DORCHESTER MINERALS LP
Form 10-K
February 26, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x **Annual Report Pursuant to Section 13 or 15(d) of the Securities**

Exchange Act of 1934 for the fiscal year ended December 31, 2008

Or

.. **Transition Report Pursuant to Section 13 or 15(d) of the Securities**

Exchange Act of 1934 for the transition Period from ________ to ________
Commission File Number: 000-50175

DORCHESTER MINERALS, L.P.

(Exact name of registrant as specified in its charter)

Delaware	**81-0551518**
(State of incorporation)	**(I.R.S. employer identification number)**

3838 Oak Lawn Avenue, Suite 300

Dallas, Texas 75219

(Address of principal executive offices) (Zip Code)

(214) 559-0300

(Registrant s telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class	Name of Exchange on which Registered
Common Units Representing Limited Partnership Interests	NASDAQ Global Select Market

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

Title of Class

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 x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 5(d) of the Act. Yes ¨ No x

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 x 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 the 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 definitions of accelerated filer, large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer x 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 Act.): Yes ¨ No x

The aggregate market value of the common units held by non-affiliates of the registrant (treating all managers, executive officers and 10% unitholders of the registrant as if they may be affiliates of the registrant) was approximately $606,241,083 as of June 30, 2008, based on $31.80 per unit, the closing price of the common units as reported on the NASDAQ Global Select Market on such date.

Number of Common Units outstanding as of February 26, 2009: 28,240,431

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement for the registrant s 2009 Annual Meeting of Unitholders to be held on May 13, 2009, are incorporated by reference in Part III of this Form 10-K. Such definitive proxy statement will be filed with the Securities and Exchange Commission not later than 120 days subsequent to December 31, 2008.

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PART I

ITEM 1. BUSINESS

General

Dorchester Minerals, L.P. is a publicly traded Delaware limited partnership that commenced operations on January 31, 2003 upon the combination of Dorchester Hugoton, Ltd., Republic Royalty Company, L.P. and Spinnaker Royalty Company, L.P. Dorchester Hugoton was a publicly traded Texas limited partnership, and Republic and Spinnaker were private Texas limited partnerships. Our common units are listed on the NASDAQ Global Select Market. American Stock Transfer & Trust Company is our registrar and transfer agent. Their address and telephone number is 59 Maiden Lane, New York, NY 10038, (800) 937-5449. Our executive offices are located at 3838 Oak Lawn Avenue, Suite 300, Dallas, Texas, 75219-4541, and our telephone number is (214) 559-0300. We have established an Internet website at www.dmlp.net that only contains the last annual meeting presentation and a link to the NASDAQ website. You may obtain all current filings free of charge at the NASDAQ website by clicking Real-Time SEC Filings. We will provide electronic or paper copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, or current reports on Form 8-K and amendments to those reports filed or furnished to the Securities and Exchange Commission (SEC) free of charge upon written request at our executive offices. In this report, the term Partnership, as well as the terms us, our, we, and its are sometimes used as abbreviated references to Dorchester Minerals, L.P. itself or Dorchester Minerals, L.P. and its related entities.

Our general partner is Dorchester Minerals Management LP, which is managed by its general partner, Dorchester Minerals Management GP LLC. As a result, the Board of Managers of Dorchester Minerals Management GP LLC exercises effective control of our Partnership. In this report, the term general partner is used as an abbreviated reference to Dorchester Minerals Management LP. Our general partner also controls and owns, directly and indirectly, all of the partnership interests in Dorchester Minerals Operating LP and its general partner, Dorchester Minerals Operating GP LLC. Dorchester Minerals Operating LP owns working interests and other properties underlying our Net Profits Interests, provides day-to-day operational and administrative services to us and our general partner, and is the employer of all the employees who perform such services. In this report, the term operating partnership is used as an abbreviated reference to Dorchester Minerals Operating LP. Our wholly owned subsidiary, Dorchester Minerals Acquisition LP has been and may continue to be used as a vehicle through which we may acquire oil and gas properties.

Our general partner and the operating partnership are Delaware limited partnerships, and the general partner of our general partner and Dorchester Minerals Operating GP LLC are Delaware limited liability companies. These entities and our Partnership were initially formed in December 2001 in connection with the combination that occurred on January 31, 2003. Dorchester Minerals Acquisition LP is an Oklahoma limited partnership, and Dorchester Minerals Acquisition GP, Inc. is an Oklahoma corporation that serves as its general partner. Both were formed in September 2004 in connection with an acquisition of oil and gas properties that was consummated on September 30, 2004.

Our business may be described as the acquisition, ownership and administration of Net Profits Interests and Royalty Properties. The Net Profits Interests represent net profits overriding royalty interests in various properties owned by the operating partnership. The Royalty Properties consist of producing and nonproducing mineral, royalty, overriding royalty, net profits, and leasehold interests located in 573 counties and parishes in 25 states.

Our partnership agreement requires that we distribute quarterly an amount equal to all funds that we receive from the Net Profits Interests and the Royalty Properties less certain expenses and reasonable reserves.

We intend to grow by acquiring additional oil and natural gas properties, subject to the limitations described below. The approval of the holders of a majority of our outstanding common units is required for our general

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partner to cause us to acquire or obtain any oil and natural gas property interest, unless the acquisition is complementary to our business and is made either:

- in exchange for our limited partner interests, including common units, not exceeding 20% of the common units outstanding after issuance; or

- in exchange for cash, if the aggregate cost of any acquisitions made for cash during the twelve-month period ending on the first to occur of the execution of a definitive agreement for the acquisition or its consummation is no more than 10% of our aggregate cash distributions for the four most recent fiscal quarters.

Unless otherwise approved by the holders of a majority of our common units, in the event that we acquire properties for a combination of cash and limited partner interests, including common units, (i) the cash component of the acquisition consideration must be equal to or less than 5% of the aggregate cash distributions made by our Partnership for the four most recent quarters and (ii) the amount of limited partnership interests, including common units, to be issued in such acquisition, after giving effect to such issuance, shall not exceed 10% of the common units outstanding.

Credit Facilities and Financing Plans

We do not have a credit facility in place, nor do we anticipate doing so. We do not anticipate incurring any debt, other than trade debt incurred in the ordinary course of our business. Our partnership agreement prohibits us from incurring indebtedness, other than trade payables, (i) in excess of $50,000 in the aggregate at any given time; or (ii) which would constitute acquisition indebtedness (as defined in Section 514 of the Internal Revenue Code of 1986, as amended), in order to avoid unrelated business taxable income for federal income tax purposes. We may finance any growth of our business through acquisitions of oil and natural gas properties by issuing additional limited partnership interests or with cash, subject to the limits described above and in our partnership agreement.

Under our partnership agreement, we may also finance our growth through the issuance of additional partnership securities, including options, rights, warrants and appreciation rights with respect to partnership securities from time to time in exchange for the consideration and on the terms and conditions established by our general partner in its sole discretion. However, we may not issue limited partnership interests that would represent over 20% of the outstanding limited partnership interests immediately after giving effect to such issuance or that would have greater rights or powers than our common units without the approval of the holders of a majority of our outstanding common units. Except in connection with qualifying acquisitions, we do not currently anticipate issuing additional partnership securities. We have an effective registration statement on Form S-4 registering 5,000,000 common units that may be offered and issued by the Partnership from time to time in connection with asset acquisitions or other business combination transactions. At present, none of the 5,000,000 units have been issued.

Regulation

Many aspects of the production, pricing and marketing of crude oil and natural gas are regulated by federal and state agencies. Legislation affecting the oil and natural gas industry is under constant review for amendment or expansion, which frequently increases the regulatory burden on affected members of the industry.

Exploration and production operations are subject to various types of regulation at the federal, state and local levels. Such regulation includes:

- permits for the drilling of wells;

- bonding requirements in order to drill or operate wells;

the location and number of wells;

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- the method of drilling and casing wells;
- the surface use and restoration of properties upon which wells are drilled;
- the plugging and abandonment of wells;
- numerous federal and state safety requirements;
- environmental requirements;
- property taxes and severance taxes; and
- specific state and federal income tax provisions.

Oil and natural gas operations are also subject to various conservation laws and regulations. These regulations govern the size of drilling and spacing units or proration units and the density of wells that may be drilled and the unitization or pooling of oil and natural gas properties. In addition, state conservation laws establish a maximum allowable production from oil and natural gas wells. These state laws also generally prohibit the venting or flaring of natural gas and impose certain requirements regarding the ratability of production. These regulations can limit the amount of oil and natural gas that the operators of our properties can produce.

The transportation of natural gas after sale by operators of our properties is sometimes subject to regulation by state authorities. The interstate transportation of natural gas is subject to federal governmental regulation, including regulation of tariffs and various other matters, by the Federal Energy Regulatory Commission.

Customers and Pricing

The pricing of oil and natural gas sales is primarily determined by supply and demand in the marketplace and can fluctuate considerably. As a royalty owner and non-operator, we have extremely limited access to timely information, involvement, and operational control over the volumes of oil and natural gas produced and sold and the terms and conditions on which such volumes are marketed and sold.

Since 2004 the operating partnership has sold most of its natural gas production to a Williams entity (currently Williams Gas Marketing, Inc.) on a daily market price basis using a yearly contract that will continue through October 2009. The operating partnership frequently reviews alternative gas purchasers. We believe that the loss of Williams Power by the operating partnership or the loss of any single customer would not have a material adverse effect on us due to alternative purchasers.

Competition

The energy industry in which we compete is subject to intense competition among many companies, both larger and smaller than we are, many of which have financial and other resources greater than we have.

Operating Hazards and Uninsured Risks

Our operations do not directly involve the operational risks and uncertainties associated with drilling for, and the production and transportation of, oil and natural gas. However, we may be indirectly affected by the operational risks and uncertainties faced by the operators of our properties, including the operating partnership, whose operations may be materially curtailed, delayed or canceled as a result of numerous factors, including:

the presence of unanticipated pressure or irregularities in formations;

accidents;

title problems;

weather conditions;

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- compliance with governmental requirements; and
- shortages or delays in the delivery of equipment.

Also, the ability of the operators of our properties to market oil and natural gas production depends on numerous factors, many of which are beyond their control, including:

- capacity and availability of oil and natural gas systems and pipelines;
- effect of federal and state production and transportation regulations;
- changes in supply and demand for oil and natural gas; and
- creditworthiness of the purchasers of oil and natural gas.

The occurrence of an operational risk or uncertainty that materially impacts the operations of the operators of our properties could have a material adverse effect on the amount that we receive in connection with our interests in production from our properties, which could have a material adverse effect on our financial condition or result of operations.

In accordance with customary industry practices, we maintain insurance against some, but not all, of the risks to which our business exposes us. While we believe that we are reasonably insured against these risks, the occurrence of an uninsured loss could have a material adverse effect on our financial condition or results of operations.

Employees

As of February 26, 2009, the operating partnership had 18 full-time employees in our Dallas, Texas office and nine full-time employees in field locations.

ITEM 1A. RISK FACTORS

Risks Related to Our Business

Current declines in oil and gas prices which accompanied the recent economic downturn could have an adverse impact on our results of operations, cash flows, and distributions.

Oil and gas prices can be volatile and are currently low compared to the recent past. It is impossible to predict how long the prices will stay at this level, or if they will move up or down from the current level. In periods of low oil and gas prices, unrelated operators have been known to slow or curtail development of oil and gas production on our properties, which could reduce or delay production which we might otherwise realize. Reductions in production volumes and decreases in oil and gas prices directly reduce our cash flows and distributions to unitholders.

Our cash distributions are highly dependent on oil and natural gas prices, which have historically been very volatile.

Our quarterly cash distributions depend significantly on the prices realized from the sale of oil and, in particular, natural gas. Historically, the markets for oil and natural gas have been volatile and may continue to be volatile in the future. Various factors that are beyond our control will affect prices of oil and natural gas, such as:

the worldwide and domestic supplies of oil and natural gas;

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

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- political instability or armed conflict in oil-producing regions;
- the price and level of foreign imports;
- the level of consumer demand;
- the price and availability of alternative fuels;
- the availability of pipeline capacity;
- weather conditions;
- domestic and foreign governmental regulations and taxes; and
- the overall economic environment.

Lower oil and natural gas prices may reduce the amount of oil and natural gas that is economic to produce and may reduce our revenues and operating income. The volatility of oil and natural gas prices reduces the accuracy of estimates of future cash distributions to unitholders.

Terrorist attacks on oil and natural gas production facilities, transportation systems and storage facilities could have a material adverse impact on our business.

Oil and natural gas production facilities, transportation systems and storage facilities could be targets of terrorist attacks. These attacks could have a material adverse impact if certain oil and natural gas infrastructure integral to our operations were interrupted, damaged or destroyed, thus preventing the sale of oil and natural gas.

We do not control operations and development of the Royalty Properties or the properties underlying the Net Profits Interests that the operating partnership does not operate, which could impact the amount of our cash distributions.

As the owner of a fractional undivided mineral or royalty interest, we do not control the development of the Royalty or Net Profits Interests properties or the volumes of oil and natural gas produced from them, and our ability to influence development of nonproducing properties is severely limited. Also, since one of our stated business objectives is to avoid the generation of unrelated business taxable income, we are prohibited from participation in the development of our properties as a working interest or other expense-bearing owner. The decision to explore or develop these properties, including infill drilling, exploration of horizons deeper or shallower than the currently producing intervals, and application of enhanced recovery techniques will be made by the operator and other working interest owners of each property (including our lessees) and may be influenced by factors beyond our control, including but not limited to oil and natural gas prices, interest rates, budgetary considerations and general industry and economic conditions.

Our unitholders are not able to influence or control the operation or future development of the properties underlying the Net Profits Interests. The operating partnership is unable to influence significantly the operations or future development of properties that it does not operate. The operating partnership and the other current operators of the properties underlying the Net Profits Interests are under no obligation to continue operating the underlying properties. The operating partnership can sell any of the properties underlying the Net Profits Interests that it operates and relinquish the ability to control or influence operations. Any such sale or transfer must also simultaneously include the Net Profits Interests at a corresponding price. Our unitholders do not have the right to replace an operator.

Our lease bonus revenue depends in significant part on the actions of third parties, which are outside of our control.

A significant portion of the Royalty Properties are unleased mineral interests. With limited exceptions, we have the right to grant leases of these interests to third parties. We anticipate receiving cash payments as bonus

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consideration for granting these leases in most instances. Our ability to influence third parties decisions to become our lessees with respect to these nonproducing properties is severely limited, and those decisions may be influenced by factors beyond our control, including but not limited to oil and natural gas prices, interest rates, budgetary considerations and general industry and economic conditions.

The operating partnership may transfer or abandon properties that are subject to the Net Profits Interests.

Our general partner, through the operating partnership, may at any time transfer all or part of the properties underlying the Net Profits Interests. Our unitholders are not entitled to vote on any transfer; however, any such transfer must also simultaneously include the Net Profits Interests at a corresponding price.

The operating partnership or any transferee may abandon any well or property if it reasonably believes that the well or property can no longer produce in commercially economic quantities. This could result in termination of the Net Profits Interests relating to the abandoned well.

Cash distributions are affected by production and other costs, some of which are outside of our control.

The cash available for distribution that comes from our royalty and mineral interests, including the Net Profits Interests, is directly affected by increases in production costs and other costs. Some of these costs are outside of our control, including costs of regulatory compliance and severance and other similar taxes. Other expenditures are dictated by business necessity, such as drilling additional wells in response to the drilling activity of others.

Our oil and natural gas reserves and the underlying properties are depleting assets, and there are limitations on our ability to replace them.

Our revenues and distributions depend in large part on the quantity of oil and natural gas produced from properties in which we hold an interest. Over time, all of our producing oil and natural gas properties will experience declines in production due to depletion of their oil and natural gas reservoirs, with the rates of decline varying by property. Replacement of reserves to maintain production levels requires maintenance, development or exploration projects on existing properties, or the acquisition of additional properties.

The timing and size of maintenance, development or exploration projects will depend on the market prices of oil and natural gas and on other factors beyond our control. Many of the decisions regarding implementation of such projects, including drilling or exploration on any unleased and undeveloped acreage, will be made by third parties. In addition, development possibilities in the Hugoton field are limited by the developed nature of that field and by regulatory restrictions.

Our ability to increase reserves through future acquisitions is limited by restrictions on our use of cash and limited partnership interests for acquisitions and by our general partner s obligation to use all reasonable efforts to avoid unrelated business taxable income. In addition, the ability of affiliates of our general partner to pursue business opportunities for their own accounts without tendering them to us in certain circumstances may reduce the acquisitions presented to our Partnership for consideration.

Drilling activities on our properties may not be productive, which could have an adverse effect on future results of operations and financial condition.

The operating partnership may undertake drilling activities in limited circumstances on the properties underlying the Net Profits Interests, and third parties may undertake drilling activities on our other properties. Any increases in our reserves will come from such drilling activities or from acquisitions.

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Drilling involves a wide variety of risks, including the risk that no commercially productive oil or natural gas reservoirs will be encountered. The cost of drilling, completing and operating wells is often uncertain, and drilling operations may be delayed or canceled as a result of a variety of factors, including:

- pressure or irregularities in formations;
- equipment failures or accidents;
- unexpected drilling conditions;
- shortages or delays in the delivery of equipment;
- adverse weather conditions; and
- disputes with drill-site owners.

Future drilling activities on our properties may not be successful. If these activities are unsuccessful, this failure could have an adverse effect on our future results of operations and financial condition. In addition, under the terms of the Net Profits Interests, the costs of unsuccessful future drilling on the working interest properties that are subject to the Net Profits Interests will reduce amounts payable to us under the Net Profits Interests by 96.97% of these costs.

Our ability to identify and capitalize on acquisitions is limited by contractual provisions and substantial competition.

Our partnership agreement limits our ability to acquire oil and natural gas properties in the future, especially for consideration other than our limited partnership interests. Because of the limitations on our use of cash for acquisitions and on our ability to accumulate cash for acquisition purposes, we may be required to attempt to effect acquisitions with our limited partnership interests. However, sellers of properties we would like to acquire may be unwilling to take our limited partnership interests in exchange for properties.

Our partnership agreement obligates our general partner to use all reasonable efforts to avoid generating unrelated business taxable income. Accordingly, to acquire working interests we would have to arrange for them to be converted into overriding royalty interests, net profits interests, or another type of interest that does not generate unrelated business taxable income. Third parties may be less likely to deal with us than with a purchaser to which such a condition would not apply. These restrictions could prevent us from pursuing or completing business opportunities that might benefit us and our unitholders, particularly unitholders who are not tax-exempt investors.

The duty of affiliates of our general partner to present acquisition opportunities to our Partnership is limited, pursuant to the terms of the Amended and Restated Business Opportunities Agreement. Accordingly, business opportunities that could potentially be pursued by us might not necessarily come to our attention, which could limit our ability to pursue a business strategy of acquiring oil and natural gas properties.

We compete with other companies and producers for acquisitions of oil and natural gas interests. Many of these competitors have substantially greater financial and other resources than we do.

Any future acquisitions will involve risks that could adversely affect our business, which our unitholders generally will not have the opportunity to evaluate.

Our current strategy contemplates that we may grow through acquisitions. We expect to participate in discussions relating to potential acquisition and investment opportunities. If we consummate any additional acquisitions, our capitalization and results of operations may change significantly, and our unitholders will not have the opportunity to evaluate the economic, financial and other relevant information that we will consider in connection with the acquisition, unless the terms of the acquisition require approval of our unitholders. Additionally, our unitholders will bear 100% of the dilution from issuing new common units while receiving essentially 96% of the benefit as 4% of the benefit goes to our general partner.

