the performance-based bonus award opportunities for our named executive officers and other employees, as

specified as a percentage of his or her base salary, at similar levels as in 2010. On November 2, 2010, our board of managers approved our 2011 business plan, which is further discussed in “*Outlook*”. Consistent with prior practice, the compensation committee and the board of managers will exercise its discretion and measure any 2011 performance-based bonus awards to be paid in March 2012 against this business plan, including those related to production, operating expense, capital efficiency, debt reduction and growth of our company, as well as individual performance of the named executive officers in carrying out our business plan during 2011.

#### *Unit-Based Compensation*

We maintain unit-based compensation programs to encourage our non-employee managers, named executive officers, key employees, and consultants to focus on our long-term performance and to provide an opportunity for these individuals to increase their stake in the company through awards, including unit and unit-based grants, that typically vest over a three-year to five-year time period for employees and over a one-year period for our non-employee managers. These long-term unit-based compensation programs provide incentive awards for such individuals to exert maximum efforts for our success. They benefit the company by enhancing the link between the creation of unitholder value and long-term executive incentive compensation, by providing an opportunity for increased equity ownership, which fosters retention, and assisting in maintaining competitive levels of total compensation. We believe that the recipients develop a sense of ownership and personal involvement in the development and financial success of our business and that unit-based compensation encourages them to remain with and devote their best interests to the business of the company, and in doing so, advance the interests of the company and our unitholders. Perhaps most importantly, awards made to our non-employee managers, officers, employees and consultants under the unit-based compensation plans may be structured so as to be settled in common units as opposed to cash in an effort to conserve the amount of available cash or future cash flow from operations to fund our ongoing operations, to reduce outstanding debt and to potentially pay any cash distributions to our unitholders.

Below is a summary of our unit-based compensation programs:

##### *Long-Term Incentive Program*

At our initial public offering, we adopted a Long-Term Incentive Plan. This plan is intended to provide an incentive to our non-employee managers, named executive officers, key employees, and consultants. We intend for this plan to align the interests of those receiving grants with the interests of our unitholders. This incentive program is expected to promote the growth of our business through the efficient developmental drilling of wells on our proved undeveloped and unproved locations and improvement of operational performance. We expect that these grants will retain key field employees that came to CEP in four separate acquisitions, build loyalty, and encourage alignment of individual performance with our annual business plan. During 2010, 2009, 2008 and 2007, grants of restricted common units were made to certain key field employees of our company. All of these grants vest ratably over a three-year period. During 2008 and 2007, grants of restricted common units were also made to our non-employee managers. All of these grants vested over a one-year period. The Long-Term Incentive Plan contains 450,000 common units, of which 376,845 units have been granted and only 73,155 remain available for future grants.

##### *2009 Omnibus Incentive Compensation Plan*

The 2009 Omnibus Incentive Compensation Plan was adopted and approved by our board of managers on April 28, 2009, and approved by our common unitholders on December 1, 2009. This plan is intended to provide an incentive to our non-employee managers, named executive officers, key employees, and consultants. We intend for this plan to align the interests of those receiving grants with the interests of our unitholders. The 2009 Omnibus Incentive Compensation Plan contains 1,650,000 common units, of which 1,477,598 units and distribution credits potentially settled in restricted common units have been granted and only 172,402 remain available for future grants.

In 2010, the compensation committee awarded 233,577, 77,859, 25,548 and 58,395 units under this plan to Messrs. Brunner, Ward and Hiney and Ms. Mellencamp, respectively, which vest over a five-year time period. Pursuant to the terms of their respective employment agreements, in 2009 the compensation committee awarded 431,655, 161,871, 47,320 and 107,914 units under this plan to Messrs. Brunner, Ward and Hiney and Ms. Mellencamp, respectively, which vest over a five-year time period. These unit awards were awarded to our named executive officers in the compensation committee's discretion to heavily weight their compensation package to unit-based compensation to align the executives with the long-term interest of the company's unitholders, to provide a retention incentive for these officers, and to provide a more competitive total compensation package when combined with the base salaries and cash bonus performance awards to be paid to the officers. The unit grants awarded in 2010 were lower than 2009 to reflect economic and market conditions that existed at the time the grants were made, as well as the company-specific matters such as a focus on debt reduction and the continued suspension of the quarterly distribution to unitholders. Of the total base salary, target performance-based bonus award, and unit-based compensation for our named executive officers for 2010 and 2009, greater than 50% of the total is time-based over a five-year time period to provide a retention incentive for the officers, provide a substantial portion of their compensation in units instead of cash, and provide alignment with our unitholders.

For 2011, we do not currently expect to grant any of the units remaining under our Long-Term Incentive Plan and our 2009 Omnibus Incentive Compensation Plan to our non-employee managers, named executive officers, and current key employees, as we have only 336,078 remaining units available under these plans. Instead, the compensation committee and board of managers granted unit-based awards under our 2009 Omnibus Incentive Compensation Plan to our named executive officers in 2011. These unit-based awards will be settled in cash instead of units and executives may earn between 0% and 200% of the number of awards granted based on the achievement of absolute CEP unit price targets during a three-year performance period from January 2011 through December 2013. In 2011 the compensation committee or board of managers, as applicable, awarded unit-based awards, each with a value of \$100, valued at \$1,000,000 (10,000 unit-based awards), \$350,000 (3,500 unit-based awards), \$150,000 (1,500 unit-based awards) and \$300,000 (3,000 unit-based awards) under this plan to Messrs. Brunner, Ward and Hiney and Ms. Mellencamp, respectively. Additionally, we expect that the compensation committee will award other key employees a total of approximately \$1.3 million (approximately 13,000 unit-based awards) in unit-based awards under the plan in May 2011.

CEP unit price targets and corresponding cash payout levels are as follows:

- Threshold—50% cash payout at \$3.50/CEP unit
- Target—100% cash payout at \$4.00/CEP unit
- Stretch—200% cash payout at \$6.00/CEP unit
- Cash payouts for results between these points will be interpolated on a linear basis.

Failure to achieve the threshold CEP unit price will result in no cash payout of the awards granted. The determination of the level of achievement and number of awards earned will be based on a calculation of CEP's unit price at the end of the performance period. This price calculation will be based on the average of the closing daily prices for the final 20 trading days of the performance period. In addition, the unit-based awards will vest earlier if any of the following events occur: a "change of control," a "CEG ownership event," death of the executive, delivery by the Company of a "disability notice" with respect to the executive, or an "involuntary termination" of the executive (with each of the foregoing terms having the corresponding definitions set forth in the respective employment agreement with the Company). Any cash payment will be made at the end of the performance period except in the case of certain change of control events, which may accelerate payment. The program is intended to benefit our unitholders by focusing the recipient's efforts on increasing our absolute unit price over the performance period.

#### *One-time, Inducement Sign-on Bonuses*

In order to encourage CCG employees to transition to CEP, we adopted a one-time, inducement sign-on bonus program that was paid to our executives in a combination of approximately 75% in cash and



approximately 25% in unit-based compensation, as well as to certain other key employees in cash. The inducement bonuses vested 50% on the first anniversary of employment and 50% on the second anniversary of employment. These inducement bonuses were intended to encourage retention and to provide a bridge from CCG's compensation policies to those of CEP and were a key part of the effort to transition the remaining employees and services being provided by CEPM under the management services agreement to us. For our named executive officers, the inducement bonus was also intended to bring their total compensation for 2009 to just above the 50<sup>th</sup> percentile of the peer group industry median according to the Hewitt survey. Without the inducement awards, their total compensation, assuming a target performance bonus award, would have been from approximately 10% to 20% below the peer group industry median according to the Hewitt survey. The unit-based component of the inducement bonuses for our named executive officers was also intended to align management with the interest of our unitholders. Messrs. Brunner, Ward and Hiney and Ms. Mellencamp received cash and unit inducement awards in an aggregate amount of \$616,727, \$462,546, \$359,758, and \$411,150, respectively (based on the grant date fair value of the unit awards). The amount of the awards was based on the compensation committee's discretion of an appropriate amount and represented approximately 200% of their annual base salary. This program was successful in retaining our named executives through the second anniversary of their employment in January 2011.