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Acquisitions and business expansions involve numerous risks, including assimilation difficulties, unfamiliarity with new assets or new geographic areas and the diversion of management s attention from other business concerns. In addition, the success of any acquisition will depend on a number of factors, including the ability to estimate accurately the recoverable volumes of reserves, rates of future production and future net revenues attributable to reserves and to assess possible environmental liabilities. Our review and analysis of properties prior to any acquisition will be subject to uncertainties and, consistent with industry practice, may be limited in scope. We may not be able to successfully integrate any oil and natural gas properties that we acquire into our operations, or we may not achieve desired profitability objectives.

A natural disaster or catastrophe could damage pipelines, gathering systems and other facilities that service our properties, which could substantially limit our operations and adversely affect our cash flow.

If gathering systems, pipelines or other facilities that serve our properties are damaged by any natural disaster, accident, catastrophe or other event, our income could be significantly interrupted. Any event that interrupts the production, gathering or transportation of our oil and natural gas, or which causes us to share in significant expenditures not covered by insurance, could adversely impact the market price of our limited partnership units and the amount of cash available for distribution to our unitholders. We do not carry business interruption insurance.

The vast majority of the properties subject to the Net Profits Interests are geographically concentrated, which could cause net proceeds payable under the Net Profits Interests to be impacted by regional events.

The vast majority of the properties subject to the Net Profits Interests are all natural gas properties that are located almost exclusively in the Hugoton field in Oklahoma and Kansas. Because of this geographic concentration, any regional events, including natural disasters that increase costs, reduce availability of equipment or supplies, reduce demand or limit production may impact the net proceeds payable under the Net Profits Interests more than if the properties were more geographically diversified.

The number of prospective natural gas purchasers and methods of delivery are considerably less than would otherwise exist from a more geographically diverse group of properties. As a result, natural gas sales after gathering and compression tend to be sold to one buyer in each state, thereby increasing credit risk.

Under the terms of the Net Profits Interests, much of the economic risk of the underlying properties is passed along to us.

Under the terms of the Net Profits Interests, virtually all costs that may be incurred in connection with the properties, including overhead costs that are not subject to an annual reimbursement limit, are deducted as production costs or excess production costs in determining amounts payable to us. Therefore, to the extent of the revenues from the burdened properties, we bear 96.97% of the costs of the working interest properties. If costs exceed revenues, we do not receive any payments under the Net Profits Interests. However, except as described below, we are not required to pay any excess costs.

The terms of the Net Profits Interests provide for excess costs that cannot be charged currently because they exceed current revenues to be accumulated and charged in future periods, which could result in us not receiving any payments under the Net Profits Interests until all prior uncharged costs have been recovered by the operating partnership.

Damage claims associated with the production and gathering of our oil and natural gas properties could affect our cash flow.

The operating partnership owns and operates gathering systems and compression facilities. Casualty losses or damage claims from these operations would be production costs under the terms of the Net Profits Interests and could adversely affect our cash flow.

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We may indirectly experience costs from repair or replacement of aging equipment.

Some of the operating partnership s current working interest wells were drilled and have been producing since prior to 1954. The 132-mile Oklahoma gas pipeline gathering system was originally installed in or about 1948 and because of its age is in need of periodic repairs and upgrades. Should major components of this system require significant repairs or replacement, the operating partnership may incur substantial capital expenditures in the operation of the Oklahoma properties, which, as production costs, would reduce our cash flow from these properties.

Our cash flow is subject to operating hazards and unforeseen interruptions for which we may not be fully insured.

Neither we nor the operating partnership are fully insured against certain risks, either because such insurance is not available or because of high premium costs. Operations that affect the properties are subject to all of the risks normally incident to the oil and natural gas business, including blowouts, cratering, explosions and pollution and other environmental damage, any of which could result in substantial decreases in the cash flow from our overriding royalty interests and other interests due to injury or loss of life, damage to or destruction of wells, production facilities or other property, clean-up responsibilities, regulatory investigations and penalties and suspension of operations. Any uninsured costs relating to the properties underlying the Net Profits Interests will be deducted as a production cost in calculating the net proceeds payable to us.

Governmental policies, laws and regulations could have an adverse impact on our business and cash distributions.

Our business and the properties in which we hold interests are subject to federal, state and local laws and regulations relating to the oil and natural gas industry as well as regulations relating to safety matters. These laws and regulations can have a significant impact on production and costs of production. For example, both Oklahoma and Kansas, where properties that are subject to the Net Profits Interests are located, have the ability, directly or indirectly, to limit production from those properties, and such limitations or changes in those limitations could negatively impact us in the future.

As another example, Oklahoma regulations currently require administrative hearings to change the concentration of the operating partnership s gas production wells from one well for each 640 acres in the Guymon-Hugoton field. Previously, certain interested parties have sought regulatory changes in Oklahoma for infill, or increased density, drilling similar to that which is available in Kansas, which allows one well for each 320 acres. Should Oklahoma change its existing regulations to readily permit infill drilling, it is possible that a number of producers will commence increased density drilling in areas adjacent to the properties in Oklahoma that are subject to the Net Profits Interests. If the operating partnership or other operators of our properties do not do the same, our production levels relating to these properties may decrease, or mineral owners may demand increased density drilling. Capital expenditures relating to increased density on the properties underlying the Net Profits Interests would be deducted from amounts payable to us under the Net Profits Interests.

Environmental costs and liabilities and changing environmental regulation could affect our cash flow.

As with other companies engaged in the ownership and production of oil and natural gas, we always expect to have some risk of exposure to environmental costs and liabilities because the costs associated with environmental compliance or remediation could reduce the amount we would receive from our properties. The properties in which we hold interests are subject to extensive federal, state, tribal and local regulatory requirements relating to environmental affairs, health and safety and waste management. Governmental authorities have the power to enforce compliance with applicable regulations and permits, which could increase production costs on our properties and affect their cash flow. Third parties may also have the right to pursue legal actions to enforce compliance. It is likely that expenditures in connection with environmental matters,

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individually or as part of normal capital expenditure programs, will affect the net cash flow from our properties. Future environmental law developments, such as stricter laws, regulations or enforcement policies, could significantly increase the costs of production from our properties and reduce our cash flow.

Our oil and gas reserve data and future net revenue estimates are uncertain.

Estimates of proved reserves and related future net revenues are projections based on engineering data and reports of independent consulting petroleum engineers hired for that purpose. The process of estimating reserves requires substantial judgment, resulting in imprecise determinations. Different reserve engineers may make different estimates of reserve quantities and related revenue based on the same data. Therefore, those estimates should not be construed as being accurate estimates of the current market value of our proved reserves. If these estimates prove to be inaccurate, our business may be adversely affected by lower revenues. We are affected by changes in oil and natural gas prices. Oil prices and natural gas prices may experience inverse price changes.

Risks Inherent In An Investment In Our Common Units

Cost reimbursement due our general partner may be substantial and reduce our cash available to distribute to our unitholders.

Prior to making any distribution on the common units, we reimburse the general partner and its affiliates for reasonable costs and expenses of management. The reimbursement of expenses could adversely affect our ability to pay cash distributions to our unitholders. Our general partner has sole discretion to determine the amount of these expenses, subject to the annual limit of 5% of an amount primarily based on our distributions to partners for that fiscal year. The annual limit includes carry-forward and carry-back features, which could allow costs in a year to exceed what would otherwise be the annual reimbursement limit. In addition, our general partner and its affiliates may provide us with other services for which we will be charged fees as determined by our general partner.

Our net income as reported for tax and financial statement purposes may differ significantly from our cash flow that is used to determine cash available for distributions.

Net income as reported for financial statement purposes is presented on an accrual basis in conformity with accounting principles generally accepted in the United States of America. Unitholder K-1 tax statements are calculated based on applicable tax conventions, and taxable income as calculated for each year will be allocated among unitholders who hold units on the last day of each month. Distributions, however, are calculated on the basis of actual cash receipts, changes in cash reserves, and disbursements during the relevant reporting period. Consequently, due to timing differences between the receipt of proceeds of production and the point in time at which the production giving rise to those proceeds actually occurs, net income reported on our consolidated financial statements and on unitholder K-1 s will not reflect actual cash distributions during that reporting period.

Our unitholders have limited voting rights and do not control our general partner, and their ability to remove our general partner is limited.

Our unitholders have only limited voting rights on matters affecting our business. The general partner of our general partner manages our activities. Our unitholders only have the right to annually elect the managers comprising the Advisory Committee of the Board of Managers of the general partner of our general partner. Our unitholders do not have the right to elect the other managers of the general partner of our general partner on an annual or any other basis.

Our general partner may not be removed as our general partner except upon approval by the affirmative vote of the holders of at least a majority of our outstanding common units (including common units owned by our general partner and its affiliates), subject to the satisfaction of certain conditions. Our general partner and its affiliates do not own sufficient common units to be able to prevent its removal as general partner, but they do own sufficient common units to make the removal of our general partner by other unitholders difficult.

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These provisions may discourage a person or group from attempting to remove our general partner or acquire control of us without the consent of our general partner. As a result of these provisions, the price at which our common units trade may be lower because of the absence or reduction of a takeover premium in the trading price.

The control of our general partner may be transferred to a third party without unitholder consent.

Our general partner has agreed not to withdraw voluntarily as our general partner on or before December 31, 2010 (with limited exceptions), unless the holders of at least a majority of our outstanding common units (excluding common units owned by our general partner and its affiliates) approve the withdrawal. However, the general partner may transfer its general partner interest to a third party in a merger or in a sale of all or substantially all of its assets without the consent of our unitholders. Other than some transfer restrictions agreed to among the owners of our general partner relating to their interests in our general partner, there is no restriction in our partnership agreement or otherwise for the benefit of our limited partners on the ability of the owners of our general partner to transfer their ownership interests to a third party. The new owner of the general partner would then be in a position to replace the management of our Partnership with its own choices.

Our general partner and its affiliates have conflicts of interests, which may permit our general partner and its affiliates to favor their own interests to the detriment of unitholders.

We and our general partner and its affiliates share, and therefore compete for, the time and effort of general partner personnel who provide services to us. Officers of our general partner and its affiliates do not, and are not required to, spend any specified percentage or amount of time on our business. In fact, our general partner has a duty to manage our Partnership in the best interests of our unitholders, but it also has a duty to operate its business for the benefit of its partners. Some of our officers are also involved in management and ownership roles in other oil and natural gas enterprises and have similar duties to them and devote time to their businesses. Because these shared officers function as both our representatives and those of our general partner and its affiliates and of third parties, conflicts of interest could arise between our general partner and its affiliates, on the one hand, and us or our unitholders, on the other, or between us or our unitholders on the one hand and the third parties for which our officers also serve management functions. As a result of these conflicts, our general partner and its affiliates may favor their own interests over the interests of unitholders.

We may issue additional securities, diluting our unitholders interests.

We can and may issue additional common units and other capital securities representing limited partnership units, including options, warrants, rights, appreciation rights and securities with rights to distributions and allocations or in liquidation equal or superior to the securities described in this document; however, a majority of the unitholders must approve such issuance if (i) the partnership securities to be issued will have greater rights or powers than our common units or (ii) if after giving effect to such issuance, such newly issued partnership securities represent over 20% of the outstanding limited partnership interests.

If we issue additional common units, it will reduce our unitholders proportionate ownership interest in us. This could cause the market price of the common units to fall and reduce the per unit cash distributions paid to our unitholders. In addition, if we issued limited partnership units with voting rights superior to the common units, it could adversely affect our unitholders voting power.

Our unitholders may not have limited liability in the circumstances described below and may be liable for the return of certain distributions.

Under Delaware law, our unitholders could be held liable for our obligations to the same extent as a general partner if a court determined that the right of unitholders to remove our general partner or to take other action under our partnership agreement constituted participation in the control of our business.

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The general partner generally has unlimited liability for the obligations of our Partnership, such as its debts and environmental liabilities, except for those contractual obligations of our Partnership that are expressly made without recourse to the general partner.

In addition, Section 17-607 of the Delaware Revised Uniform Limited Partnership Act provides that, under certain circumstances, a unitholder may be liable for the amount of distribution for a period of three years from the date of distribution.

Because we conduct our business in various states, the laws of those states may pose similar risks to our unitholders. To the extent to which we conduct business in any state, our unitholders might be held liable for our obligations as if they were general partners if a court or government agency determined that we had not complied with that state s partnership statute, or if rights of unitholders constituted participation in the control of our business under that state s partnership statute. In some of the states in which we conduct business, the limitations on the liability of limited partners for the obligations of a limited partnership have not been clearly established.

We are dependent upon key personnel, and the loss of services of any of our key personnel could adversely affect our operations.

Our continued success depends to a considerable extent upon the abilities and efforts of the senior management of our general partner, particularly William Casey McManemin, its Chief Executive Officer, James E. Raley, its Chief Operating Officer, and H. C. Allen, Jr., its Chief Financial Officer. The loss of the services of any of these key personnel could have a material adverse effect on our results of operations. We have not obtained insurance or entered into employment agreements with any of these key personnel.

We are dependent on service providers who assist us with providing Schedule K-1 tax statements to our unitholders.

There are a very limited number of service firms that currently perform the detailed computations needed to provide each unitholder with estimated depletion and other tax information to assist the unitholder in various United States income tax computations. There are also very few publicly traded limited partnerships that need these services. As a result, the future costs and timeliness of providing Schedule K-1 tax statements to our unitholders is uncertain.

Tax Risks

We have not received a ruling or assurances from the IRS or any state or local taxing authority on any matters affecting us.

We have not requested, and will not request, any ruling from the Internal Revenue Service, or IRS, or any state or local taxing authority with respect to owning and disposing of our common units or any other matter. It may be necessary to resort to administrative or court proceedings in an effort to sustain some or all of those conclusions or positions taken or expressed by us, and some or all of those conclusions or positions ultimately may not be sustained. Our unitholders and general partner will bear, directly or indirectly, the costs of any contest with the IRS or other taxing authority.

We will be subject to federal income tax if we are classified as a corporation and not as a partnership for federal income tax purposes.

As stated above, we have not requested, and will not request, any ruling from the IRS as to our status as a partnership for federal income tax purposes. If the IRS were to challenge our federal income tax status, such a challenge could result in an audit of our unitholders tax returns and adjustments to items on their tax returns that are unrelated to their ownership of our common units. In addition, our unitholders would bear the cost of any expenses incurred in connection with an examination of their personal tax returns.

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If we were taxable as a corporation for federal income tax purposes in any taxable year, our income, gains, losses and deductions would be reflected on our tax return rather than being passed through proportionately to our unitholders, and our net income would be taxed at corporate rates. In addition, some or all of the distributions made to our unitholders would be treated as dividend income without offset for depletion, and distributions would be reduced as a result of the federal, state and local taxes paid by us.

The IRS could reallocate items of income, gain, deduction and loss between transferors and transferees of common units if the IRS does not accept our monthly convention for allocating such items.

In general, each of our items of income, gain, loss and deduction will, for federal income tax purposes, be determined annually, and one twelfth of each annual amount will be allocated to those unitholders who hold common units on the last business day of each month in that year. In certain circumstances we may make these allocations in connection with extraordinary or nonrecurring events on a more frequent basis. As a result, transferees of our common units may be allocated items of our income, gain, loss and deduction realized by us prior to the date of their acquisition of our common units. There is no specific authority addressing the utilization of this method of allocating items of income, gain, loss and deduction by a publicly traded partnership such as us between transferors and transferees of its common units. If this method is determined to be an unreasonable method of allocation, our income, gain, loss and deduction would be reallocated among our unitholders and our general partner, and our unitholders may have more taxable income or less taxable loss. Our general partner is authorized to revise our method of allocation between transferors and transferees, as well as among our other unitholders whose common units otherwise vary during a taxable period, to conform to a method permitted or required by the Internal Revenue Code and the regulations or rulings promulgated thereunder.

Our unitholders may not be able to deduct losses attributable to their common units.

Any losses relating to our unitholders common units will be losses related to portfolio income and their ability to use such losses may be limited.

Our unitholders partnership tax information may be audited.

We will furnish our unitholders with a Schedule K-1 tax statement that sets forth their allocable share of income, gains, losses and deductions. In preparing this schedule, we will use various accounting and reporting conventions and various depreciation and amortization methods we have adopted. This schedule may not yield a result that conforms to statutory or regulatory requirements or to administrative pronouncements of the IRS. Further, our tax return may be audited, and any such audit could result in an audit of our unitholders individual income tax returns as well as increased liabilities for taxes because of adjustments resulting from the audit. An audit of our unitholders returns also could be triggered if the tax information relating to their common units is not consistent with the Schedule K-1 that we are required to provide to the IRS.

Our unitholders may have more taxable income or less taxable loss with respect to their common units if the IRS does not respect our method for determining the adjusted tax basis of their common units.

We have adopted a reporting convention that will enable our unitholders to track the basis of their individual common units or unit groups and use this basis in calculating their basis adjustments under Section 743 of the Internal Revenue Code and gain or loss on the sale of common units. This method does not comply with an IRS ruling that requires a portion of the combined tax basis of all common units to be allocated to each of the common units owned by a unitholder upon a sale or disposition of less than all of the common units and may be challenged by the IRS. If such a challenge is successful, our unitholders may have to recognize more taxable income or less taxable loss with respect to common units disposed of and common units they continue to hold.

Tax-exempt investors may recognize unrelated business taxable income.

Generally, unrelated business taxable income, or UBTI, can arise from a trade or business unrelated to the exempt purposes of the tax-exempt entity that is regularly carried on by either the tax-exempt entity or a

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partnership in which the tax-exempt entity is a partner. However, UBTI does not apply to interest income, royalties (including overriding royalties) or net profits interests, whether the royalties or net profits are measured by production or by gross or taxable income from the property. Pursuant to the provisions of our partnership agreement, our general partner shall use all reasonable efforts to prevent us from realizing income that would constitute UBTI. In addition, our general partner is prohibited from incurring certain types and amounts of indebtedness and from directly owning working interests or cost bearing interests and, in the event that any of our assets become working interests or cost bearing interests, is required to assign such interests to the operating partnership subject to the reservation of a net profits overriding royalty interest. However, it is possible that we may realize income that would constitute UBTI in an effort to maximize unitholder value.

Tax consequences of certain Net Profits Interests are uncertain.

We are prohibited from owning working interests or cost-bearing interests. At the time of the creation of the Minerals NPI, we assigned to the operating partnership all rights in any such working interests or cost-bearing interests that might subsequently be created from the mineral properties that were and are subject of the Minerals NPI. As additional working interests and other cost-bearing interests are created out of such mineral properties, they are owned by the operating partnership pursuant to such original assignment, and we have executed various documents since the creation of the Minerals NPI to confirm such treatment under the original assignment. This treatment could be characterized differently by the IRS, and in such a case we are unable to predict, with certainty, all of the income tax consequences relating to the Minerals NPI as it relates to such working interests and other cost-bearing interests.

Our unitholders may not be entitled to deductions for percentage depletion with respect to our oil and natural gas interests.

Our unitholders will be entitled to deductions for the greater of either cost depletion or (if otherwise allowable) percentage depletion with respect to the oil and natural gas interests owned by us. However, percentage depletion is generally available to a unitholder only if he qualifies under the independent producer exemption contained in the Internal Revenue Code. For this purpose, an independent producer is a person not directly or indirectly involved in the retail sale of oil, natural gas, or derivative products or the operation of a major refinery. If a unitholder does not qualify under the independent producer exemption, he generally will be restricted to deductions based on cost depletion.

Our unitholders may have more taxable income or less taxable loss on an ongoing basis if the IRS does not accept our method of allocating depletion deductions.

The Internal Revenue Code requires that income, gain, loss and deduction attributable to appreciated or depreciated property that is contributed to a partnership in exchange for a partnership interest in the partnership must be allocated so that the contributing partner is charged with, or benefits from, gain or unrealized loss, referred to as Built-in Gain and Built-in Loss, respectively, associated with the property at the time of its contribution to the partnership. Our partnership agreement provides that the adjusted tax basis of the oil and natural gas properties contributed to us is allocated to the contributing partners for the purpose of separately determining depletion deductions. Any gain or loss resulting from the sale of property contributed to us will be allocated to the partners that contributed the property, in proportion to their percentage interest in the contributed property, to take into account any Built-in Gain or Built-in Loss. This method of allocating Built-in Gain and Built-in Loss is not specifically permitted by United States Treasury regulations, and the IRS may challenge this method. Such a challenge, if successful, could cause our unitholders to recognize more taxable income or less taxable loss on an ongoing basis in respect of their common units.

Our unitholders may have more taxable income or less taxable loss on an ongoing basis if the IRS does not accept our method of determining a unitholder s share of the basis of partnership property.

Our general partner utilizes a method of calculating each unitholder s share of the basis of partnership property that results in an aggregate basis for depletion purposes that reflects the purchase price of common units

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as paid by the unitholder. This method is not specifically authorized under applicable Treasury regulations, and the IRS may challenge this method. Such a challenge, if successful, could cause our unitholders to recognize more taxable income or less taxable loss on an ongoing basis in respect of their common units.

The ratio of the amount of taxable income that will be allocated to a unitholder to the amount of cash that will be distributed to a unitholder is uncertain, and cash distributed to a unitholder may not be sufficient to pay tax on the income we allocate to a unitholder.

The amount of taxable income realized by a unitholder will be dependent upon a number of factors including: (i) the amount of taxable income recognized by us; (ii) the amount of any gain recognized by us that is attributable to specific asset sales that may be wholly or partially attributable to Built-in Gain and the resulting allocation of such gain to a unitholder, depending on the asset being sold; (iii) the amount of basis adjustment pursuant to the Internal Revenue Code available to a unitholder based on the purchase price for any common units and the amount by which such price was greater or less than a unitholder s proportionate share of inside tax basis of our assets attributable to the common units when the common units were purchased; and (iv) the method of depletion available to a unitholder. Therefore, it is not possible for us to predict the ratio of the amount of taxable income that will be allocated to a unitholder to the amount of cash that will be distributed to a unitholder.

A unitholder may lose his status as a partner of our Partnership for federal income tax purposes if he lends our common units to a short seller to cover a short sale of such common units.

If a unitholder loans his common units to a short seller to cover a short sale of common units, he may be considered as having disposed of his ownership of those common units for federal income tax purposes. If so, the unitholder would no longer be a partner of our Partnership for tax purposes with respect to those common units during the period of the loan and may recognize gain or loss from the disposition. As a result, during this period, any of our income, gain, loss or deduction with respect to those common units would not be reportable, and any cash distributions received for those common units would be fully taxable and may be treated as ordinary income.

If we are not notified (either directly or through a broker) of a sale or other transfer of common units, some distributions and federal income tax information or reports with respect to such units may not be provided to the purchaser or other transferee of the units and may instead continue to be provided to the original transferor.

If our transfer agent or any other nominee holding common units on behalf of a partner is not timely notified, and a proper transfer of ownership is not recorded on the appropriate books and records, of a sale or other transfer of common units, some distributions and federal income tax information or reports with respect to these common units may not be made or provided to the transferee of the units and may instead continue to be made or provided to the original transferor. Notwithstanding a transferee s failure to receive distributions and federal income tax information or reports from us with respect to these units, the IRS may contend that such transferee is a partner for federal income tax purposes and that some allocations of income, gain, loss or deduction by us should have been reported by such transferee. Alternatively, the IRS may contend that the transferor continues to be a partner for federal income tax purposes and that allocations of income, gain, loss or deduction by us should have been reported by such transferor. If the transferor is not treated as a partner for federal income tax purposes, any cash distributions received by such transferor with respect to the transferred units following the transfer would be fully taxable as ordinary income to the transferor.

A sale or exchange of 50% or more of the total interests in our capital and profits within a 12-month period could result in adverse tax consequences to a unitholder.

We will terminate for federal income tax purposes if there is a sale or exchange of 50% or more of the total interests in our capital and profits within a 12-month period. A termination would result in the closing of our

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taxable year for a unitholder. As a result, if a unitholder has a different taxable year than we have, he may be required to include his allocable share of our income, gain, loss, deduction, credits and other items from both the taxable year ending prior to the year of our termination and the short taxable year ending at the time of our termination in the same taxable year. A termination also could result in penalties if we were unable to determine that the termination occurred.

Foreign, state and local taxes could be withheld on amounts otherwise distributable to a unitholder.

A unitholder may be required to file tax returns and be subject to tax liability in the foreign, state or local jurisdictions where he resides and in each state or local jurisdiction in which we have assets or otherwise do business. We also may be required to withhold state income tax from distributions otherwise payable to a unitholder, and state income tax may be withheld by others on royalty payments to us.

Disclosure Regarding Forward-Looking Statements

Statements included in this report that are not historical facts (including any statements concerning plans and objectives of management for future operations or economic performance, or assumptions or forecasts related thereto), are forward-looking statements. These statements can be identified by the use of forward-looking terminology including may, believe, will, expect, anticipate, estimate, continue or other sim words. These statements discuss future expectations, contain projections of results of operations or of financial condition or state other forward-looking information.

These forward-looking statements are made based upon management s current plans, expectations, estimates, assumptions and beliefs concerning future events impacting us and, therefore, involve a number of risks and uncertainties. We caution that forward-looking statements are not guarantees and that actual results could differ materially from those expressed or implied in the forward-looking statements for a number of important reasons, including those discussed under Risk Factors and elsewhere in this report.

You should read these statements carefully because they may discuss our expectations about our future performance, contain projections of our future operating results or our future financial condition, or state other forward-looking information. Before you invest, you should be aware that the occurrence of any of the events herein described in Risk Factors and elsewhere in this report could substantially harm our business, results of operations and financial condition and that upon the occurrence of any of these events, the trading price of our common units could decline, and you could lose all or part of your investment.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Facilities

Our office in Dallas consists of 11,847 square feet of leased office space. The operating partnership owns a field office in Hooker, Oklahoma and leases part of an office in Amarillo, Texas.

Properties

We own two categories of properties: the Royalty Properties and the Net Profits Interests.

Royalty Properties

We own Royalty Properties representing producing and nonproducing mineral, royalty, overriding royalty, net profits and leasehold interests in properties located in 573 counties and parishes in 25 states. Acreage

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amounts listed herein represent our best estimates based on information provided to us as a royalty owner. Due to the significant number of individual deeds, leases and similar instruments involved in the acquisition and development of the Royalty Properties by us or our predecessors, acreage amounts are subject to change as new information becomes available. In addition, as a royalty owner, our access to information concerning activity and operations on the Royalty Properties is limited. Most of our producing properties are subject to old leases and other contracts pursuant to which we are not entitled to well information. Some of our newer leases provide for access to technical data and other information. We may have limited access to public data in some areas through third party subscription services. Consequently, the exact number of wells producing from or drilling on the Royalty Properties is not determinable. The primary manner by which we will become aware of activity on the Royalty Properties is the receipt of division orders or other correspondence from operators or purchasers.

Acreage Summary

The following table sets forth as of December 31, 2008, a summary of our gross and net, where applicable, acres of mineral, royalty, overriding royalty and leasehold interests, and a compilation of the number of counties and parishes and states in which these interests are located. The majority of our net mineral acres are unleased. Acreage amounts may not add across due to overlapping ownership among categories.

	Mineral	Royalty	Overriding Royalty	Leasehold	Total
Number of States	25	17	17	8	25
Number of Counties/Parishes	464	190	136	34	573
Gross Acres	2,258,860	616,580	208,386	33,518	3,119,341
Net Acres (where applicable)	348,521				348,521

Our net interest in production from royalty, overriding royalty and leasehold interests is based on lease royalty and other third-party contractual terms, which vary from property to property. Consequently, net acreage ownership in these categories is not determinable. Our net interest in production from properties in which we own a royalty or overriding royalty interest may be affected by royalty terms negotiated by the mineral interest owners in such tracts and their lessees. Our interest in the majority of these properties is perpetual in nature. However, a minor portion of the properties are subject to terms and conditions pursuant to which a portion of our interest may terminate upon cessation of production.

The following table sets forth, as of December 31, 2008, the combined summary of total gross and net (where applicable) acres of mineral, royalty, overriding royalty and leasehold interests in each of the states in which these interests are located.

State	Gross	Net	State	Gross	Net
Alabama	106,055	7,797	Missouri	341	43
Arkansas	47,434	15,424	Montana	281,891	62,535
California	924	162	Nebraska	3,360	257
Colorado	22,880	1,424	New Mexico	42,410	2,276
Florida	88,832	24,249	New York	23,077	18,440
Georgia	3,676	1,024	North Dakota	293,251	36,933
Illinois	4,729	885	Oklahoma	230,880	15,871
Indiana	303	113	Pennsylvania	9,511	4,653
Kansas	13,981	2,385	South Dakota	14,408	1,266
Kentucky	1,995	553	Texas	1,637,832	137,656
Louisiana	131,125	2,286	Utah	5,937	200
Michigan	54,234	2,615	Wyoming	28,249	1,057
Mississippi	72,026	8,417			

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Leasing Activity

We received cash payments in the amount of $441,000 during 2008 attributable to lease bonus on 51 leases and 11 pooling elections in lands located in 24 counties and parishes in four states. These leases reflected bonus payments ranging up to $850/acre and initial royalty terms ranging up to 30%. Many of these leases contain additional overriding royalty interests and provisions for optional working interest participation in subsequent wells, back-in working interests after payout or escalating royalty terms.

We received cash payments in the amount of $32,000 during the fourth quarter of 2008 attributable to lease bonus on four leases of our interests in lands located in five counties and parishes in three states. These leases reflected bonus payments ranging up to $850/acre and initial royalty terms ranging up to 30%.

The following table sets forth a summary of leases and pooling elections consummated during 2006 through 2008.

	2008	2007	2006
Consummated Leases			
Number	51	107	76
Number of States	4	6	7
Number of Counties	19	27	33
Average Royalty	25.0%	24.1%	25.5%
Average Bonus, $/acre	$ 398	$ 222	$ 528
Total Lease Bonus cash basis	$ 441,000	$ 609,000	$ 7,377,000

Three leases were granted for no bonus consideration in 2008, which reflected royalty terms ranging from 22% to 30%. Average bonus and royalty terms reflected above include these three leases. Two leases were granted in 2008, which included (in addition to royalty or bonus) an overriding royalty interest, back-in working interest or optional working interest participation. Average royalty terms reflected above do not reflect these additional interests. Amounts reflected above may differ from our consolidated financial statements, which are presented on an accrual basis. Average royalty and average bonus exclude amounts attributable to pooling elections. Payments received for gas storage, shut-in and delay rental payments, coal royalty, surface use agreements, litigation judgments and settlement proceeds are reflected in our consolidated financial statements in various categories including, but not limited to, other operating revenues and other income.

Net Profits Interests

We own net profits overriding royalty interests (referred to as the Net Profits Interests) in various properties owned by the operating partnership. We receive monthly payments equaling 96.97% of the net profits actually realized by the operating partnership from these properties in the preceding month. In the event costs exceed revenues on a cash basis in a given month for properties subject to a Net Profits Interest, no payment is made and any deficit is accumulated and carried over and reflected in the following month s calculation of net profit.

We own five separate Net Profits Interests, four of which were created in connection with the combination in 2003 and one immaterial deficit Net Profits Interest subsequently created. Three of these Net Profits Interests have been in a continuous profit status other than temporary deficits in that revenues have exceeded costs and cash payments have been made by the operating partnership to us each quarter. The purpose of such Net Profits Interests is to avoid the participation as a working interest or other cost-bearing owner that could result in unrelated business taxable income. Net profits interest payments are not considered unrelated business taxable income for tax purposes. The fourth Net Profits Interest, referred to as the Minerals NPI, has continuously had costs that exceed revenues. As of December 31, 2008, cumulative operating and development costs presented in the following table, which include amounts equivalent to an interest charge, exceeded cumulative revenues of the Minerals NPI, resulting in a cumulative deficit. All cumulative deficits (which represent cumulative excess of operating and development costs over revenue received) are borne 100% by our general partner until the

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Minerals NPI recovers the deficit amount. Once in profit status, we will receive the Net Profits Interest payments attributable to these properties. Our consolidated financial statements do not reflect activity attributable to properties subject to Net Profits Interests that are in a deficit status. **Consequently, net profits interest payments, production sales volumes and prices, and oil and gas reserves set forth in other portions of this annual report do not reflect amounts attributable to the Minerals NPI, which includes all of the operating partnership s Fayetteville Shale working interest properties in Arkansas.**

The following tables set forth cash receipts and disbursements, production volumes and reserves attributable to the Minerals NPI for the calendar years 2003 through 2008.

	Minerals NPI Cash Basis Results Year Ended December 31, (in Thousands)						
	2003 (11 mo.)	**2004**	**2005**	**2006**	**2007**	**2008**	**Total**
Cash received for revenue	$ 4	$ 1,007	$ 1,447	$ 2,487	$ 3,255	$ 6,016	$ 14,216
Cash paid for operating costs	5	146	249	452	521	853	2,226
Cash paid for development costs	316	1,218	1,086	1,691	2,635	5,683	12,629
Net cash (paid) received	$ (317)	$ (357)	$ 112	$ 344	$ 99	$ (520)	$ (639)
Cumulative NPI Deficit		$ (674)	$ (562)	$ (218)	$ (119)	$ (639)	

The revenue amounts, the production volumes, and the proved reserves presented include only properties producing revenue. The development cost amounts pertain to more properties than the properties producing revenue due to timing differences between operating partnership expenditures and oil and gas production and payments to the operating partnership. Amounts in the above table include budgeted capital expenditures of $905,000 at December 31, 2008.

	Minerals NPI Cash Basis Production Year ended December 31,						
	2003 (11 mo.)	**2004**	**2005**	**2006**	**2007**	**2008**	**Total**
Natural Gas mcf	259	138,398	126,167	190,903	291,278	418,743	1,165,748
Oil & Condensate bbl	101	5,014	9,434	17,447	19,662	22,480	74,138
Indicated Gas Price, $/mcf	$ 3.92	$ 5.96	$ 7.37	$ 7.26	$ 6.58	$ 8.55	$ 7.41
Indicated Oil/Condensate Price, $/bbl	$ 28.55	$ 36.05	$ 54.58	$ 61.05	$ 62.93	$ 100.98	$ 71.10

The indicated prices set forth above are calculated by dividing each year s gross revenues for each product by the production volume of the corresponding product. Cash received for revenue includes minor amounts of non-product revenue. Such calculation does not necessarily reflect contractual terms for sales and may be affected by transportation costs, location differentials, quality and gravity adjustments and timing differences between production and cash receipts, including release of suspended funds, initial payments for accumulated sales, or prior period adjustments.

	Minerals NPI Reserves Year ended December 31,					
	2003	**2004**	**2005**	**2006**	**2007**	**2008**
Proved Reserves [(1)]						
Natural Gas (mmcf)	231	273	313	532	1,442	1,993
Oil & Condensate (mbbls)	5	7	32	46	34	65

Future Net Revenues ($ in thousands) [2]	$ 906	$ 1,352	$ 3,399	$ 4,309	$ 10,523	$ 9,341
Standardized Measure ($ in thousands)	$ 618	$ 1,033	$ 2,655	$ 3,405	$ 7,253	$ 6,533

(1) All reserves are proved developed.
(2) Based on year end pricing of oil and gas.

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Amounts in the above tables reflect the operating partnership s ownership of the subject properties. Net Profits Interest payments to us, if any, will equal 96.97% of the cumulative net profits actually received by the operating partnership attributable to the subject properties. The above production sales volumes, indicated prices, oil and gas reserves, and financial information attributable to the Minerals NPI may not be indicative of future results of the Minerals NPI and may not indicate when the deficit status may end and when Net Profits Interests payment may begin from the Minerals NPI.

The Minerals NPI includes numerous opportunities for the operating partnership to participate as a working interest owner in drilling activity on lands in which we owned a mineral or royalty interest as of the date such Minerals NPI was created. Most of these opportunities are evidenced by a contractual option, but not the obligation, to participate in activity located in defined lands and leases, although some arise by non-contractual means or by operation of law. With regard to the opportunities evidenced by a contractual option, the operating partnership s decision to exercise these options and participate as a working interest owner is made on a well-by-well basis and only in the event a third party proposes to drill a well subject to the contractual option. With regard to the opportunities to participate as a working interest owner that arise non-contractually or by operation of law, we obtain or are provided those opportunities due to the actions of persons that we do not control. Thus, we are unable to project when wells may be drilled, whether the operating partnership may elect to participate, or otherwise end up participating, in such drilling or the magnitude of the corresponding investment, either individually or in the aggregate, with respect to the Minerals NPI. In the event the operating partnership does elect to participate pursuant to these options, or otherwise ends up so participating per force of certain non-contractual relationships or by operation of law, the Minerals NPI deficit is likely to increase. Regardless of the operating partnership s future voluntary or involuntary participation, we believe net profits interest payments, if any, made upon the Minerals NPI s first reaching profit status will be minimal as development of these properties, and consequently the operating partnership s payments of development expenditures associated therewith, is likely to continue for at least five years. See the discussion under Drilling Activity below for additional information on some of these working interest participation options and possibilities.

Acreage Summary

The following tables set forth, as of December 31, 2008, information concerning properties owned by the operating partnership and subject to the Net Profits Interests, including the Minerals NPI properties. Acreage amounts listed under Leasehold reflect gross acres leased by the operating partnership and the working interest share (net acres) in those properties. Acreage amounts listed under Mineral reflect gross acres in which the operating partnership owns a mineral interest and the undivided mineral interest (net acres) in those properties. The operating partnership s interest in these properties may be unleased, leased by others or a combination thereof. Acreage amounts may not add across due to overlapping ownership among categories.

	Mineral	Royalty	Leasehold	Total
Number of States	11	1	6	12
Number of Counties/Parishes	58	1	13	64
Gross Acres	47,585	640	109,543	157,768
Net Acres	5,370		83,865	89,235

The following table reflects the states in which the acreage amounts listed above are located.

	Mineral/Royalty		Leasehold		Total	
	Gross	Net	Gross	Net	Gross	Net
Oklahoma	10,880	935	79,861	74,031	90,741	74,966
Kansas	640	20	7,035	7,035	7,675	7,055
Arkansas	679	308	19,787	2,637	20,466	2,945
All Others	36,026	4,107	2,860	162	38,886	4,269
Totals	48,225	5,370	109,543	83,865	157,768	89,235

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The operating partnership owns working interests below the currently producing horizons in 47,360 gross/46,960 net acres in Texas County, Oklahoma. The operating partnership has from time to time farmed out its leasehold interests in portions of these lands, reserving an overriding royalty interest therein, and will consider additional exploration or development of these lands as circumstances warrant. The leasehold acreage includes all of the acreage in the Fayetteville Shale properties of Arkansas in which we have the right to participate.

Costs Incurred

The following table sets forth information regarding 100% of the costs incurred on a cash basis by the operating partnership during the periods indicated in connection with the properties underlying the Net Profits Interests.

	Years ended December 31,		
	2008	2007	2006
		(in thousands)	
Acquisition costs	$	$	$
Development costs [1]	5,795	3,821	1,963
Total	$ 5,795	$ 3,821	$ 1,963

(1) The years ended December 31, 2006, 2007 and 2008 include $1,691,000, $2,647,000 and $5,698,000, respectively, attributable to NPIs not yet in pay status.