#### *Executive Inducement Bonus Program*

An Executive Inducement Bonus Program was adopted and approved by our board of managers on April 28, 2009. The plan was created without unitholder approval in reliance on the exemption provided in NYSE Arca rule 5.3(d)(5)(A). On May 7, 2009, we filed a registration statement with the SEC on Form S-8 for 300,000 common units associated with grants under this program made to our executives. After initial grants were made, the only additional common units that can be issued under this program are for distribution rights in connection with distribution credits. The Executive Inducement Bonus Program contains 300,000 common units, of which 146,552 units and distribution credits potentially settled in restricted common units have been granted and 153,448 remain available for future grants. These units are the unit-based component of the one-time inducement bonuses for our named executive officers described above. After the final vesting of outstanding units and the tendering of the associated units for tax withholding which occurred on January 1, 2011, we cancelled all of the 174,385 remaining units that remained unissued under the program.

#### **Other Compensation Policies**

##### *Compensation Risk Assessment*

Our compensation committee has a risk assessment process for compensation programs and found no policies or practices that would rise to the level of being reasonably likely to have a material adverse effect on the company. We believe our compensation programs do not encourage our employees to take excessive risks to achieve larger performance-based bonus awards or additional unit-based compensation above their individual targets.

##### *Clawback Provisions*

The employment contracts with four of our named executive officers contain clawback provisions. In the event of a restatement of our financial statements that are filed with the SEC, our executives must refund the amounts actually paid by us for the performance-based bonus award for the two years immediately prior to such restatement that exceed the amounts that the committee determines, in its discretion, should have been paid for those two years based on the financial results reflected in the restated financial statements. In the event there has been a final and non-appealable judgment entered by a court of competent jurisdiction that found willful misconduct by an executive in the performance of their duties prior to the termination of their employment, all payments made in the event of a voluntary or involuntary termination must be refunded.

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#### *Perquisites*

We do not provide any perquisites for our named executive officers.

#### *Company Benefits*

Our named executive officers are eligible to participate in company benefit plans such as medical, dental, life, and disability insurance, 401k and flexible spending accounts on the same terms as all our employees.

#### *Unit Ownership Requirements*

We do not require specific unit ownership targets for our named executive officers or managers. However, each of the named executive officers currently maintains significant ownership in the Company.

#### *Hedging Policies*

We have a policy that does not allow speculative or proprietary trading of derivatives that create incentives to engage in risky activities that fall outside of our annual business plan. We also have a policy that prohibits employees or managers from purchasing any financial instruments that are designed to hedge or offset any decrease in the market value of our units granted to them as compensation or otherwise held directly or indirectly by them.

#### **Compensation of Managers**

Class A members of our board of managers do not receive compensation for serving as our managers. Each manager will be indemnified by us for actions associated with being a manager to the full extent permitted under Delaware law.

In 2007, our compensation committee retained Towers Perrin to benchmark our independent managers' mix of compensation and amount of each element of compensation to the outside director compensation of various peer groups. Towers Perrin performed the benchmark study using the following benchmark groups:

- a peer group of 10 exploration and production companies, consisting of the following: Clayton Williams Energy Inc., Edge Petroleum Corp., Exploration Company of Delaware Inc., Gasco Energy Inc., GMX Resources Inc., Harvest Natural Resources Inc., McMoRan Exploration Co., Panhandle Oil and Gas Inc., Petroquest Energy, Inc. and VAALCO Energy Inc.;
- a general industry group of 326 publicly-traded companies with market capitalizations between \$350 million and \$1 billion; and
- a peer group of 5 limited partnerships, consisting of the following: Atlas Energy Resources LLC, Copano Energy LLC, Crosstex Energy LP, Linn Energy LLC and Regency Energy Partners LP. Towers Perrin noted in its report that the companies in this peer group varied significantly in size.