Productive Well Summary

The following table sets forth, as of December 31, 2008, the combined number of producing wells on the properties subject to the Net Profits Interests, including the Minerals NPI. Gross wells refer to wells in which a working interest is owned. Net wells are determined by multiplying gross wells by the working interest in those wells.

	Productive Wells/Units[1]	
Location	Gross	Net
Oklahoma	200	120.5
Kansas	20	20.0
All others	175	9.6
Total	395	150.1

(1) Multiple well units operated by someone other than the operating partnership and in which we own Net Profits Interests are included as one gross well.

Drilling Activity

We received division orders for or otherwise identified 423 new wells completed on our Royalty Properties in 10 states during 2008. Forty-two new wells were completed and we identified six wells that were completed in prior years on our Net Profits Interests properties, all located in five states during 2008, with 21 additional wells in various stages of drilling or completion operations at year-end. Selected new wells and the royalty interests owned by us and the working and net revenue interests owned by the operating partnership are summarized below.

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This table does not include wells drilled in the Fayetteville Shale trend as they are detailed in a subsequent discussion and table.

ST	County/Parish	Operator	Well Name	DMLP NRI(2)	DMOLP WI(1)	DMOLP NRI(2)	Test Rates per day Gas, mcf	Test Rates per day Oil, bbls
AR	Logan	Highland Oil & Gas	Gregory #1-20		6.25%	6.25%	5,999	
AR	Logan	Highland Oil & Gas	Gregory #2-20		6.25%	6.25%	4,390	
AR	Logan	Highland Oil & Gas	Morris #1-20		6.25%	6.25%	3,028	
MT	Richland	XTO Energy	Childers 24X-11		6.27%	4.39%		330
ND	Mountrail	EOG Resources	Risan #1-34H		6.97%	6.97%	308	817
OK	Ellis	Crusader Energy	Raiders #4-27H		3.75%	9.06%	732	192
OK	Roger Mills	ConocoPhillips	Ashley #8-5	1.87%			4,901	
TX	Hidalgo	El Paso E & P Co.	Coates A-38	6.42%			1,821	
TX	Hidalgo	El Paso E & P Co.	Coates A-39	6.42%			9,821	
TX	Hidalgo	El Paso E & P Co.	Coates A-41	6.38%			1,577	
TX	Hidalgo	El Paso E & P Co.	Coates A-42	6.38%			1,671	
TX	Hidalgo	Dan A. Hughes Co.	Coates Dorchester B #1	6.25%	10%	8.25%	1,237	
TX	Jackson	Chesapeake Operating	Kubecka #3	3.78%			4,734	
TX	Jim Hogg	Safari Production Co. Inc.	Tommy R. Funk #1	10.24%			1,300	
TX	Starr	Milagro Exploration	Cleopatra #9	1.63%			7,085	
TX	Starr	El Paso E & P Co.	Cow Creek Corp. #3	10.24%			14,812	
TX	Starr	Ascent Operating	Garza Hitchcock #12	2.65%			10,346	
TX	Starr	El Paso E & P Co.	Guerra - USA D #16	8.19%			5,857	
TX	Starr	El Paso E & P Co.	Guerra - USA D #15	8.19%			2,088	

(1) WI means the working interest owned by the operating partnership and subject to the Net Profits Interest.

(2) NRI means the net revenue interest attributable to our royalty interest or to the operating partnership s royalty and working interest, which is subject to the Net Profits Interest.

Additional information concerning selected recent activity is summarized below:

Fayetteville Shale Trend of Northern Arkansas We own varying undivided perpetual mineral interests totaling 23,336/11,464 gross/net acres located in Cleburne, Conway, Faulkner, Franklin, Johnson, Pope, Van Buren, and White counties, Arkansas in an area commonly referred to as the Fayetteville Shale trend of the Arkoma Basin. One hundred twenty-nine wells have been permitted on the lands as of December 31, 2008, of which the operating partnership has an interest in 86. In total, 106 wells had been spud, 85 had been completed as producers and 20 were in various stages of drilling or completion operations. Wells that have been proposed to be drilled by the operator but for which permits have not yet been issued by the Arkansas Oil & Gas Commission are not reflected in this number. Available test results for wells completed in 2008, along with ownership interests owned by us and interests owned by the operating partnership subject to the Minerals NPI, are summarized in the following table.

County	Operator	Well Name	DMLP NRI(2)	DMOLP WI(1)	DMOLP NRI(2)	Gas Test Rates Mcf per day
Conway	SEECO	Green Bay Packaging 9-15 #4-29H30	2.099%	1.968%	1.502%	5,093
Conway	SEECO	Jerome Carr 9-15 #3-31H	2.189%	3.796%	2.847%	3,847
Conway	SEECO	Polk 9-15 #3-30H	5.930%	5.561%	4.245%	4,173
Conway	SEECO	Salinas, Reyes 9-15 #1-20H	1.504%	0.000%	0.000%	5,429
Van Buren	SEECO	Crow 10-15 #4-28H33	0.000%	5.306%	5.285%	2,882
Van Buren	SEECO	Handy 10-12 #1-18H	2.971%	6.344%	4.758%	2,392
Van Buren	SEECO	Handy 10-12 #2-18H	2.971%	6.344%	4.758%	3,328

Van Buren	SEECO	Howard Family Trust 10-12 #1-9H	2.344%	4.375%	3.281%	2,574
Van Buren	SEECO	Kenneth Williams 10-15 #1-25H	1.563%	1.250%	0.938%	3,511
Van Buren	SEECO	Love 10-12 #3-17H16	3.442%	5.052%	3.793%	1,618
Van Buren	SEECO	Robinson 9-13 #2-24H	1.786%	2.912%	2.194%	2,614
Van Buren	SEECO	Rothwell 9-12 #1-15H	1.953%	2.813%	2.109%	2,153
Van Buren	SEECO	Thacker 9-12 #1-21H	2.343%	4.375%	3.281%	1,999

(1) WI means the working interest owned by the operating partnership and subject to the Minerals NPI.

(2) NRI means the net revenue interest attributable to our royalty interest or to the operating partnership s royalty and working interest, which is subject to the Minerals NPI.

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Set forth below is a summary of all permitting, drilling and completion activity through December 31, 2008 for wells in which we have a royalty or Net Profits Interest. This includes wells subject to the Minerals NPI, which is currently in deficit status.

	2004	2005	2006	2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Total
New Well Permits	1	2	11	36	18	26	14	21	129
Wells Spud	0	1	9	33	12	17	21	13	106
Wells Completed	0	1	5	23	10	17	12	17	85
Royalty Wells in Pay Status (1)	0	0	0	6	5	8	10	7	36

(1) Wells in Pay Status means wells for which revenue was initially received during the indicated period.

Our estimated proved reserves as of December 31, 2008, include reserves attributable to our royalty interest in 70 wells totaled 1.37 bcf. Proved reserves attributable to working interests owned by the operating partnership totaled 1.51 bcf in 45 wells. These estimates only include wells for which test rates have been obtained.

Net cash receipts for the Royalty Properties attributable to interests in these lands totaled $1,870,000 in 2008 from 35 wells. Net cash receipts for the Minerals NPI properties attributable to interests in these lands totaled $1,977,000 in 2008 from 70 wells. Fourth quarter net cash receipts for the Royalty Properties and the Minerals NPI properties totaled $484,000 from 35 wells and $499,000 from 68 wells, respectively.

Horizontal Bakken, Williston Basin We own varying undivided perpetual mineral interests totaling 70,390/7,602 gross/net acres located in Burke, Divide, Dunn, McKenzie, Mountrail and Williams Counties, North Dakota. Operators active in this area include Continental Resources, EOG Resources, Hess Corporation and Marathon Oil Company. There have been a total of 64 wells permitted on these lands as of December 31, 2008 with 36 completed as producers. In all cases we have elected not to lease our lands and not to pay our share of well costs, thus becoming a non-consenting mineral owner. According to North Dakota law, non-consenting owners receive the average royalty rate from the date of first production and back-in for their full working interest after the operator has recovered 150% of drilling and completion costs. Once 150% payout occurs, the working interest will be owned by the operating partnership and subject to the Minerals NPI. Non-consenting owners are not entitled to well data other than public information available from the North Dakota Industrial Commission.

As of December 31, 2008, three wells had achieved 150% payout. One of these wells, the Risan 1-34H, is located in the Parshall field and operated by EOG Resources. The well initially tested at a rate of 817 barrels of oil and 308 mcf of gas per day. Our independent reserve engineers estimate gross ultimate reserves of 480,000 barrels of oil and 0.2 bcf of gas. At year-end the estimated remaining reserves were 279,000 barrels of oil and 0.1 bcf of gas. The operating partnership owns a 6.97% net revenue interest in this well.

Set forth below is a summary of all permitting, drilling and completion activity through December 31, 2008 for wells in which we have a royalty or Net Profits Interest. This includes wells subject to the Minerals NPI, which is currently in a deficit status.

	2004	2005	2006	2007	Q1 2008	Q2 2008	Q3 2008	Q4 2008	Total
New Well Permits	2	1	0	15	8	16	15	7	64
Wells Spud	1	1	0	11	2	10	10	9	44
Wells Completed	1	1	0	7	5	4	12	6	36
Wells in Pay Status (1)	0	0	0	0	0	2	1	0	3

(1) Wells in Pay Status means wells for which revenue was initially received during the indicated period.

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Bob West Field, Hidalgo County, Texas We own varying undivided mineral interests in several thousand acres in the Bob West Field area of western Starr County, Texas. A portion of this acreage has been leased and is currently operated by El Paso Exploration and Production Company. Recent development on these lands resulted in several high rate wells that impacted our production volumes and reserves. The Cow Creek Corporation #3 well was drilled to a depth of 15,080 feet and completed in June 2008 with an initial test rate of 14,812 mcf per day. Gross ultimate gas reserves of 8.0 bcf have been assigned to this well and we own a 10.24% net revenue interest. The Guerra USA D #15 was drilled to a depth of 13,185 feet and completed in March 2008 with an initial test rate of 2,088 mcf per day. The Guerra USA D #16 was drilled to a depth of 16,100 feet and completed in October 2008 with an initial test rate of 5,857 mcf per day. We own an 8.19% net revenue interest in these wells. As of December 31, 2008, one additional well was waiting on completion and another location was permitted.

Appalachian Basin We own varying undivided perpetual mineral interests in approximately 31,000/22,000 gross/net acres in 19 counties in southern New York and northern Pennsylvania. Approximately 75% of these net acres are located in eastern Allegany and western Steuben Counties, New York, an area which some industry press reports suggest may be prospective for gas production from unconventional reservoirs, including the Marcellus Shale. We continue to monitor industry activity and encourage dialogue with industry participants to determine the proper course of action regarding our interests in this area.

Oil and Natural Gas Reserves

The following table reflects the Partnership s proved developed and total proved reserves, future net revenues and Standardized Measure at December 31, 2006, 2007 and 2008. The reserves and future net revenues are based on the reports of the independent petroleum engineering consulting firms of Calhoun, Blair & Associates and Huddleston & Co., Inc. Other than those filed with the SEC, our estimated proved reserves have not been filed with or included in any reports to any federal agency.

	2008			2007			2006		
	Royalty Properties	Net Profits Interest(1)	Total	Royalty Properties	Net Profits Interest(1)	Total	Royalty Properties	Net Profits Interest(1)	Total
Proved reserves									
Natural gas (mmcf)	32,028	28,949	60,977	29,555	31,700	61,255	31,363	34,435	65,798
Oil (mbbls)	3,514	56	3,570	3,501	65	3,566	3,727	75	3,802
Future net revenues									
($, in thousands)	$ 269,995	$ 74,598	$ 344,593	$ 483,262	$ 121,503	$ 604,765	$ 344,893	$ 113,682	$ 458,575
Standardized Measure (2)									
($, in thousands)	$ 138,100	$ 51,384	$ 189,484	$ 233,513	$ 82,854	$ 316,367	$ 169,260	$ 76,899	$ 246,159

(1) Reserves, revenues and present values reflect 96.97% of the corresponding amounts assigned to the operating partnership s interests in the properties underlying the Net Profits Interests.

(2) We do not reflect a federal income tax provision since our partners include the income of our Partnership in their respective federal income tax returns.

Currently, proved oil and gas reserves means the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Please see the Glossary for the current definition of proved reserves. However, the SEC recently adopted final rules amending its oil and gas reporting requirements. See Notes to Consolidated Financial Statements Note 6 Unaudited Oil and Natural Gas Reserve and Standardized Measure Information for additional information.

Title to Properties

We believe we have satisfactory title to all of our assets. Record title to essentially all our assets has undergone the appropriate filings in the jurisdictions in which such assets are located. Title to property may be

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subject to encumbrances. We believe that none of such encumbrances should materially detract from the value of our properties or from our interest in these properties or should materially interfere with their use in the operation of our business.

ITEM 3. LEGAL PROCEEDINGS

In January 2002, some individuals and an association called Rural Residents for Natural Gas Rights sued Dorchester Hugoton, Ltd., along with several other operators in Texas County, Oklahoma regarding the use of natural gas from the wells in residences. The operating partnership now owns and operates the properties formerly owned by Dorchester Hugoton. These properties contribute a major portion of the Net Profits Interests amounts paid to us. On April 9, 2007, plaintiffs, for immaterial costs, dismissed with prejudice all claims against the operating partnership regarding such residential gas use. On October 4, 2004, the plaintiffs filed severed claims against the operating partnership regarding royalty underpayments, which the Texas County District Court subsequently dismissed with a grant of time to replead. On January 27, 2006, one of the original plaintiffs again sued the operating partnership for underpayment of royalty, seeking class action certification. On October 1, 2007, the Texas County District Court granted the operating partnership s motion for summary judgment finding no royalty underpayments. Subsequently, the District Court denied the plaintiff s motion for reconsideration, and the plaintiff filed an appeal. At present, the litigation awaits result of the appeal to the Oklahoma Supreme Court. An adverse appellate decision could reduce amounts we receive from the Net Profits Interests.

The Partnership and the operating partnership are involved in other legal and/or administrative proceedings arising in the ordinary course of their businesses, none of which have predictable outcomes and none of which are believed to have any significant effect on financial position or operating results.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF UNITHOLDERS

No matters were submitted to a vote of unitholders during the fourth quarter of the year ended December 31, 2008.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED UNITHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common units began trading on the NASDAQ National Market (now the NASDAQ Global Select Market) on February 3, 2003. The following summarizes the high and low sales information for the common units for the period indicated. The information below reflects inter-dealer prices without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

	2008		2007	
	High	Low	High	Low
First Quarter	$ 22.00	$ 18.70	$ 23.10	$ 20.52
Second Quarter	$ 36.49	$ 20.65	$ 24.05	$ 21.27
Third Quarter	$ 35.84	$ 19.24	$ 24.09	$ 18.50
Fourth Quarter	$ 24.00	$ 14.80	$ 23.45	$ 19.00

As of December 31, 2008, there were 12,146 common unitholders.

Beginning with the quarter ended March 31, 2003, as required by our partnership agreement, we distributed and will continue to distribute, on a quarterly basis, within 45 days of the end of the quarter, all of our available cash. Available cash means all cash and cash equivalents on hand at the end of that quarter, less any amount of cash reserves that our general partner determines is necessary or appropriate to provide for the conduct of its business or to comply with applicable laws or agreements or obligations to which we may be subject.

Unitholder cash distributions per common unit for the past four years have been:

	Per Unit Amount			
	2008	2007	2006	2005
First Quarter	$ 0.572300	$ 0.461146	$ 0.729852	$ 0.481242
Second Quarter	$ 0.769206	$ 0.473745	$ 0.778120	$ 0.514542
Third Quarter	$ 0.948472	$ 0.560502	$ 0.516082	$ 0.577287
Fourth Quarter	$ 0.542081	$ 0.514625	$ 0.478596	$ 0.805543

These distributions were paid on 28,240,431 units. Fourth quarter distributions are paid in February of the following calendar year to unitholders of record in January or February of such following year. The partnership agreement requires the next cash distribution to be paid by May 15, 2009.

Please see Fourth Quarter 2008 Distribution Indicated Price discussion contained in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Distributions for production periods and cash receipts and weighted average prices corresponding to the fourth quarter 2008 distribution.

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Performance Graph

The following graph compares the performance of our common units with the performance of the NASDAQ Composite Index (the NASDAQ Index) and a peer group index from December 31, 2003, through December 31, 2008. The graph assumes that at the beginning of the period, $100 was invested in each of (1) our common units, (2) the NASDAQ Index, and (3) the peer group, and that all distributions or dividends were reinvested. We do not believe that any published industry or line-of-business index accurately reflects our business. Accordingly, we have created a special peer group index consisting of companies whose royalty trust units are publicly traded on the New York Stock Exchange. Our peer group index includes the units of the following companies: Cross Timbers Royalty Trust, Mesa Royalty Trust, Sabine Royalty Trust, Permian Basin Royalty Trust, Hugoton Royalty Trust and the San Juan Basin Royalty Trust.

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ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

Basis of Presentation

This table should be read in conjunction with the consolidated financial statements and related notes included elsewhere in this document.

	Fiscal Year Ended December 31, (in thousands, except per unit data)				
	2008	**2007**	**2006**	**2005**	**2004**
Total operating revenues	$ 89,925	$ 65,365	$ 74,927	$ 79,832	$ 57,028
Depreciation, depletion and amortization	14,739	15,567	18,470	20,858	20,795
Net earnings (loss)	66,783	43,048	50,210	52,775	30,076
Net earnings (loss) per unit	2.30	1.48	1.72	1.82	1.07
Cash distributions (1)	81,648	57,401	82,295	58,028	47,701
Cash distributions per unit (1)	2.80	1.97	2.83	2.00	1.70
Total assets	139,562	154,251	168,429	200,830	206,173
Total liabilities	980	804	629	945	1,035
Partners capital	138,582	153,447	167,800	199,885	205,138

(1) Because of depletion (which is usually higher in the early years of production), a portion of every distribution of revenues from properties represents a return of a limited partner s original investment. Until a limited partner receives cash distributions equal to his original investment, in certain circumstances, 100% of such distributions may be deemed to be a return of capital. Cash distributions by year exclude the fourth quarter distribution declared in January of the following year, but include the prior year fourth quarter distribution declared in January of the current year.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

2008 Overview

2008 was a strong year for us, both financially and operationally. Significant results include the following:

- Net income of $66.8 million;
- Distributions of $79.2 million to our limited partners;
- Identified 423 new wells located on our Royalty Properties in 10 states;
- Identified 48 new wells located on our Net Profits Interest Properties in five states; and
- Consummated 62 leases of our mineral interest in undeveloped properties located in 24 counties and parishes in four states.

Critical Accounting Policies

We utilize the full cost method of accounting for costs related to our oil and gas properties. Under this method, all such costs are capitalized and amortized on an aggregate basis over the estimated lives of the properties using the units-of-production method. These capitalized costs are subject to a ceiling test, however, which limits such pooled costs to the aggregate of the present value of future net revenues attributable to proved oil and gas reserves discounted at 10% plus the lower of cost or market value of unproved properties. Our Partnership did not assign any book or market value to unproved properties, including nonproducing royalty, mineral and leasehold interests. The full cost ceiling is evaluated at the end of each quarter and when events indicate possible impairment. No impairments have been recorded since 2003.

The discounted present value of our proved oil and gas reserves is a major component of the ceiling calculation and requires many subjective judgments. Estimates of reserves are forecasts based on engineering and

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geological analyses. Different reserve engineers may reach different conclusions as to estimated quantities of natural gas or crude oil reserves based on the same information. Our reserve estimates are prepared by independent consultants. The passage of time provides more qualitative information regarding reserve estimates, and revisions are made to prior estimates based on updated information. However, there can be no assurance that more significant revisions will not be necessary in the future. Significant downward revisions could result in an impairment representing a non-cash charge to earnings. In addition to the impact on calculation of the ceiling test, estimates of proved reserves are also a major component of the calculation of depletion.

While the quantities of proved reserves require substantial judgment, the associated prices of oil and gas reserves that are included in the discounted present value of our reserves are objectively determined. The ceiling test calculation requires use of prices and costs in effect as of the last day of the accounting period, which are generally held constant for the life of the properties. As a result, the present value is not necessarily an indication of the fair value of the reserves. Oil and gas prices have historically been volatile, and the prevailing prices at any given time may not reflect our Partnership s or the industry s forecast of future prices.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. For example, estimates of uncollected revenues and unpaid expenses from Royalty Properties and Net Profits Interests operated by non-affiliated entities are particularly subjective due to the inability to gain accurate and timely information. Therefore, actual results could differ from those estimates. Please see Item 1. Business Customers and Pricing and Item 2. Properties Royalty Properties for additional discussion.

New Accounting Standards

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Accounting Standards No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under SFAS 157, fair value measurements are disclosed by level within that hierarchy. In February 2008, the FASB issued FASB Staff Position 157-2, *Effective Date of FASB Statement No. 157* (FSP 157-2), which permits a one-year deferral for the implementation of SFAS 157 with regard to nonfinancial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. We adopted SFAS 157 for the fiscal year beginning January 1, 2008 with no material impact on our consolidated financial statements. We will adopt the delayed portion for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis beginning January 1, 2009. We do not anticipate a material impact on our consolidated financial statements for this delayed portion.

In December 2007, the FASB issued Statement of Financial Accounting Standards 141 (revised 2007), *Business Combinations* (SFAS 141(R)). SFAS 141(R), among other things, establishes principles and requirements for how the acquirer in a business combination (a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquired business, (b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase, and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for fiscal years beginning on or after December 15, 2008, with early adoption prohibited. We are required to adopt SFAS 141(R) for all business combinations for which the acquisition date is on or after January 1, 2009. The adoption will not have an immediate impact on our consolidated financial statements.

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Contractual Obligations

Our office lease in Dallas, Texas comprises our contractual obligations.

		Payments due by Period			
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
Operating Lease Obligations	$ 1,505,000	$ 225,000	$ 465,000	$ 489,000	$ 326,000

Name and Principal Position Year

Salary

($)

Bonus

($)

Stock Awards (2)

($)

Option

Awards (3)

($)

Non-Equity Incentive Plan Compen-

sation (4)

($)

Change in Pension Value and Nonqualified Deferred Compen-

sation
Earnings (5)

($)

All

Other

Compen-

sation (6)

($)

Total

($)

(a)

(b) (c) (d) (e) (f) (g) (h) (i) (j)

J. J. O Brien

2008 1,110,925 0 1,142,774 1,585,670 445,355 0 103,457 4,388,181

Chairman of the Board and CEO

2007 1,062,045 0 1,457,124 1,751,064 890,051 1,323,986 128,211 6,612,481

L. M. Chambers (1)

2008 320,476 0 65,591 87,795 84,760 0 17,533 576,155

Senior Vice President and CFO

J. M. Quin (1)

2008 426,822 0 199,907 694,424 118,345 340,225 37,385 1,817,108

Former Senior Vice President and CFO

2007 519,064 0 291,330 449,881 326,483 159,176 42,915 1,788,849

D. L. Hausrath

2008 446,199 0 323,380 371,192 137,413 0 39,331 1,317,515

Senior Vice President and General Counsel

2007 421,437 0 372,421 390,263 271,914 59,055 33,023 1,548,113

S. J. Mitchell

2008 333,777 0 185,281 172,445 326,022 53,119 30,360 1,101,004

Vice President and President of Ashland Consumer Markets

2007 325,574 0 200,412 191,855 347,650 105,060 31,904 1,202,455

F. L. Waters (1)

2008 354,331 0 222,788 190,396 64,812 0 32,959 865,286

Vice President and Former President of Ashland Performance Materials and Ashland Water Technologies

2007 337,054 0 174,240 209,807 162,140 156,100 29,321 1,068,662

(1) Mr. Quin retired on May 31, 2008. Mr. Chambers was elected Senior Vice President and CFO effective June 1, 2008. Effective November 13, 2008, Mr. Waters ceased to be an executive officer of Ashland and his active employment will end on December 31, 2008. Mr. Waters will receive salary continuation for two years (through December 31, 2010) and other benefits pursuant to his employment agreement, which are described in the Potential Payments upon Termination or Change in Control section in this proxy statement.

(2) This column (e) shows the dollar amount recognized as an expense in fiscal year 2008 for financial reporting purposes measured in accordance with FAS 123R for (i) outstanding unvested restricted stock granted in fiscal 2008 or previous years and (ii) performance share unit awards (LTIP grants) granted in fiscal 2008 or previous years. For restricted stock, the grant date fair value is calculated using the closing price of Ashland Common Stock on the date of grant.

For LTIP grants, the accrual for performance share units was based on a combined valuation of the original grant date and an updated estimate of the likely performance achievement for expense purposes under FAS 123R. Any amounts actually paid are dependent on Ashland and peer performance achievements within the award s applicable time period, which at this point are substantially uncertain. The LTIP is more particularly described in the Compensation Discussion and Analysis and under the Grants of Plan-Based Awards table in this proxy statement.

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(3) This column (f) shows the dollar amount recognized as an expense in fiscal year 2008 for financial reporting purposes under FAS 123R for unvested SARs granted. Pursuant to SEC rules, these dollar amounts disregard the estimate of forfeitures related to service based vesting conditions. The amount for Mr. Quin includes the accelerated vesting of 48,782 SARs effective upon his retirement. The grant date fair value is calculated using the Black-Scholes valuation model and various stock price assumptions as further described in Note M to the Notes to Consolidated Financial Statements in Ashland s 2008 Form 10-K.

(4) This column (g) identifies the amounts paid in November 2008 for annual incentive awards established in early fiscal 2008 under Ashland s annual incentive plan. The annual incentive is described in the Compensation Discussion and Analysis and under the Grants of Plan-Based Awards table in this proxy statement.

(5) Ashland s nonqualified deferred compensation arrangements do not provide above-market or preferential earnings; therefore, the amounts in column (h) represent only the one year change between September 30, 2007 and September 30, 2008 in the present value of accrued benefits under three plans, a qualified defined benefit plan and two nonqualified defined benefit plans. This corresponds to the plans measurement date used for financial reporting purposes. However, the change in Mr. Quin s present value of pension benefits is the difference between the values at September 30, 2007 and May 31, 2008, the date his employment ended and his benefit accruals ceased. These plans are more fully discussed in the narrative to the Pension Benefits table in this proxy statement. The named executive officers for whom the amount in this column (h) is zero had decreases to their total pension values as follows: Mr. O Brien ($1,044,502); Mr. Chambers ($242,455); Mr. Hausrath ($302,630); and Mr. Waters ($81,667).

The present values at September 30, 2007 and September 30, 2008 (May 31, 2008 in the case of Mr. Quin) were calculated based on the earliest age that a participant could receive an unreduced benefit (see the discussion under the Pension Benefits table in this proxy statement regarding the earliest retirement age under the various plans).

(6) Amounts reported in this column (i) for fiscal year 2008 are composed of the following items:

	J. J. O Brien	L. M. Chambers	J. M. Quin	D. L. Hausrath	S. J. Mitchell	F. L. Waters
Employee Savings Plan Match (a)	$ 11,347	$ 12,436	$ 12,650	$ 11,288	$ 12,650	$ 10,879
Supplemental Employee Savings Plan Match (b)	47,316	4,035	10,156	12,312	5,708	8,249
Life Insurance Premiums (c)	2,919	969	2,043	1,678	530	550
Tax Reimbursements (d)	15,301	93	0	93	180	0
Other (e)	26,574	0	12,536	13,960	11,292	13,281
Total	$ 103,457	$ 17,533	$ 37,385	$ 39,331	$ 30,360	$ 32,959

(a) The amounts in this row represent the contributions by Ashland to the accounts of each of the named executive officers in the Employee Savings Plan.

(b) The amounts in this row represent payments by Ashland for the named executive officers that would have been made as matching contributions to the Employee Savings Plan, but for the limitations placed on such contributions under the Internal Revenue Code.

(c) The amounts in this row represent the value of life insurance premiums paid on behalf of the named executive officers.

(d) The amounts in this row represent the value of reimbursed taxes owed by the named executive officer and received from Ashland.

(e) In accordance with SEC rules, disclosure of perquisites and other personal benefits is omitted if the aggregate amount of such compensation for an executive is less than $10,000 for the given year. If the total amount exceeds $10,000, each perquisite must be identified by type, and if the amount of a perquisite exceeds the greater of $25,000 or 10% of total perquisites, its value must be disclosed. The amounts in this row represent the amount of aggregate incremental cost to Ashland with respect to any personal use of Company aircraft, tax and financial planning services, and installation and monitoring of home security systems, none of which exceeded $25,000 as a category for any named executive officer.

Executive Employment Agreements

Each named executive officer has an employment agreement that provides for certain severance benefits and additional benefits in the event of a change in control. Those agreements are described in the Potential Payments upon Termination or Change in Control section in this proxy statement.

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Grants of Plan-Based Awards

The following table sets forth certain information regarding the annual and long term incentive awards, SARs and restricted stock granted during fiscal 2008 to each of the named executive officers.

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards (1)			Estimated Future Payouts Under Equity Incentive Plan Awards (2)			All Other Stock Awards: Number of Shares of Stock or Units	All Other Option Awards: Number of Securities Underlying Options	Exercise or Base Price of Option Awards	Grant Date Fair Value of Stock and Option Awards
		Threshold	Target	Maximum	Threshold	Target	Maximum				
		($)	($)	($)	(#)	(#)	(#)	(#) (3)	(#) (4)	($/Sh)	($) (5)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)	(l)
J. J. O Brien	11/14/07	267,480	1,337,400	2,006,100							
	11/14/07				8,778	35,111	70,222				1,872,470
	11/14/07								105,000	53.33	1,325,100
L. M. Chambers	11/14/07	50,906	254,531	381,797							
	11/14/07				605	2,418	4,836				128,952
	11/14/07								5,500	53.33	69,410
	05/14/08							9,000			520,200
J. M. Quin	11/14/07	94,770	473,850	710,775							
	11/14/07				1,717	6,869	13,738				366,324
	11/14/07								24,000	53.33	361,920
D. L. Hausrath	11/14/07	82,530	412,650	618,975							
	11/14/07				1,252	5,006	10,012				266,970
	11/14/07								22,000	53.33	277,640
S. J. Mitchell	11/14/07	61,110	305,550	458,325							
	11/14/07				945	3,779	7,558				201,534
	11/14/07								10,500	53.33	132,510
F. L. Waters	11/14/07	64,170	320,850	481,275							
	11/14/07				978	3,910	7,820				208,520
	11/14/07								10,500	53.33	132,510

(1) The dollar amounts in these columns represent the potential annual incentive amounts established in early fiscal 2008 under the 2006 Ashland Inc. Incentive Plan (Ashland Incentive Plan) for performance during fiscal 2008. The actual dollar amounts earned were determined and paid in November 2008. Mr. Quin was entitled to a pro-rata amount based on his retirement date of May 31, 2008. These dollar amounts are included in column (g) in the fiscal 2008 row of the Summary Compensation Table.

(2) The amounts in these columns represent LTIP grants for the 2008-2010 performance period under the Ashland Incentive Plan. Mr. Quin will be entitled to a pro-rata amount based on his retirement date of May 31, 2008. Payments, if any, under this award will be made in shares of Ashland Common Stock on a one for one basis at the end of the three year performance period.

(3) On May 14, 2008, Mr. Chambers received a grant of 9,000 shares of restricted Ashland Common Stock pursuant to the Ashland Incentive Plan. The grant will vest in four years, on May 14, 2012.

(4) All the awards identified in column (j) are for SARs granted under the Ashland Incentive Plan. The vesting for Mr. Quin s SARs was accelerated to May 31, 2008. All SARs were granted at an exercise price of $53.33 per SAR, the closing price of Ashland Common Stock as reported on the New York Stock Exchange Composite Tape on November 14, 2007, the grant date.

(5) The dollar amounts in column (l) are calculated in accordance with FAS 123R and assume (i) payment of LTIP awards at target multiplied by the closing price of Ashland Common Stock of $53.33 as reported on the New York Stock Exchange Composite Tape on November 14, 2007, the grant date; (ii) valuation of all SARs using the Black-Scholes valuation model ($12.62 per SAR) for all named executive officers except

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Mr. Quin ($15.08 per SAR); and (iii) the grant date fair value for restricted stock awards is calculated using the closing price of Ashland Common Stock of $57.80 as reported on the New York Stock Exchange Composite Tape on May 14, 2008, the grant date. For further information on the Black-Scholes model and related stock price assumptions utilized during fiscal 2008, see Note N to the Notes to Consolidated Financial Statements in Ashland s 2008 Form 10-K.

Annual Incentive Compensation

Incentive compensation for executives is awarded annually, contingent upon meeting applicable targets. After the beginning of each fiscal year, performance hurdle, target and maximum objectives are established for the upcoming year. Awards for the Chief Executive Officer and certain other executive officers are based upon overall Ashland performance as well as the performance of Ashland s business sectors. Awards for other executives and employees are based upon the performance of Ashland s wholly-owned divisions. Awards for division employees are based primarily on division performance.

For fiscal 2008, the objectives were set with respect to consolidated and commercial unit cash generation and consolidated and commercial unit operating income. The Compensation Discussion and Analysis section in this proxy statement discusses the fiscal 2008 performance goals as well as other aspects of this program.

Long-Term Incentive Program

The LTIP is available to certain key employees. It is a long-term incentive tied to Ashland s performance versus the performance of Ashland s peer group of companies. Awards are granted annually, with each award covering a three-year performance period.

After the beginning of the performance period, performance hurdle, target and maximum objectives are established for the performance period. The initial number of performance units awarded is based on the employee s salary and salary band. Target grants under the program range from 20% to 200% of an employee s base salary. The Compensation Discussion and Analysis section in this proxy statement discusses the performance goals for outstanding LTIP awards.

Stock Appreciation Rights, Stock Options and Restricted Stock

Ashland s employee stock option and SARs program is a long-term plan designed to link executive compensation with increased shareholder value over time. In determining the amount of stock options or SARs to be granted annually to key employees, a target number of shares for each employee grade level is established. All stock options and SARs granted to the named executive officers are granted with an exercise price equal to the fair market value of Ashland Common Stock on the date of grant. Vesting of stock options and SARs occurs over a period of three years, as more fully described in footnote (2) of the Outstanding Equity Awards at Fiscal Year-End table in this proxy statement. For accelerated vesting events, see the chart in the Stock Options, SARs, Incentive Compensation, Restricted Stock and LTIP section in this proxy statement. Stock options and SARs are not re-valued if the stock price declines below the grant price.

In addition, the P&C Committee may award restricted shares of Ashland Common Stock and/or restricted share equivalents to key employees. Restricted share awards are intended to reward superior performance and encourage continued employment with Ashland. The restricted shares may not be sold, assigned, transferred or otherwise encumbered during the restricted period. Dividends are paid on the restricted shares and the employee to whom the restricted shares were granted receives those dividends. For vesting periods applicable to restricted Ashland Common Stock granted to named executive officers, see footnote (3) of the Outstanding Equity Awards at Fiscal Year-End table in this proxy statement. For accelerated vesting events, see the chart in the Stock Options, SARs, Incentive Compensation, Restricted Stock and LTIP section in this proxy statement.

These programs are described in more detail in the Compensation Discussion and Analysis section in this proxy statement.

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Outstanding Equity Awards at Fiscal Year-End (1)

The following table sets forth certain information regarding options, SARs, restricted stock and LTIP performance units held by each of the named executive officers at September 30, 2008.

	Option Awards					Stock Awards			
Name (a)	Number of Securities Underlying Unexercised Options Exercisable (#) (b)	Number of Securities Underlying Unexercised Options Unexercisable (2) (#) (c)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#) (d)	Option Exercise Price ($) (e)	Option Expiration Date (f)	Number of Shares or Units of Stock That Have Not Vested (3) (#) (g)	Market Value of Shares or Units of Stock That Have Not Vested (3) ($) (h)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (4) (#) (i)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (4) ($) (j)
J. J. O Brien	0	105,000	0	53.33	12/14/17				
	55,000	55,000	0	65.78	12/15/16				
	152,744	0	0	49.79	10/15/15				
	213,765	0	0	38.47	10/16/14	10,100	295,323	72,847	2,155,542
L. M. Chambers	0	5,500	0	53.33	12/14/17				
	3,100	3,100	0	65.78	12/15/16				
	8,812	0	0	49.79	10/15/15				
	10,687	0	0	38.47	10/16/14				
	3,562	0	0	23.87	10/18/13				
	10,687	0	0	19.75	10/19/12				
	7,124	0	0	25.54	10/20/11				
	28,502	0	0	25.71	10/16/09	13,739	401,723	5,091	150,643
J. M. Quin	24,000	0	0	53.33	12/14/17				
	29,000	0	0	65.78	12/15/16				
	41,123	0	0	49.79	10/15/15				

	49,878	0	0	38.47	10/16/14				
	28,502	0	0	23.87	10/18/13				
	32,064	0	0	19.75	10/19/12				
						2,708	79,180		
								5,769	170,704
D. L. Hausrath	0	22,200	0	53.33	12/14/17				
	12,600	12,600	0	65.78	12/15/16				
	41,123	0	0	49.79	10/15/15				
	35,627	0	0	38.47	10/16/14				
						10,129	296,180		
						3,784	150,868		
								10,309	305,044
S. J. Mitchell	0	10,500	0	53.33	12/14/17				
	6,150	6,150	0	65.78	12/15/16				
	17,624	0	0	49.79	10/15/15				
	21,375	0	0	38.47	10/16/14				
	9,375	0	0	23.87	10/18/13				
	10,000	0	0	32.28	02/29/12				
						7,078	206,949		
								7,962	235,596
F. L. Waters	0	10,500	0	53.33	1/30/2011(5)				
	6,150	6,150	0	65.78	1/30/2011(5)				
	23,499	0	0	49.79	1/30/2011(5)				
	21,375	0	0	38.47	1/30/2011(5)				
	10,688	0	0	23.87	1/30/2011(5)				
	18,525	0	0	32.28	1/30/2011(5)				
						7,078	206,949		
								8,093	239,472

(1) As a result of the closing of the Marathon Ashland Petroleum (MAP) transaction between Ashland and Marathon Oil Company on June 30, 2005, Ashland shareholders received a 0.2364 share of Marathon Common Stock for each share of Ashland Common Stock they held at close of business that day. Ashland adjusted the terms of all vested and unvested options and SARs outstanding on June 30, 2005, to maintain their intrinsic value.

Ashland paid a special dividend on October 25, 2006, in the amount of $10.20 per share, to shareholders of record on October 10, 2006. Ashland adjusted the terms of all vested and unvested options and SARs outstanding on October 10, 2006, to maintain their intrinsic value.

(2) The numbers in column (c) relate to SARs, which vest over a three year period measured from the date of grant. Fifty percent vests after the first year and 25% vests in each of the remaining two years.