Our board of managers, based on recommendations from our compensation committee and the Towers Perrin report, has approved the following non-employee manager unit-based compensation program:

- Each non-employee manager will receive an annual restricted common unit award with a value of \$75,000, to be granted as of March 1 of each year, such award to have a one-year vesting period and to be forfeited on a pro-rata basis if service as a manager terminates prior to the one-year vesting period.

The number of restricted common units granted to each non-employee manager is computed based on the date of the grant as determined by the compensation committee, rounded to the nearest unit. Distributions on the restricted common units are made at the time such distributions are made to other holders of common units.

Our board of managers, based on recommendations from our compensation committee and the Towers Perrin report, has approved the following individual non-employee manager annual cash compensation program:

- \$40,000 annual retainer;
- the chairman of the audit committee will receive a \$10,000 annual retainer;
- \$2,500 fee for each meeting of the board of managers and each committee meeting attended that occurs on a day when there is no board meeting; and
- reasonable travel expenses to attend meetings.

The following table sets forth a summary of the 2010 non-employee manager compensation, as determined by our board of managers:

<u>Name</u>	<u>Fees Earned or Paid in Cash</u>	<u>Manager Compensation</u>		
		<u>Unit Awards<sup>(1)</sup></u>	<u>All Other Compensation</u>	<u>Total</u>
Richard H. Bachmann	\$ 60,000	\$63,142	\$ —	\$123,142
Richard S. Langdon	\$ 72,500	\$63,142	\$ —	\$135,642
John N. Seitz	\$ 60,000	\$63,142	\$ —	\$123,142

(1) Represents the grant date (March 1, 2010) fair value of each manager's unit-based compensation award calculated in accordance with FASB ASC Topic 718. The grant amount was computed based on the average of the closing price of our common units on the NYSE Arca for the 20 trading days prior to the date of grant, rounded to the nearest unit. The full amount of the grant was outstanding at December 31, 2010, and these awards vested in March 2011.

In 2011, the independent managers have received the same compensation package except that each is expected to be paid \$75,000 in cash on March 1, 2012, instead of being awarded restricted common units with a value of \$75,000.

#### Compensation Committee Interlocks and Insider Participation

During 2010, none of our named executive officers serves as a member of the board of directors or compensation committee of any entity that has one or more of its named executive officers serving as a member of our board of managers or compensation committee.

#### Compensation Committee Report

The compensation committee of the board of managers has reviewed and discussed the *Compensation Discussion and Analysis* beginning on page 16 with management. Based on such review and discussions, the compensation committee recommended to the board of managers that the *Compensation Discussion and Analysis* be included in this Annual Report on Form 10-K/A.

John N. Seitz, Chairman  
Richard H. Bachmann  
Richard S. Langdon

#### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Unitholder Matters

The following table sets forth the beneficial ownership of our units held by:

- each unitholder who is a beneficial owner of more than 5% of our outstanding units;
- each of our managers and named executive officers; and
- our managers and named executive officers as a group.

The amounts and percentage of common units and Class A units beneficially owned are reported on the basis of the SEC rules governing the determination of beneficial ownership of securities. Under the SEC rules, a person is deemed to be a “beneficial owner” of a security if that person has or shares “voting power,” which includes the power to vote or to direct the voting of such security, and/or “investment power,” which includes the power to dispose of or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities of which that person has a right to acquire beneficial ownership within 60 days. Under these rules, more than one person may be deemed a beneficial owner of the same securities and a person may be deemed a beneficial owner of securities as to which he has no economic interest.

Percentage of total units beneficially owned is based on 23,788,300 common units and 485,476 Class A units outstanding. Except as indicated by footnote, to our knowledge the persons named in the table below have sole voting and investment power with respect to all units shown as beneficially owned by them, subject to community property laws where applicable. The address of all of our managers and named executive officers is c/o Constellation Energy Partners LLC, 1801 Main Street, Houston, Texas 77002. Ownership amounts are as of March 31, 2011.

Name of Beneficial Owner	Common Units Beneficially Owned		Class A Units Beneficially Owned		Percentage of Total Units Beneficially Owned
	Number	Percentage	Number	Percentage	Percentage
Constellation Energy Group, Inc. <sup>(1)</sup>	5,918,894	24.9%	485,476	100%	26.4%
Constellation Energy Partners Holdings, LLC <sup>(2)</sup>	5,918,894	24.9%	485,476	100%	26.4%
Constellation Energy Partners Management, LLC <sup>(3)</sup>	—	—	485,476	100%	2.0%
Richard H. Bachmann	60,612	*	—	—	*
Stephen R. Brunner	734,730	3.1%	—	—	3.0%
John R. Collins	—	—	—	—	—
Michael B. Hiney	99,678	*	—	—	*
Richard S. Langdon	40,072	*	—	—	*
Lisa J. Mellencamp	193,882	*	—	—	*
John N. Seitz	51,612	*	—	—	*
Charles C. Ward	297,607	1.3%	—	—	1.2%
All managers and named executive officers as a group (8 persons)	1,478,193	6.2%	—	—	6.1%

\* Less than 1%

(1) Constellation Energy Group, Inc., through its direct and indirect ownership of Constellation Enterprises, Inc., Constellation Holdings, Inc. and Constellation Power Source Holdings, Inc., is the ultimate parent company of Constellation Energy Partners Holdings, LLC and Constellation Energy Partners Management, LLC and may, therefore, be deemed to beneficially own the Common Units held by Constellation Energy Partners Holdings, LLC and the Class A units held by Constellation Energy Partners Management, LLC. The address of Constellation Energy Group, Inc. is 100 Constellation Way, Baltimore, MD 21202.

(2) Constellation Energy Partners Holdings, LLC is the parent company of Constellation Energy Partners Management, LLC and may, therefore, be deemed to beneficially own the Class A units held by Constellation Energy Partners Management, LLC. The address of Constellation Energy Partners Holdings, LLC is 100 Constellation Way, Baltimore, MD 21202.

(3) The address of Constellation Energy Partners Management, LLC is 100 Constellation Way, Baltimore, MD 21202.

## Equity Compensation Plan Information

### Equity Compensation Plan Information

The following table reflects our equity compensation plan information for our Long-Term Incentive Plan, our 2009 Omnibus Incentive Compensation Plan, and our Executive Inducement Bonus Program as of December 31, 2010:

<i><b>Plan Category</b></i>	<b>Number of securities to be issued upon exercise of outstanding options, warrants, and rights</b>	<b>Weighted-average exercise price of outstanding options, warrants, and rights</b>	<b>Number of securities remaining available for future issuance under equity compensation plans</b>
Equity compensation plans approved by security holders (a)	—	\$ —	245,557
Equity compensation plans not approved by security holders (a)	—	\$ —	153,448
Total	—	\$ —	399,005

(a) As of March 31, 2011, the number of securities remaining available for future issuance under our Long-Term Incentive Plan as was 89,292, and the number of securities remaining available for future issuance under our 2009 Omnibus Incentive Plan was 246,786. There are no units remaining under the Executive Inducement Bonus Program as this plan expired in January 2011.

Each of these unit-based compensation programs are further discussed in Item 11. Executive Compensation-*Compensation Discussion and Analysis*.

## Item 13. Certain Relationships and Related Transactions, and Manager Independence

Constellation owns a significant number of our units. As of March 31, 2011, CEPM owns all 485,476 of our Class A units, and all of the management incentive interests; Constellation Energy Partners Holdings, LLC, or CEPH, owns 5,918,894 common units; and Constellation Holdings, Inc., or CHI, owns all of our Class D interests. Each of CEPM, CEPH and CHI is a wholly owned subsidiary of Constellation. As discussed in “Item 10. Managers, Executive Officers and Corporate Governance-*Committees of the Board of Managers—Conflicts Committee*”, either our board of managers or the board’s conflicts committee reviews all related person transactions.