(3) Except for Messrs. O Brien and Quin, the numbers in column (g) and the dollar values in column (h) relate to the best available estimate for the payment of the LTIP for the 2006-2008 performance period (which is payable in cash) and unvested shares of restricted Ashland Common Stock. Messrs. O Brien and Quin did not have any unvested shares of restricted Ashland Common Stock; therefore, the amounts reported in columns (g) and (h) for them relate solely to the LTIP for the 2006-2008 performance period, for which Mr. Quin receives a pro-rated portion. The numbers in column (g) for Messrs. Chambers, Hausrath, Mitchell and Waters that relate to the LTIP for the 2006-2008 performance period are, respectively, 1,139, 2,129, 1,678, and 1,678. This LTIP was earned by the end of fiscal 2008, but is subject to forfeiture if the executive is not an employee on the date it is paid, which is typically in February of the following calendar year. Pursuant to the terms of his employment agreement, Mr. Waters will receive payment for the 2006-2008 LTIP, even though his active employment will end December 31, 2008. Mr. Chambers received a grant of restricted stock on July 17, 2002 that will complete its final 30% vesting on July 17, 2009. Mr. Chambers numbers reflect 3,600 shares of restricted Ashland Common Stock related to this grant. In addition, Mr. Chambers also received a grant of 9,000 shares of restricted stock on May 14, 2008 that will vest 100% on May 14, 2012, and is reflected in this column. Messrs. Mitchell and Waters received grants of restricted stock on July 17, 2002 that will complete their final 30% vesting on July 17, 2009. Messrs. Mitchell s and Waters numbers reflect 5,400 shares of restricted Ashland Common Stock. Mr. Hausrath received a restricted stock grant on January 29, 2004 that will complete its final 40% vesting on January 29, 2009. Mr. Hausrath s numbers reflect 8,000 shares of restricted Ashland Common Stock and 3,784 shares of restricted Marathon Common Stock received pursuant to the MAP transaction. The dollar values in column (h) are calculated using the closing price of Ashland Common Stock of $29.24 (and Marathon Common Stock of $39.87 as applicable) as reported on the New York Stock Exchange Composite Tape on September 30, 2008.

(4) The numbers in column (i) represent the estimated units granted through September 30, 2008 under the LTIP. The estimated number is computed assuming that the target performance goals are achieved and Mr. Quin s is prorated. The dollar amounts in column (j) correspond to the units identified in column (i). The dollar value is computed by converting the units to shares of Ashland Common Stock on a one for one basis. The number of shares is then multiplied by the average ten day closing price prior to September 30, 2008 of Ashland Common Stock ($29.59) as reported on the New York Stock Exchange Composite Tape. Payment, if any, under LTIP awards will be in Ashland Common Stock for the 2007-2009 and the 2008-2010 performance periods.

(5) At the time of the grant, the SARs for Mr. Waters were scheduled to expire in the following order: 12/14/2017, 12/15/2016, 10/15/2015, 10/16/2014, 10/18/2013 and 2/29/2012. Mr. Waters will be separating from employment before these dates. Under the terms of Mr. Waters employment agreement, he will have 30 days from the end of his two year salary continuation period to exercise his vested SARs and any outstanding options, which is January 30, 2011.

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Option Exercises and Stock Vested

The following table sets forth certain information regarding the value realized by each named executive officer during fiscal 2008 upon the exercise of stock options/SARs and vesting of restricted stock and performance shares.

	Option Awards (1)		Stock Awards	
Name (a)	Number of Shares Acquired on Exercise (#) (b)	Value Realized on Exercise (2) ($) (c)	Number of Shares Acquired on Vesting (3) (#) (d)	Value Realized on Vesting (3) ($) (e)
J. J. O Brien	0	0	21,759	1,310,110
L. M. Chambers	7,124	159,686	2,592	156,065
J. M. Quin	0	0	7,996 (4)	477,756 (4)
D. L. Hausrath	0	0	4,946	297,800
S. J. Mitchell	0	0	3,764	226,632
F. L. Waters	0	0	4,110	247,464

(1) As described in footnote (1) to the Outstanding Equity Awards at Fiscal Year-End table, the options and SARs were adjusted for the MAP transaction and the special dividend paid on October 25, 2006.

(2) The amounts in this column (c) represent the product of (i) the number of shares acquired on exercise, multiplied by (ii) the excess of the closing market price of Ashland Common Stock on the date of exercise over the exercise price of the option or SAR. The exercise price is the closing price of Ashland Common Stock as reported on the New York Stock Exchange Composite Tape on the date the option or SAR was granted.

(3) The numbers in this column (d) include the number of LTIP units for the 2005-2007 performance period for which payments were made in February 2008. The dollar amounts for those payments are included in the dollar amounts in column (e) of the table. The LTIP units included for Messrs. O Brien, Chambers, Quin, Hausrath, Mitchell, and Waters, respectively, are 21,759, 2,592, 6,329, 4,946, 3,764 and 4,110. The dollar payments for these units are computed by multiplying an executive s earned units by $60.21, the closing price of Ashland Common Stock as reported on the New York Stock Exchange Composite Tape on September 28, 2007. The dollar amounts included for Messrs. O Brien, Chambers, Quin, Hausrath, Mitchell and Waters were, respectively, $1,310,110, $156,065, $381,070, $297,800, $226,632 and $247,464.

(4) In addition, the amount in this column (d) represents the number of shares of restricted Ashland Common Stock that vested for Mr. Quin (1,667). Also, the amount in this column (e) for Mr. Quin represents $96,686 of value realized on vesting of shares of restricted Ashland Common Stock, based upon the closing price of Ashland Common Stock as reported on the New York Stock Exchange Composite Tape on the date of vesting. For Mr. Quin, the date of vesting was May 16, 2008 ($58.00 per share).

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Pension Benefits

The following table shows the actual present value of the named executive officers accumulated benefit under each of Ashland s qualified and nonqualified pension plans, calculated as of September 30, 2008.

Name (a)	Plan Name (2) (b)	Number of Years Credited Service (3) (#) (c)	Present Value of Accumulated Benefit ($) (d)	Payments During Last Fiscal Year ($) (e)
J. J. O Brien	Ashland Inc. and Affiliates Pension Plan	29 years 4 months	517,272	0
	Ashland Inc. Excess Benefit Pension Plan	29 years 4 months	2,013,854	0
				0
	Ashland Inc. Supplemental Early Retirement Plan for Certain Employees	32 years 3 months	6,712,161	
L.M. Chambers	Ashland Inc. and Affiliates Pension Plan	28 years 6 months	486,701	0
	Ashland Inc. Excess Benefit Pension Plan	28 years 6 months	189,318	0
				0
	Ashland Inc. Supplemental Early Retirement Plan for Certain Employees	32 years 3 months	1,439,146	
J. M. Quin (1)	Ashland Inc. and Affiliates Pension Plan	34 years 11 months	1,082,435	31,070
	Ashland Inc. Excess Benefit Pension Plan	34 years 11 months	1,575,866	0
				0

	Ashland Inc. Supplemental Early Retirement Plan for Certain Employees	35 years 11 months	2,427,553	
D. L. Hausrath	Ashland Inc. and Affiliates Pension Plan	26 years 7 months	557,521	0
				0
	Ashland Inc. Excess Benefit Pension Plan	26 years 7 months	542,795	0
	Ashland Inc. Supplemental Early Retirement Plan for Certain Employees	28 years 0 months	2,253,977	
S. J. Mitchell	Ashland Inc. and Affiliates Pension Plan	10 years 5 months	129,877	0
				0
	Ashland Inc. Excess Benefit Pension Plan	10 years 5 months	47,249	0
	Ashland Inc. Supplemental Early Retirement Plan for Certain Employees	11 years 5 months	869,537	
F. L. Waters	Ashland Inc. and Affiliates Pension Plan	16 years 1 month	169,685	0
				0
	Ashland Inc. Excess Benefit Pension Plan	16 years 1 month	91,814	0
	Ashland Inc. Supplemental Early Retirement Plan for Certain Employees	17 years 1 month	1,154,502	

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(1) Effective May 31, 2008, Mr. Quin retired. Therefore, the present value of his accumulated benefit is calculated as of May 31, 2008. Because of the rules under §409A of the Internal Revenue Code (the Code), the distribution of Mr. Quin s benefits under the Excess Plan and SERP are delayed until December 2008. He elected to have these benefits paid in a lump sum.

(2) The Ashland Inc. and Affiliates Pension Plan is a tax-qualified plan under §401(a) of the Code. The Ashland Inc. Excess Benefit Pension Plan is a nonqualified plan that is coordinated with the tax-qualified plan. The SERP is a nonqualified plan. The material terms of each of these plans are described in the narrative below.

(3) The number of years of credited service for the named executive officers under the SERP is different from the number of years identified for the other two plans. The reason for this difference is that the service identified for the qualified Pension Plan and the nonqualified Excess Benefit Plan is measured from and after becoming a participant in the qualified Pension Plan, whereas the SERP is measured from date of hire. The qualified Pension Plan presently has an age 21 and one year of service requirement to be a participant. For Messrs. O Brien and Chambers, the difference between the credited service numbers is because there was an age 25 requirement to participate in the qualified Pension Plan when they were hired, and both were under age 25 when they were hired. For Mr. Hausrath, the difference between the credited service numbers is because there was a contribution requirement when he was eligible to participate in the qualified Pension Plan and he did not begin to contribute when he first became eligible.

Assumptions

Except for Mr. Quin, the present values of the accumulated benefits were calculated as of September 30, 2008 based on the earliest age a participant could receive an unreduced benefit. For Mr. Quin, the values of his accumulated benefits are computed on the basis of his actual age as of his retirement date, May 31, 2008.

Except for Mr. Mitchell, the earliest age that an unreduced benefit is available under the qualified Pension Plan and the nonqualified Excess Plan is 62. For Mr. Mitchell age 55 is the earliest age he may receive unreduced benefits under the qualified Pension Plan and the nonqualified Excess Plan because his qualified Pension Plan benefits are calculated under the cash balance pension formula. All of the other named executive officers have their qualified Pension Plan benefits calculated under the traditional pension formula. Except for Messrs. Mitchell and Waters, all of the named executive officers are eligible for early retirement under each of these plans.

Under the SERP, the earliest age a named executive officer could receive an unreduced benefit is the earlier of age 55 or 80 points (sum of age and service equals at least 80), provided that the officers have at least 20 years of service under the plan. All the named executive officers except Messrs. Mitchell and Waters have at least 20 years of service under the plan.

Except for Mr. Mitchell, the named executive officers have a benefit in Ashland s qualified LESOP. The LESOP was completely allocated on March 31, 1996 and no additional benefits are accruing. The LESOP and qualified Pension Plan are in a floor-offset arrangement. The value of the shares allocated to a participant s LESOP offset account reduces the value of the participant s Pension Plan benefit. A participant may elect to transfer his or her LESOP offset account to the Pension Plan at the time of his or her termination in order to receive an unreduced Pension Plan benefit. The calculations in the Pension table assume that the named executive officers with a LESOP benefit elect to transfer their LESOP offset accounts to the Pension Plan.

The SERP provides an umbrella (or gross) benefit that is subject to certain reductions. The amount in the Pension table for the SERP benefit for each named executive officer is the net benefit under that plan, after applicable reductions. The reductions referred to in this paragraph are described in the Ashland Inc. Supplemental Early Retirement Plan for Certain Employees (SERP) section below.

The valuation method and all material assumptions applied in quantifying the present value of the accumulated benefit are incorporated by reference from Note O to Ashland s Notes to Consolidated Financial Statements in Ashland s 2008 Form 10-K.

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Ashland Inc. and Affiliates Pension Plan (Pension Plan)

The Pension Plan is a tax-qualified defined benefit pension plan under Code §401(a). The plan provides retirement income for eligible participants.

The plan covers a wide range of employees sufficient to meet the coverage standards of Code §410(b). Eligible employees must be age 21 and have one year of service to participate. Participation is automatic once the requirements are met. Five years of service is required for a vested benefit.

The plan has two benefit formulas a traditional formula, referred to as the annuity benefit, and a cash balance formula, referred to as the retirement growth account. The traditional formula produces an annuity benefit at retirement based on a percentage of final average compensation multiplied by years of plan service (see description in Annuity Benefit section below). The cash balance formula produces a hypothetical account balance based on the sum of contribution credits and interest on those contribution credits (see description in Retirement Growth Account Benefits below). In general, participants who were actively employed on June 30, 2003 with at least 10 years of service remained in the annuity benefit formula. All other participants moved to the retirement growth account formula. The formula under which a participant s benefit is computed is a matter of plan design and not participant election.

Under this plan, for certain highly compensated employees, compensation only includes base compensation, up to the maximum allowed under Code §401(a)(17). For all other participants, compensation includes bonus amounts. This applies to both formulas under the plan. Final average compensation is the average for the 36 consecutive month period producing the highest average for the last 120 months of credited service.

Annuity Benefit

The annual annuity benefit formula is:

(1.08% x final average compensation up to $10,700) + (1.5% x final average compensation exceeding $10,700)

x

(years of credited service meaning years as a participant in the plan to a maximum of 35)

The normal form of benefit payment under the annuity benefit is a single life annuity. However, as required by federal law, the normal form of benefit for a married participant is a joint and survivor annuity, unless the spouse consents to a different benefit distribution. A participant may also elect a non-spousal joint and survivor annuity or a 10-year term certain annuity. All payment forms are actuarially equivalent.

The normal retirement age is 65, but an unreduced benefit is paid for retirement at age 62. A participant may retire early once the participant is either at least age 55 or when the sum of the participant s age and service equals at least 80.

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Retirement Growth Account Benefit

The retirement growth account formula grants annual credits as a percentage of compensation based on the sum of a participant s age and years of service. This is illustrated in the following table:

Contribution Credits

Age plus Service in Whole Numbers Projected to the End of the Plan Year	**Contribution Credit as Percentage of Compensation**
Less than 30	3%
30-39	4%
40-49	5%
50-59	6%
60-69	7%
70-79	9%
80 or more	11%

Contribution credits are accumulated in a notional account. Interest credits are allocated to each participant s account monthly. The interest rate is from a minimum of 4% to a maximum of 7% and is set at the beginning of each plan year. The interest rate for fiscal 2008 is 5.47%.

The accrued benefit under this formula is the balance in the retirement growth account. The benefit is payable in the same forms that apply to the annuity benefit formula or may be paid as a single lump sum.

The normal retirement age under the retirement growth account formula is also age 65. The earliest that a participant can receive a distribution is age 55 with at least five years of service.

If a participant has a benefit payable from the LESOP, then the participant s LESOP offset account reduces the amount payable to the participant, regardless of the formula under which the participant s benefit is paid. At termination from employment, the participant may elect to transfer the LESOP offset account to the Pension Plan and receive an unreduced Pension Plan benefit.

Years of service in addition to what is actually incurred under the Pension Plan cannot be granted. However, in the case of an acquisition, prior service with the acquired business is often counted for purposes of vesting and eligibility, but not for purposes of benefit accrual under the annuity benefit formula. These same rules apply equally to the Excess Plan described below.

Ashland Inc. Nonqualified Excess Benefit Pension Plan (Excess Plan)

The Excess Plan is an unfunded, nonqualified plan of deferred compensation and covers employees (i) who are eligible for the Pension Plan and whose benefit under the Pension Plan is limited because of either Code §401(a)(17) or §415(b) and (ii) who are not terminated for cause as defined in the Excess Plan.

The benefit payable under the Excess Plan is the difference between the benefit under the Pension Plan in the absence of the tax Code limits (the gross benefit) and the actual benefit that would be payable under the Pension Plan. For purposes of computing the Excess Plan benefit, a participant s compensation is defined the same as it is for the Pension Plan. However, the limits on the compensation under the Pension Plan that are imposed by the Code do not apply under the Excess Plan.

The benefit under the Excess Plan is payable in a lump sum and may be transferred to the Employees Deferral Plan. A benefit payable to a named executive officer and certain other highly compensated participants cannot be paid for six months following separation from service.

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Ashland Inc. Supplemental Early Retirement Plan for Certain Employees (SERP)

The SERP is an unfunded, nonqualified plan of deferred compensation and covers a select group of highly compensated employees.

The benefit formula covering the named executive officers and certain other highly compensated participants provides a benefit of 25% of final average compensation multiplied by the participant s years of service up to 20. For this purpose, final average compensation is total compensation (base plus incentive compensation) for the 36 months out of the 84 months before retirement that produces the highest average.

The named executive officers may retire on the earlier of age 55 with five years of service or upon attaining 80 points (sum of age and service equals 80). The benefit produced by the above described formula is subject to proportionate reduction for each year of service credited to the participant that is less than 20 years of service. Additionally, the benefit is reduced by the sum of the following:

- The participant s qualified Pension Plan benefit (assuming the LESOP offset account is transferred to the Pension Plan);

- The participant s Excess Plan benefit; and

- 50% of any shares of Ashland Common Stock that could not be allocated to the participant s account in the LESOP due to tax Code limits.

Except for Messrs. Mitchell and Waters, the named executive officers are eligible to retire and commence their SERP benefits. SERP benefits become vested upon attaining five years of service. All of the named executive officers have a vested benefit under the SERP.

The SERP benefit is payable in a lump sum and may be transferred to the Employees Deferral Plan. Distributions to the named executive officers cannot begin until six months after separation from service.

Ordinarily, years of service in addition to what is actually incurred are not granted. However, in the case of an acquisition, prior service with the acquired business is counted for purposes of vesting under the SERP.

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Nonqualified Deferred Compensation

The following table sets forth certain information for each of the named executive officers regarding the Employees Deferral Plan for fiscal 2008.

Name (a)	Executive Contribution in Last FY (1) ($) (b)	Registrant Contribution in Last FY (2) ($) (c)	Aggregate Earnings in Last FY (3) ($) (d)	Aggregate Withdrawals/ Distributions in Last FY ($) (e)	Aggregate Balance at September 30, 2008 ($) (f)
J. J. O Brien	0	0	(4,508,851)	0	4,895,670
L. M. Chambers	141,949	2,231	(927,366)	40,983	1,725,517
J. M. Quin	6,054	6,660	(3,463,186)	281,482	4,514,366
D. L. Hausrath	0	0	(772,872)	0	1,065,775
S. J. Mitchell	291,708	4,187	(1,594,944)	0	2,485,027
F. L. Waters	62,884	4,332	(1,560,853)	0	2,291,775

(1) The contributions of Messrs. Chambers, Quin, Mitchell and Waters in the respective amounts of $49,163, $6,054, $4,567 and $13,391 included in this column (b) are also included in column (c) of the Summary Compensation Table in this proxy statement. The remaining amounts identified in this column (b) relate to either (or both) payments of fiscal year 2007 incentive compensation in November of 2007 and payments of the 2005-2007 LTIP cycle in February 2008, neither of which are included in the fiscal 2008 data on the Summary Compensation Table in this proxy statement.

(2) The contributions by Ashland for the named executive officers included in this column (c) are the amounts that were allowed to be deferred and are also included in column (i) of the Summary Compensation Table in this proxy statement.

(3) Aggregate earnings comprise interest, dividends, capital gains and appreciation/depreciation of investment results. These earnings are not included in the Summary Compensation Table in this proxy statement.

Ashland Inc. Employees Deferral Plan

The Employees Deferral Plan is an unfunded, nonqualified deferred compensation plan for a select group of highly compensated employees. Participants may elect to have up to 50% of base pay and up to 100% of their incentive compensation and/or LTIP awards contributed to the plan. Elections to defer compensation must be made before the period for which the service relating to the particular kind of compensation is incurred. Before calendar year 2008, participants could elect to roll over their 401(k) contributions once the applicable tax Code limits were met for contributions to the Employee Savings Plan. To receive Company matching contributions, the participant had to be contributing at least 5% of his or her base compensation to the Employee Savings Plan. The Company matching contribution is equal to 5.5% of base compensation for the participants eligible for the match. After calendar year 2007, Company matching contributions are no longer made to the Employees Deferral Plan.