Our board of managers has established a conflicts committee to review specific matters that the board believes may involve conflicts of interest, including transactions with related persons such as Constellation or its affiliates. The conflicts committee determines if the resolution of the conflict of interest is fair and reasonable to our company. Our limited liability company agreement provides that members of the conflicts committee may not be officers or employees of our company, or directors, officers or employees of any of our affiliates, and must meet the independence standards for service on an audit committee of a board of directors as established by NYSE Arca and SEC rules. Any matters approved by the conflicts committee will be conclusively deemed to be fair and reasonable to our company and approved by all of our unitholders. For 2010, there were no related party transactions with Constellation or its affiliates that were reviewed or required to be reviewed by the conflicts committee. Our board is not required by the terms of our limited liability company agreement to submit the resolution of a potential conflict of interest to the conflicts committee, and may itself resolve such conflict of interest if the board determines that (i) the terms of the related person transaction are no less favorable to us than those generally being provided to or available from unrelated third parties or (ii) the transaction is fair and reasonable to us, taking into account the totality of the relationships between the parties involved. Any matters approved by the board in this manner will be deemed approved by all of our unitholders.

## Distributions and Payments to Constellation Entities

The following summarizes the distributions and payments made or to be made by us to Constellation and its subsidiaries, including CCG, CEPH, CHI and CEPM in connection with our ongoing operation and any liquidation of us.

### *Distributions of available cash to CEPM and CEPH*

We generally make any cash distributions 98% to common unitholders, including CEPH, and 2% to CEPM in respect of its Class A units. In addition, if distributions exceed the Target Distribution (as defined in our limited liability company agreement) and certain other requirements are met, CEPM will be entitled in respect of its management incentive interests to 15% of distributions above the Target Distribution. For year ended December 31, 2010, none of these applicable requirements have been met, and, as a result, CEPM was not entitled to receive any management incentive interest distributions. During 2009 and 2010, CEPM received no distributions on its Class A units and CEPH received no distributions on its common units.

### *Distributions to CHI*

For each full calendar quarter during the period commencing January 1, 2007 and ending on December 31, 2012 that the sharing arrangement in respect of the calculation of amounts payable to Torch Energy Royalty Trust for the non-operating net profits interest remains in effect, we will distribute to CHI, in respect of its Class D interests, approximately \$0.3 million, as a partial return of the \$8.0 million capital contribution made for the Class D interests, which payment will be made concurrently with the quarterly cash distribution to our common and Class A unitholders for that quarter. Unless the special distribution right has been terminated earlier, the Class D interests will be cancelled upon the payment of the final distribution of approximately \$0.3 million to CHI for the quarter ending December 31, 2012. If the amounts payable by us to the Trust are not calculated based on the sharing arrangement through December 31, 2012, unless such change is approved in advance by our board of managers and our conflicts committee, the special distribution right for future quarters will terminate. In the case of such early termination, CHI will only have the right under specific circumstances upon our liquidation to receive the unpaid portion of the \$8.0 million capital contribution that has not then been distributed to CHI in such special distributions. If the special distribution right is terminated during a quarter, the special distribution in respect of the Class D interests will be prorated for that quarter based upon the ratio of the number of days in such quarter prior to the effective date of such termination to 90.

In connection with the initiation of certain legal proceedings involving the Trust, the special quarterly cash distribution with respect to the Class D interests has been suspended since the three month period ended March 31, 2008. Since our initial public offering, distributions of approximately \$1.3 million have been paid to CHI, as holder of the Class D interests.

### *Payments to CEPM*

Each quarter until the management services agreement was terminated on December 15, 2009, CEPM charged us an amount for services provided to us. This amount was agreed to annually and included a portion of the compensation paid by CEPM and its affiliates to personnel who spend time on our business and affairs. Prior to January 1, 2009, the allocation of compensation expense for our chief executive officer, chief financial officer and chief accounting officer was fixed by agreement between the parties. Until December 15, 2009, the allocation of compensation expense for other personnel of CEPM and its affiliates was determined based on the percentage of time spent by such personnel on our business and affairs. The conflicts committee of our board of managers reviewed at least annually the services provided by CEPM and the costs charged to us under the management services agreement and reviewed the cost allocation quarterly. The conflicts committee also determined if the amounts to be paid by us for the services performed were fair to and in our best interests. During the year, the cost allocation were adjusted upwards to reflect additional services provided by CEPM and its affiliates or downwards to reflect the transition of services to our employees. The costs charged to us under

the management services agreement may have been be greater or less than the actual costs we would have incurred if the services were performed by an unaffiliated third party. For the year ended December 31, 2010, no costs were incurred under this agreement. For the year ended December 31, 2009, 2008 and 2007, approximately \$1.4 million, \$2.9 million and \$1.4 million in costs were incurred under this agreement, respectively.