Participants elect how to invest their account balances from among a diverse set of mutual fund offerings and a hypothetical Ashland Common Stock fund. No guaranteed interest or earnings are available and there are no above market rates of return on investments in the plan. Beginning October 1, 2000, investments in Ashland Common Stock units must remain so invested and must be distributed as Ashland Common Stock. In all other events, participants may freely elect to change their investments. Withdrawals are allowed for an unforeseeable emergency (single sum payment sufficient to meet the emergency), disability (lump sum payment), upon separation from employment (payable as lump sum or installments per election) and at a specified time (paid as single sum) and, for pre-2005 contributions, at the election of the participant paid in a lump sum (subject to a penalty of up to 10%).

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Potential Payments upon Termination or Change in Control

The following table summarizes the estimated amounts payable to each named executive officer in the event of a termination from employment or change in control as of September 30, 2008. A narrative description follows the table. Different termination events are identified in columns (b)-(g). Column (a) enumerates the types of potential payments for each named executive officer. As applicable, each payment or benefit is estimated across the table under the appropriate column or columns.

These estimates are based on the assumption that the various triggering events occur on September 30, 2008, the last day of the 2008 fiscal year. We have noted below other material assumptions used in calculating the estimated compensation and benefits under each triggering event. The actual amounts that would be paid to a named executive officer upon certain terminations of employment or upon a change in control can only be determined at the time an actual triggering event occurs.

Potential Payments upon Termination or Change in Control Table

Name/Kinds of Payments (a)	Termination prior to a Change in Control of Company without Cause ($) (b)	Disability (8) ($) (c)	Voluntary Resignation or Involuntary Termination for Cause (9) ($) (d)	Retirement (10) ($) (e)	Change in Control without Termination (11) ($) (f)	Termination after Change in Control of Company without Cause or by Executive for Good Reason (12) ($) (g)
J. J. O Brien						
Cash severance	2,357,596	0	0	0	0	7,484,296
Accelerated SARs (1)	0	0	0	0	0	0
Restricted Stock	0	0	0	0	0	0
LTIP (2)	2,372,952	2,372,952	0	2,372,952	2,372,952	3,670,048
Incentive compensation (3)	445,355	445,355	0	445,355	445,355	0
Welfare Benefit	32,802	3,811,646	0	0	0	36,902
Outplacement	11,500	0	0	0	0	9,200
Financial planning	0	0	0	0	0	12,500
280G excise tax gross up (4)	0	0	0	0	0	0
Present Value of Retirement Benefits (5)	0	0	0	0	0	0
Total	$ 5,220,205	$ 6,629,953	$ 0	$ 2,818,307	$ 2,818,307	$ 11,212,946
L.M. Chambers						
Cash severance	605,769	0	0	0	0	1,047,800
Accelerated SARs (1)	0	0	0	0	0	0
Restricted Stock	0	0	0	0	368,424	0
LTIP (2)	179,048	179,048	0	179,048	179,048	324,077
Incentive compensation (3)	84,760	84,760	0	84,760	84,760	0
Welfare Benefit	28,510	639,838	0	0	0	32,074
Outplacement	11,500	0	0	0	0	9,200
Financial planning	0	0	0	0	0	7,500
280G excise tax gross up (4)	0	0	0	0	0	1,080,410
Present Value of Retirement Benefits (5)	0	0	0	0	0	0
Total	$ 909,587	$ 903,646	$ 0	$ 263,808	$ 632,232	$ 2,501,061

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Name/Kinds of Payments (a)	Termination prior to a Change in Control of Company without Cause ($) (b)	Disability (8) ($) (c)	Voluntary Resignation or Involuntary Termination for Cause (9) ($) (d)	Retirement (10) ($) (e)	Change in Control without Termination (11) ($) (f)	Termination after Change in Control of Company without Cause or by Executive for Good Reason (12) ($) (g)
J. M. Quin (6)						
Cash severance			0			
Accelerated SARs (1)			0			
Restricted Stock			0			
LTIP (2)			402,123			
Incentive compensation (3)			118,345			
Welfare Benefit			0			
Outplacement			0			
Financial planning			12,128			
280G excise tax gross up (4)			0			
Present Value of Retirement Benefits			0			
Total			$ 532,596			
D. L. Hausrath						
Cash severance	731,837	0	0	0	0	1,786,387
Accelerated SARs (1)	0	0	0	0	0	0
Restricted Stock	0	0	0	0	233,920	0
LTIP (2)	355,670	355,670	0	355,670	355,670	627,930
Incentive compensation (3)	137,413	137,413	0	137,413	137,413	0
Welfare Benefit	27,672	838,983	0	0	0	31,097
Outplacement	11,500	0	0	0	0	9,200
Financial planning	0	0	0	0	0	7,500
280G excise tax gross up (4)	0	0	0	0	0	0
Present Value of Retirement Benefits (5)	0	0	0	0	0	0
Total	$ 1,264,092	$ 1,332,066	$ 0	$ 493,083	$ 727,003	$ 2,462,114
S. J. Mitchell						
Cash severance	535,365	0	0	0	0	1,316,215
Accelerated SARs (1)	0	0	0	0	0	0
Restricted Stock	0	0	0	0	157,896	0
LTIP (2)	277,018	277,018	0	277,018	277,018	490,872
Incentive compensation (3)	326,022	326,022	0	326,022	326,022	0
Welfare Benefit	27,742	625,704	0	0	0	31,210
Outplacement	11,500	0	0	0	0	9,200
Financial planning	0	0	0	0	0	7,500
280G excise tax gross up (4)	0	0	0	0	0	1,528,002
Present Value of Retirement Benefits (5)	0	0	0	0	1,324,164	0
Total	$ 1,177,647	$ 1,228,744	$ 0	$ 603,040	$ 2,085,100	$ 3,382,999

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Name/Kinds of Payments (a)	Termination prior to a Change in Control of Company without Cause ($) (b)	Disability (8) ($) (c)	Voluntary Resignation or Involuntary Termination for Cause (9) ($) (d)	Retirement (10) ($) (e)	Change in Control without Termination (11) ($) (f)	Termination after Change in Control of Company without Cause or by Executive for Good Reason (12) ($) (g)
F. L. Waters (7)						
Cash severance	562,173	0	0	0	0	1,382,123
Accelerated SARs (1)	0	0	0	0	0	0
Restricted Stock	0	0	0	0	400,156	0
LTIP (2)	279,698	279,698	0	279,698	279,698	496,152
Incentive compensation (3)	64,812	64,812	0	64,812	64,812	0
Welfare Benefit	27,800	717,855	0	0	0	31,275
Outplacement	11,500	0	0	0	0	9,200
Financial planning	0	0	0	0	0	7,500
280G excise tax gross up (4)	0	0	0	0	0	1,823,951
Present Value of Retirement Benefits (5)	0	0	0	0	1,739,399	0
Total	$ 945,983	$ 1,062,365	$ 0	$ 344,510	$ 2,484,065	$ 3,750,201

(1) A change in control without termination results in unvested SARs becoming immediately vested. The SARs granted on November 14, 2007 have an exercise price of $53.33 and the SARs granted on November 15, 2006 have an exercise price of $65.78, both of which exceed the 2008 fiscal year end closing price of $29.24. Therefore, these SARs for the relevant named executive officers are treated as having no value for purposes of the amounts identified in the Accelerated SARs row of column (f) of this table. See the Outstanding Equity Awards at Fiscal Year-End table in this proxy statement for the number of SARs outstanding for each named executive officer.

(2) The LTIP amounts identified in all of the columns except for column (g) are based on a full payment of the LTIP for the 2006-2008 performance period using the best available estimate and pro-rata payments of the LTIPs for the 2007-2009 and 2008-2010 performance periods at their respective targets. If one of the events represented by columns (b), (c) or (e) occurred, the pro-rata payments would be based on actual results, rather than target. However, in the event of a change in control without termination as of September 30, 2008 as reported in column (f), the calculation required would be the actual results for the 2006-2008 performance period (in this case the best available estimate is used) and pro-rata target payment for the 2007-2009 and 2008-2010 performance periods.

(3) The amounts identified in the Incentive Compensation row of columns (b), (c) and (e) represent a payment of the 2008 annual incentive based on actual achievement of the applicable performance goals for the entire performance period. A change in control results in the payment of the annual incentive based on actual achievement of the applicable performance goals through the date of the change in control, and the annual incentive remains outstanding subject to appropriate adjustments to reflect the transaction. The amounts identified in the Incentive Compensation row of column (f) reflect this payment, based on actual achievement for the fiscal year.

(4) Section 280G of the Internal Revenue Code applies if there is a change in control of Ashland, compensation is paid to a named executive officer as a result of the change in control (parachute payments), and the present value of the parachute payments is 300% or more of the executive s base amount, which equals his or her average W-2 income for the five-calendar-year period immediately preceding the change in control (e.g., 2003-2007 if the change in control occurs in 2008). If Section 280G applies, then the named executive officer is subject to an excise tax equal to 20% of the amount of the parachute payments in excess of the base amount (the excess parachute payments), in addition to income and employment taxes. Moreover, Ashland is denied a federal income tax deduction for the excess parachute payments. The amounts in the 280G Excise Tax Gross-Up row of columns (f) and (g) reflect a tax gross-up for the excise and related taxes, as required under the terms of the employment agreements described below. The amounts are merely estimates based on the following

assumptions: (i) an excise tax rate of 20% and a combined federal, state and local income and employment tax rate of 43%, (ii) a discount rate of 2.84%, and (iii) no amounts were allocated to the non-solicitation or non-competition covenants contained in the employment agreements.

(5) The present value of each named executive officer s total retirement benefits as of September 30, 2008 (absent a change in control) is in the Pension Benefits table to this proxy. The account balance for each named executive officer as of September 30, 2008 in the Employees Deferral Plan is identified in the Nonqualified Deferred Compensation table to this proxy statement.

A change in control results in an additional three years of age and service being credited to the calculation of each named executive officer s benefit under the SERP. The present value of this incremental additional benefit is identified in the Present Value of Retirement Benefits row of this table in column (f) for each named executive officer (except for Mr. Quin for the reason set forth in footnote (7) to this table). Messrs. O Brien, Chambers and Hausrath gain no incremental additional benefit under the SERP because they are at the early retirement age under the SERP and have accrued a full benefit under the SERP because they each have more than 20 years of service. Finally, Messrs. Mitchell and Waters gain a benefit from the additional age and service because (1) both of them have less than the 20 years necessary for a full SERP benefit, therefore, the additional service brings them closer to a full SERP benefit; (2) the change in control makes it possible that they will be eligible for immediate retirement in the event of termination without cause or for good reason, thereby eliminating any discount; and (3) the additional age and service does not apply to the calculation of the Pension Plan and Excess Plan benefits which results in smaller offsets by these benefits to the SERP.

(6) Because Mr. Quin retired May 31, 2008, the amounts in this table relating to him represent actual payments. Additional information on Mr. Quin s payments is described under the Summary Compensation Table in this proxy statement. Additionally, see the Pension Benefits table in this proxy statement regarding his payments under the SERP, qualified Pension Plan and Excess Benefit Plan.

(7) Mr. Waters is separating from service effective December 31, 2008. Under his employment agreement, he will be entitled to the benefits described in column (b), but determined as of his separation date of December 31, 2008. He will be entitled to a 2 year salary continuation period that will end December 31, 2010. His first payment of salary continuation will be delayed until July 1, 2009. The other benefits to which he is entitled are not subject to that delay. During the salary continuation period, he will continue to vest in his restricted stock (see footnote (3) to the Outstanding Equity Awards at Fiscal Year-End section of this proxy statement).

(8) For purposes of this column (c), it is assumed that the named executive officer incurred a disabling event on September 30, 2008. The amounts in the Welfare Benefit row for column (c) represent the present value of the disability payments available under a supplemental Long Term Disability Plan for the incremental benefit above what would be payable under the generally available Long Term Disability Plan. No pre-retirement mortality assumption applies and the interest rate used is 8.01%. Subject to coordination with other income received while disabled, the Long Term Disability Plan provides a benefit equal to 60% of base compensation. The compensation covered by the plan is limited in 2008 to $230,000. For 2008, the supplemental Long Term Disability Plan provides a benefit of 60% of the base compensation exceeding $230,000. If the named executive officer died, his or her beneficiaries would receive the same accelerated vesting of the LTIP award as the named executive officer would in the event of disability. The named executive officers also participate in a group variable universal life plan (GVUL) that is available to certain highly compensated employees. Within certain limitations, the GVUL allows participants to invest additional amounts. In the event of death, the executive receives the same benefits as identified with regard to disability in addition to the face amount of the policy plus their own invested amounts. For Messrs. O Brien, Chambers, Hausrath, Mitchell and Waters, respectively, the death benefits as of September 30, 2008 would be: $1,000,042; $375,000; $458,516; $339,506; and $356,505.

(9) Ashland does not maintain any plans or arrangements that would provide additional or enhanced benefits to the named executive officers solely as a result of a voluntary termination.

(10) The requirements for retirement and receiving benefits under the retirement plans are described under the Pension Benefits table to this proxy statement.

(11) Each named executive officer would also be entitled to a lump sum payment of the benefit under the Employees Deferral Plan. To the extent that an employee s account is invested in hypothetical shares of Ashland Common Stock, those shares would be valued at the highest price for which Ashland Common Stock closed during the 30 days preceding the change in control.

(12) The amount identified in column (g) of this table for each named executive officer represents the LTIP units that are outstanding being paid at target, reduced by the amount the executive would receive as a result of a change in control identified in column (f).

Executive Employment Agreements

The named executive officers and certain other executives, have employment agreements with Ashland. These agreements describe the payments and benefits to which an executive is entitled if terminated in the absence of a change in control of Ashland or after a change in control of Ashland. The employment agreements will be replaced with change in control agreements effective December 31, 2008. The new agreements will provide for payments only in the event of a termination after a change in control. In the event of a termination in the absence of a change in control, executives will be covered by Ashland s severance pay plan. In general, the severance pay plan will provide 104 weeks of base salary for the Chief Executive Officer and 78 weeks of base salary for other executives.

Absence of a Change in Control

If an executive s employment is terminated in the absence of a change in control of Ashland and without cause (see the Definitions section below), the executive is entitled to the following:

- Payment of his or her highest salary in the prior two fiscal years for a period of 24 months (salary continuation period), with the first six monthly payments withheld and paid in a lump sum in the seventh month;
- Continued participation in the Company s medical, dental and life plans during the salary continuation period;
- Pro-rata payment of any LTIP awards and incentive compensation through the date of termination based on actual achievement payable at the same time such awards or compensation is paid; and
- Outplacement services through December 31 of the second calendar year following the calendar year in which the executive was terminated.

As a condition to receiving the benefits and compensation payable under the agreement, the executive agrees for a period of 12 months following the termination to:

- Refrain from engaging in competitive activity against Ashland; and
- Refrain from soliciting persons working for Ashland, soliciting customers of Ashland or otherwise interfering with Ashland s business.

The executive must also agree not to disclose confidential information and sign a release in favor of the Company. If the executive breaches the agreement, the Company may have a right to recover benefits that have been paid to the executive. Finally, the executive may recover legal fees and expenses incurred as a result of the Company s unsuccessful legal challenge to the agreement or the executive s interpretation of the agreement.

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After a Change in Control

If within two years after a change in control (see the Definitions section below) an executive s employment is terminated without cause or within two years after a change in control the executive terminates employment for good reason (see the Definitions section below), the executive is entitled to the following:

Payment of three times the sum of his or her highest annual base salary and highest target percentage annual incentive compensation in the prior three fiscal years in a lump sum in the seventh month following termination;

Continued participation in the Company s medical, dental and life plans through December 31 of the second calendar year following the calendar year in which the executive was terminated;

Full payment at target in cash of any LTIP awards existing at the executive s termination (less any amounts already paid under the plan because of the change in control);

Payment in cash of all prior existing incentive compensation not already paid and pro-rata payment of any incentive compensation for the fiscal year in which the executive terminates at target level;

Outplacement services and financial planning services for one year after termination;

Payment of all unused, earned and accrued vacation in a lump sum in the seventh month following termination; and

Immediate vesting of all outstanding stock options and SARs.

As a condition to receiving the benefits and compensation payable under the agreement, the executive agrees for a period of 24 months following the termination to:

Refrain from engaging in competitive activity against Ashland; and

Refrain from soliciting persons working for Ashland, soliciting customers of Ashland or otherwise interfering with Ashland s business.

The executive must also agree not to disclose confidential information. If the executive breaches the agreement, the Company may have a right to recover benefits that have been paid to the executive. Finally, the executive may recover legal fees and expenses incurred as a result of the Company s unsuccessful legal challenge to the agreement or the executive s interpretation of the agreement.

In addition, each agreement provides a conditional gross-up for excise and related taxes in the event the severance compensation and other payments or distributions to a named executive officer, whether pursuant to an employment agreement, stock option, SAR, restricted stock, LTIP award or otherwise would constitute excess parachute payments, as defined in Section 280G of the Internal Revenue Code. The tax gross-up will be provided if the aggregate parachute value of all severance and other change in control payments to the executive exceeds the greater of (i) $50,000 or (ii) 110% of the maximum amount that may be paid under Section 280G of the Internal Revenue Code without imposition of an excise tax. If the parachute value of an executive s payments does not exceed the applicable $50,000 or 110% threshold, the executive s payments under the employment agreement will be reduced to the extent necessary to avoid imposition of the excise tax on excess parachute payments.

Definitions

Cause is any of the following:

- Willfully failing to substantially perform duties (except in the case of disability);
- Willfully engaging in gross misconduct demonstrably injurious to the Company; or
- Conviction or plea of *nolo contendre* for a felony involving of moral turpitude.

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To be terminated for cause, the Board of Directors must also pass a resolution by three quarters vote finding that the termination is for cause.

Good Reason includes any of the following that occurs after a change in control:

- Adverse change in position, duties or responsibilities;
- Reduction to base salary;
- Failure to continue employee benefit plans, a material reduction to such benefits or the elimination of material fringe benefits;
- Failure to continue incentive plans, whether cash or equity;
- Transfer of principal place of business to more than 50 miles away from the prior principal place of business, or, if the transfer is consented to, a failure to reimburse reasonable moving expenses; or
- Material breach of the executive employment agreement or a failure to assume such agreement.

Change in control is a complex definition, but may be summarized to include any of the following:

- The consolidation or merger of Ashland into an unrelated entity in which the former Ashland shareholders own less than 50% of the outstanding shares of the new entity, except for a merger under which the shareholders before the merger have the same proportionate ownership of shares in the entity immediately after the merger;
- The sale, exchange or other transfer of 80% or more of Ashland s assets;
- A shareholder approved liquidation or dissolution;
- The acquisition of 15% or more of the outstanding shares of Ashland by an unrelated person without approval of the Board; or
- Changes to Ashland s Board during two consecutive years that result in a majority of the Board changing from its membership at the start of the said two consecutive year period, unless two-thirds of the Directors at the start of said two consecutive year period voted to approve such changes.

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Stock Options, SARs, Incentive Compensation, Restricted Stock and LTIP

The following table summarizes what may happen to stock options/SARs, incentive compensation, restricted stock and LTIP grants upon termination from employment or a change in control.

	Termination from Employment*	**Death, Disability or Retirement***	**Change in Control**
SARs/Options	Termination within one year of grant results in forfeiture; otherwise lesser of 30 days or the exercise period within which to exercise the vested SARs/Options	May exercise during the remainder of the exercise period	Immediately vest
Incentive compensation	In general, termination before payment results in forfeiture. Pro-rata payment based on actual achievement for entire performance period if terminate prior to a change in control without cause	Pro-rata payment based on actual achievement for entire performance period	Accelerate the performance period and pay pro-rata based on actual achievement through the date of the change in control
Restricted stock	Termination before vesting results in forfeiture	Occurrence of event before payment results in forfeiture	Immediately vest
LTIP	In general, termination before payment results in forfeiture. Pro-rata payment based on actual achievement for entire performance period if terminate prior to a change in control without cause	Pro-rata payment based on actual achievement for entire performance period	Accelerate the performance period and pay based on actual achievement for the period through the date of the change in control

* P&C Committee has discretion to accelerate vesting of these benefits.