#### *Conversion of Class A units and management incentive interests*

Generally, if the common unitholders vote to eliminate the special voting rights of the holder of our Class A units, the Class A units will be converted into common units on a one-for-one basis and CEPM will have the right to elect to convert its management incentive interests into common units at fair market value. Should CEPM's Class A units and its management incentive interests convert into common units, CEPM will receive any cash distributions on its common units.

#### *Liquidation*

Upon our liquidation, the unitholders, including CEPH, as a common unitholder, CEPM, as the holder of the Class A units and CHI, as the holder of our Class D interests that are then outstanding, will be entitled to receive liquidating distributions according to their respective capital account balances.

#### *Omnibus Agreement*

At the closing of our initial public offering in November 2006, we entered into an omnibus agreement with CCG. Under the omnibus agreement, CCG indemnified us against certain liabilities relating to:

- for a period of six years and 30 days after our initial public offering, any of our income tax liabilities, or any income tax liability attributable to our operation of our properties, in each case relating to periods prior to the closing of our initial public offering;
- legal actions pending against Constellation or us at the time of our initial public offering;
- events and conditions associated with the ownership by Constellation or its affiliates of the undivided mineral interest in certain of our properties in the Robinson's Bend Field for depths generally below 100 feet below the base of the lowest producing coal seam; and
- for a period of one year after our initial public offering, any miscalculation in the amount payable to the Trust in respect of the NPI for any period prior to the initial public offering, provided (i) that such miscalculation relates to amount(s) payable no more than four years prior to our initial public offering and (ii) the aggregate amount payable by CCG pursuant to this bullet point does not exceed \$0.5 million.

We have made a claim under the Omnibus Agreement to CCG as a result of the litigation with respect to the Torch NPI calculation for periods prior to our initial public offering. See Item 1. "Business—Operations—Torch Royalty NPI" for additional information.

#### *Management Services Agreement*

In November 2006, we entered into a management services agreement with Constellation Energy Partners Management, LLC ("CEPM"), a subsidiary of Constellation, to provide certain management, technical and administrative services. CEPM terminated the management services agreement effective December 15, 2009. Each quarter, CEPM charged us an amount for services provided to us. This amount was agreed to annually and included a portion of the compensation paid by CEPM and its affiliates to personnel who spent time on our business and affairs. The conflicts committee of our board of managers determined that the amounts paid by us for the services performed were fair to and in the best interests of the Company. These costs totaled approximately \$1.4 million for the year ended December 31, 2009. No costs were incurred during 2010.

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#### *Trademark License*

In connection with our initial public offering, Constellation granted a limited license to us for the use of certain trademarks in connection with our business. The license will terminate upon the elimination of the right of the holder or holders of our Class A units to elect the Class A managers pursuant to our limited liability company agreement. Constellation will indemnify us from any third-party claims alleging trademark infringement that may arise out of our use of the Constellation trademarks under the license. No amounts were paid under this agreement during 2009 or 2010.

#### *Constellation Announcement*

Constellation previously announced that it had impaired the fair value of its investment in CEP due to various factors, including the possible sale of its investment in CEP. To date Constellation has not announced any further plans, sales, or transactions.

#### **Board Independence**

Refer to “Item 10. Managers, Executive Officers and Corporate Governance” for a discussion of our board of managers.

#### **Item 14. Principal Accountant Fees and Services**

We engaged our principal accountant, PricewaterhouseCoopers LLP to audit our financial statements and perform other professional services for the fiscal years ended December 31, 2010 and 2009.

*Audit Fees.* The aggregate fees billed for the financial statement audit or services provided in connection with statutory or regulatory filings for the years ending 2010 and 2009 were \$897,344 and \$932,484, respectively.

*Audit-Related Fees.* The aggregate audit-related fees billed by PricewaterhouseCoopers LLP for the years ending 2010 and 2009 were \$11,970 and \$3,600, respectively. These fees related to consents for registration statements.

*Tax Fees.* The aggregate fees related to the preparation of K-1 statements for the years ending 2010 and 2009 were \$684,728 and \$466,147, respectively.

*All Other Fees.* The other fees billed by our principal accountant for the years ending 2010 and 2009 for services other than those described above were \$7,500 and \$7,500, respectively.

#### **Audit Committee Pre-Approval Policies and Practices**

Our audit committee must pre-approve any audit and permissible non-audit services performed by our independent registered public accounting firm. Additionally, the audit committee has oversight responsibility to ensure the independent registered public accounting firm is not engaged to perform certain enumerated non-audit services, including but not limited to bookkeeping, financial information system design and implementation, appraisal or valuation services, internal audit outsourcing services and legal services. The audit committee has adopted an audit and non-audit services pre-approval policy, which sets forth the procedures and the conditions pursuant to which services proposed to be performed by the independent registered public accounting firm must be approved. Pursuant to the policy, all services must be reviewed and approved and the chairman of the audit committee has been delegated the authority to specifically pre-approve services, which pre-approval is subsequently reviewed with the committee.



## SIGNATURES

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

CONSTELLATION ENERGY PARTNERS LLC  
(REGISTRANT)

Date: April 19, 2011

By /S/ STEPHEN R. BRUNNER  
**Stephen R. Brunner**  
Chief Executive  
Officer, Chief Operating Officer and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of Constellation Energy Partners LLC, the Registrant, and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
Principal executive officer and manager:		
By <u>/S/ STEPHEN R. BRUNNER</u> <b>Stephen R. Brunner</b>	Chief Executive Officer, Chief Operating Officer and President	April 19, 2011
Principal financial officer and treasurer:		
By <u>/S/ CHARLES C. WARD</u> <b>Charles C. Ward</b>	Chief Financial Officer and Treasurer	April 19, 2011
Principal accounting officer:		
By <u>/S/ MICHAEL B. HINEY</u> <b>Michael B. Hiney</b>	Chief Accounting Officer and Controller	April 19, 2011
Managers:		
<u>/S/ STEPHEN R. BRUNNER</u> <b>Stephen R. Brunner</b>	Manager	April 19, 2011
<u>/S/ RICHARD H. BACHMANN</u> <b>Richard H. Bachmann</b>	Manager	April 19, 2011
<u>/S/ JOHN R. COLLINS</u> <b>John R. Collins</b>	Manager	April 19, 2011
<u>/S/ RICHARD S. LANGDON</u> <b>Richard S. Langdon</b>	Manager	April 19, 2011
<u>/S/ JOHN N. SEITZ</u> <b>John N. Seitz</b>	Manager	April 19, 2011

## EXHIBIT INDEX

Exhibit Number	Description
*31.1	— Certification of Chief Executive Officer, Chief Operating Officer, and President of Constellation Energy Partners LLC pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	— Certification of Chief Financial Officer and Treasurer of Constellation Energy Partners LLC pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*	Filed herewith
+	Management contract or compensatory plan or arrangement.

**CONSTELLATION ENERGY PARTNERS LLC  
CERTIFICATION**

I, Stephen R. Brunner, certify that:

1. I have reviewed this Annual Report on Form 10-K/A of Constellation Energy Partners LLC;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Date: April 19, 2011

/s/ STEPHEN R. BRUNNER

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Stephen R. Brunner  
Chief Executive Officer, Chief Operating Officer and President

**CONSTELLATION ENERGY PARTNERS LLC  
CERTIFICATION**

I, Charles C. Ward, certify that:

1. I have reviewed this Annual Report on Form 10-K/A of Constellation Energy Partners LLC;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

Date: April 19, 2011

/s/ CHARLES C. WARD

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Charles C. Ward  
Chief Financial Officer and Treasurer