For purposes of the above table, the term change in control is defined in the applicable plan and has substantially the same meaning as it does in the Executive Employment Agreements section in this proxy statement.

SERP, Excess Plan, Qualified Pension Plan and Employees Deferral Plan

For payments and benefits under the SERP, Excess Plan and qualified Pension Plan, except in the event of a change in control, see the Pension table and the narrative thereunder in this proxy statement. For payments and benefits under the Employees Deferral Plan, except in the event of a change in control, see the Nonqualified Deferred Compensation table and the narrative thereunder in this proxy statement.

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After a Change in Control

The term change in control is defined in the applicable plan and has substantially the same meaning as it does in the above section on the Executive Employment Agreements.

The occurrence of a change in control under the SERP for the named executive officers has the following consequences:

- Accelerate vesting;
- Nullify the non-compete;
- Distribution will be made upon a participant s termination from employment without cause or resignation for good reason; and
- The benefit is computed by adding three years to age and service (see footnote (5) to the Potential Payments upon Termination or Change in Control table in this proxy statement).

For the qualified Pension Plan and the Excess Plan, no enhanced benefit results from a change in control. Under the Employees Deferral Plan, a change in control results in an automatic lump sum distribution of the benefit, as disclosed in footnote (10) to the Potential Payments upon Termination or Change in Control table in this proxy statement. The Employees Deferral Plan was changed effective October 1, 2008 providing that deferrals made on and after January 1, 2005 will not be automatically distributed upon a change in control, but rather will be distributed pursuant to each employee s election and valued at the time of the distribution.

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AUDIT COMMITTEE REPORT

The Audit Committee is composed of five independent directors and operates under a written charter adopted by the Board of Directors. At its November 2008 meeting, the Board determined that all current Audit Committee members Messrs. Hale, Rohr, Schaefer and Dr. Healy and Ms. Ligocki are independent as defined by SEC rules, the listing standards of the New York Stock Exchange, which apply to Ashland, and Ashland s Standards. Each member of the Audit Committee is a financial expert as defined by SEC rules.

The Audit Committee assists in fulfilling the oversight responsibilities of the Board relating to Ashland s financial reporting process, its implementation and maintenance of effective internal control over financial reporting, the internal audit function, the independent auditors qualifications and independence, its legal compliance programs and its risk management programs. During fiscal 2008, the Audit Committee met eight times. The Audit Committee also met on four occasions to discuss and review Ashland s quarterly earnings and the associated press releases.

The Audit Committee also discussed with Ashland s internal and independent auditors the overall scopes and plans for their respective audits. The Audit Committee meets with the internal and independent auditors, with and without management present, to discuss the results of its examinations, its evaluations of Ashland s internal controls, and the overall quality of Ashland s financial reporting. The Audit Committee has reviewed Ashland s activities aimed at compliance with the Sarbanes-Oxley Act of 2002 at six of its meetings and at each of the four earnings release meetings held in 2008.

The following were among the other significant matters addressed by the Audit Committee during fiscal 2008:

Critical accounting policies and reserves;

Legal compliance report, processes and procedures;

Material litigation;

New and emerging accounting standards;

Process for disclosure of material risks to the Company;

Financial disclosure controls; and

Financial authorization controls.

Ernst & Young LLP (E&Y), an independent registered public accounting firm, was engaged to audit Ashland s consolidated financial statements for fiscal 2008 and to issue an opinion on whether such statements present fairly, in all material respects, Ashland s consolidated financial position, results of operations and cash flows in conformity with U.S. generally accepted accounting principles. E&Y was also engaged to audit and to issue an opinion on the effectiveness of Ashland s internal control over financial reporting. Prior to any engagement of E&Y by Ashland, the engagement was approved by the Audit Committee in accordance with established policies and procedures. The Audit Committee reviewed and discussed with management and E&Y the audited financial statements, management s assessment of the effectiveness of Ashland s internal control over financial reporting, and E&Y s evaluation of Ashland s internal control over financial reporting. The Audit Committee further reviewed E&Y s judgment as to the quality and acceptability of Ashland s accounting principles, financial reporting process and controls, and such other matters as are required to be discussed with the Audit Committee under the standards of the Public Company Accounting Oversight Board (United States) (the PCAOB). In addition, the Audit Committee reviewed E&Y s independence from management and Ashland including the matters in the written disclosures required by the PCAOB.

In addition, the Audit Committee has adopted strict guidelines on the use of outside auditors to provide non-audit services. The Audit Committee must pre-approve any non-audit services performed by outside auditors. In fiscal 2008 approval was sought and granted to E&Y to perform certain non-audit related services. The Audit Committee has considered whether the provision of audit-related and other non-audit services by E&Y is compatible with maintaining E&Y s independence and has concluded that E&Y s independence is not compromised by the provision of such services.

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E&Y s fees for all services are budgeted, and both management and E&Y are required to report the actual fees and any variance from budgeted fees, to the Audit Committee throughout the fiscal year. The Audit Committee recognizes that circumstances may arise that require the engagement of independent auditors to perform work beyond the scope of and not contemplated in the original pre-approval for audit related services in a fiscal year. In these instances, specific pre-approval of the additional services and the budget therefore, is required prior to the engagement of the independent auditors for those services.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors (and the Board has approved) that Ashland s consolidated financial statements be accepted for inclusion in its Annual Report on Form 10-K for the year ended September 30, 2008, for filing with the SEC.

As a result of a competitive request for proposal process undertaken by the Audit Committee in 2008, PricewaterhouseCoopers LLP (PwC) was selected as Ashland s independent registered public accounting firm on August 26, 2008, for fiscal 2009. On August 26, 2008, E&Y was notified that it would be dismissed as Ashland s independent registered public accounting firm to audit Ashland s consolidated financial statements, effective upon the completion of its audit for the fiscal year ended September 30, 2008. The change in accountants did not result from any dissatisfaction with the quality of professional services rendered by E&Y. During Ashland s fiscal years ended September 30, 2007 and 2006 and through August 26, 2008, neither Ashland nor anyone on its behalf had consulted with PwC regarding (i) the application of accounting principles to a specified transaction, either completed or proposed; or the type of audit opinion that might be rendered on Ashland s financial statements, and neither a written report nor oral advice was provided to Ashland that PwC concluded was an important factor considered by Ashland in reaching a decision as to the accounting, auditing or financial reporting issue; or (ii) any matter that was either the subject of a disagreement (as that term is defined in Item 304(a)(1)(iv) of Regulation S-K and the related instruction to Item 304 of Regulation S-K) or a reportable event (as that term is defined in Item 304(a)(1)(v) of Regulation S-K). In deciding to select PwC, the Audit Committee reviewed auditor independence issues and existing commercial relationships with PwC and concluded that PwC has no commercial relationship with Ashland that would impair its independence.

E&Y s reports on Ashland s consolidated financial statements for fiscal years ended September 30, 2008 and 2007 did not contain an adverse opinion or a disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope or accounting principles. During fiscal years ended September 30, 2008 and 2007, and in the subsequent interim period through November 26, 2008, there were (i) no disagreements between Ashland and E&Y on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreement, if not resolved to the satisfaction of E&Y, would have caused E&Y to make reference to the subject matter of the disagreement in its reports on the consolidated financial statements for such years, and (ii) no reportable events as that term is defined in Item 304(a)(1)(v) of Regulation S-K.

Ashland provided E&Y with a copy of an amended Current Report on Form 8-K/A filed on December 1, 2008. E&Y furnished Ashland with a letter addressed to the U.S. Securities and Exchange Commission stating E&Y agreed with the disclosure contained in this report. Copies of this letter were filed as Exhibit 16.1 to that Current Report.

AUDIT COMMITTEE

Roger W. Hale, Chairman

Bernadine P. Healy

Kathleen Ligocki

Mark C. Rohr

George A. Schaefer, Jr.

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AUDITOR S FEES

Fees (including out-of-pocket costs) paid to E&Y for fiscal years 2008 and 2007 totaled $8,389,000 and $10,230,000, respectively. The following table presents fees for professional services rendered by E&Y for fiscal years 2008 and 2007.

	2008	2007
Audit Fees (1)	$ 8,244,000	$ 9,652,000
Audit-Related Fees (2)	99,000	105,000
Tax Fees (3)	46,000	473,000
All Other Fees (4)	0	0

(1) Audit fees include fees associated with the annual audit of Ashland s consolidated financial statements and reviews of Ashland s quarterly reports on Form 10-Q. Audit fees also include fees associated with various audit requirements of Ashland s foreign subsidiaries and captive insurance company (statutory requirements), and reviews of registration statements.

(2) Audit-related fees include amounts paid to E&Y for the audit of the Employee Savings Plan (SEC requirements and Department of Labor rules and regulations) and work performed related to agreed-upon procedures reports.

(3) Tax fees include fees principally incurred for assistance with tax compliance matters.

(4) There were no other services or fees.

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RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS

Item 2

The Audit Committee of the Board of Directors has recommended to the Board the appointment of PwC to audit Ashland s Consolidated Financial Statements and Internal Controls Over Financial Reporting for fiscal 2009, subject to ratification by the shareholders at the Annual Meeting. Representatives of PwC and E&Y will attend the Annual Meeting to respond to questions from shareholders and will be given the opportunity to make a statement.

Although the Board of Directors is not required to submit the appointment of PwC to a shareholder vote, the Board will reconsider that appointment if it is not ratified by the shareholders. The appointment will be deemed ratified if votes cast in its favor exceed votes cast against it. Abstentions will not be counted as votes cast either for or against the proposal.

The Board of Directors recommends a vote FOR the ratification of PwC as Ashland s independent registered public accounting firm for fiscal 2009.

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APPROVAL OF AMENDMENT TO ARTICLES OF INCORPORATION TO PROVIDE FOR

MAJORITY VOTING FOR THE ELECTION OF DIRECTORS IN UNCONTESTED ELECTIONS

Item 3

At last year s annual meeting of shareholders, Ashland s shareholders approved a proposal that requested the Board of Directors initiate the appropriate process to amend Ashland s Articles of Incorporation (Articles) to provide for majority voting in elections of directors. This proposal received the support of 64% of Ashland s shareholders. In response to this vote, Ashland s Board of Directors reconsidered the matter and, as requested, proposes an amendment to the Articles that the Board believes provides shareholders a meaningful role in the director election process while addressing the complex governance issues implicated by a majority voting standard.

The Board has authorized, and recommends that shareholders approve, an amendment to Ashland s Articles that would require director nominees in uncontested elections to receive a majority vote to be elected. Under this provision, each vote could be cast for or against a nominee s election. Shareholders would also be entitled to abstain from voting with respect to the election of a nominee, and such abstentions (like broker non-votes) would have no effect in determining whether the required affirmative majority vote has been obtained.

Proposed Amendment to Ashland s Articles

The Board of Directors proposes that a new Article XII be added to Ashland s Articles and existing Articles XII and XIII be renamed Articles XIII and XIV, respectively. The proposed new Article XII reads in full as follows:

The vote required for election of a director by shareholders, other than in a contested election, shall be the affirmative vote of a majority of votes cast with respect to the director nominee. A majority of votes cast means that the number of votes cast for a director must exceed the number of votes cast against that director. In a contested election, the nominees receiving the greatest number of votes for their election, up to the number of directors to be elected, shall be elected. Abstentions and broker non-votes will not count as votes either for or against a nominee.

The election is contested if (i) the Secretary of the Company has received a notice that a shareholder has nominated a person for election to the Board of Directors in compliance with the advance notice requirements for shareholder nominees for director set forth in the Company s By-laws and (ii) such nomination has not been withdrawn by such shareholder on or prior to the tenth day preceding the date the Company first mails its notice of meeting to the shareholders.

If approved, this amendment will become effective upon the filing of the Articles of Amendment to Ashland s Articles with the Secretary of State of the Commonwealth of Kentucky. The majority voting standard would then be applicable to the election of directors at the 2010 annual meeting of shareholders. In addition, if this amendment is approved, future annual meeting proxy cards will be modified so that shareholders will be able to vote for or against, or to abstain from voting with respect to each nominee in uncontested elections. Currently, the proxy card allows shareholders either to vote for a nominee or to withhold voting for the nominee.

Corporate Governance Guidelines

Under the holdover provisions of the Kentucky Business Corporation Act, a director continues to serve in office until his or her successor is elected or until the number of directors is decreased. To address the issue of holdover directors if the proposed amendment to the Articles is adopted, the Board of Directors has approved an amendment to Ashland s Corporate Governance Guidelines. This change in the Guidelines will become effective upon filing of the Articles of Amendment described above, assuming shareholder approval of the amendment, and does not require any shareholder action.

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The new Corporate Governance Guidelines would replace the current director resignation policy and require any incumbent director who is nominated but not re-elected to tender his or her resignation to the Board of Directors. The Guidelines would require the G&N Committee to manage a process through which the full Board of Directors (excluding any unelected director) would decide whether or not to accept the resignation. The Guidelines would also require the Board s decision within 90 days following the date of the shareholders meeting at which the election occurred and prompt public disclosure of the Board s decision and rationale. If the Board accepts a director s resignation, the Board would be able to fill the vacancy resulting from the resignation or decrease the size of the Board. The Board would likewise be able to fill a vacant position or decrease the size of the Board if a nominee who is not an incumbent director fails to receive a majority vote in an uncontested election.

The amendment will be approved if votes cast in its favor exceed votes cast against it.

For the reasons discussed above, the Board of Directors recommends a vote FOR amending Ashland s Articles of Incorporation to provide for majority voting for the election of directors in uncontested elections.

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MISCELLANEOUS

Section 16(a) Beneficial Ownership Reporting Compliance

Ashland believes that during fiscal 2008 its executive officers and directors have complied with Section 16(a) of the Exchange Act and the rules and regulations adopted thereunder.

Proxy Solicitation Costs

Ashland is soliciting the proxies being solicited by this proxy statement. All costs of soliciting proxies, including the cost of preparing and mailing this proxy statement and the accompanying material, will be borne by Ashland. Expenses associated with this solicitation may also include charges and expenses of banks, brokerage houses and other custodians, nominees or fiduciaries for forwarding proxies and proxy materials to beneficial owners of shares. Solicitations may be made by mail, telephone, telegraph, telex, facsimile, electronic means and personal interview, and by officers and employees of Ashland, who will not be additionally compensated for such activity. Ashland has arranged for the services of Georgeson Shareholder Communications Inc. (Georgeson) to assist in the solicitation of proxies. Georgeson s fees will be paid by Ashland and are estimated to be $15,000, excluding out-of-pocket expenses.

Delivery of Proxy Materials to Shareholders Sharing an Address

As permitted by the Exchange Act, only one copy of the annual report and proxy statement is being delivered to shareholders residing at the same address, unless such shareholders have notified Ashland of their desire to receive multiple copies of these materials. Ashland will promptly deliver without charge, upon oral or written request, a separate copy of the annual report and the proxy statement to any shareholder residing at an address to which only one copy was mailed. Requests for additional copies may be made by calling 1-800-622-6757, or by writing to National City Bank, Dept. 5352, Corporate Trust Operations, P.O. Box 92301, Cleveland, OH 44193-0900.

Shareholder Proposals for the 2010 Annual Meeting

Shareholders interested in presenting a proposal for consideration at the 2010 Annual Meeting may do so by following the procedures prescribed in Rule 14a-8 of the Exchange Act and Ashland s By-laws. To be eligible for inclusion in the proxy statement for the 2010 Annual Meeting, shareholder proposals must be received by Ashland s Corporate Secretary no later than August 14, 2009.

Ashland s By-laws provide that a shareholder must provide Ashland with written notice of a matter he or she wishes to bring before an annual meeting at least 90 days in advance of the meeting, if the meeting is held no earlier than the last Thursday in January. If the meeting is held earlier, the shareholder must provide Ashland with written notice within 10 days after the first public disclosure of the date of the meeting. The first public disclosure of that date may be a public filing with the SEC. Such notice must set forth as to each matter the shareholder proposes to bring before the annual meeting:

- a brief description of the business desired to be brought before the meeting and the reasons for conducting such business at the meeting and, in the event that such business includes a proposal to amend either the Articles of Incorporation or By-laws of Ashland, the language of the proposed amendment;

- the name and address of the shareholder proposing such business;

- a representation that the shareholder is a holder of record of Ashland Common Stock entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to propose such business;

- any material interest of the shareholder in such business; and a representation as to whether or not the shareholder will solicit proxies in support of the proposal.

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The By-laws further provide that no business shall be conducted at any annual meeting except in accordance with the foregoing procedures and that the chairman of any such meeting may refuse to permit any business to be brought before an annual meeting that is not made in compliance with the procedure described above or if the shareholder fails to comply with the representations set forth in the notice.

Other Matters

As of the date of this proxy statement, Ashland does not know of any business to be presented for consideration at the Annual Meeting, other than the items referred to in this proxy statement. In the event that any additional matter is properly brought before the meeting for shareholder action, properly voted proxies will be voted in accordance with the recommendation of the Board of Directors or, in the absence of such recommendation, in accordance with the judgment of the named proxies.

Please vote by telephone or over the Internet, or fill in, sign and date the proxy card and return it in the accompanying prepaid envelope. If you attend the Annual Meeting and wish to vote your shares in person, you may do so. Your cooperation in giving this matter your prompt attention is appreciated.

LINDA L. FOSS

Assistant General Counsel

and Corporate Secretary

Covington, Kentucky

December __, 2008

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Subject Line: Please Vote Your Proxy

[Insert share information here]

Your Control Number: ____________________

Electronic Access Notification

Ashland s Annual Meeting of Shareholders will be held on Thursday, January 29, 2009 at 10:30 a.m. Eastern Standard Time at the Metropolitan Club, 50 E. RiverCenter Boulevard, Covington, Kentucky. As previously announced, participants in Ashland s Employee Savings Plan or the LESOP can view Ashland s Proxy Statement and Annual Report online. We encourage you to take advantage of this service.

Paper copies of the Proxy Statement and your proxy card or copies of the Annual Report can be requested by replying to this e-mail.

As a participant in Ashland s Employee Savings Plan or the LESOP, you may instruct the Trustees how to vote the Ashland Common Stock credited to your account by telephone or over the Internet. Your voting instructions also apply to the shares of Ashland Common Stock allocated to participant accounts for which voting instructions are not received on a timely basis by the Trustees (Non-Directed shares). Each participant who gives the Trustees instructions acts as a named fiduciary for the plan under the Employee Retirement Income Security Act of 1974, as amended. Any participant who wishes to vote the Non-Directed shares differently from the shares credited to his or her account or who wishes not to vote the Non-Directed shares at all may do so by requesting a separate voting instruction card from National City Bank, Corporate Trust Administration, Dept. 3116, 629 Euclid Avenue, Suite 635, Cleveland, Ohio 44114-3484.

Votes cast by telephone or over the Internet are tabulated by our proxy tabulator and are confidential. Ashland does not have access to individual votes.

Even if you do not have regular Internet access at work, you will be able to view the Proxy Statement and Annual Report and vote online. If you are a dial-up user, we encourage you to access these documents and vote from your office or a local number.

In order for your instructions to the Trustees to be counted, you must vote before 6:00 a.m. Eastern Standard Time on January 27, 2009.

To access the Annual Report and Proxy Statement and vote:

1. Print out this page or write down your Control Number listed above. This number acts as your electronic signature to ensure security of your vote.
2. Click on this website address (or type this URL address in your browser): http://www.ashland.com/proxy.
3. Click on the links to view or download the Annual Report and Proxy Statement and to vote. When voting, be sure to follow all instructions including the final Submit procedure to ensure that your instructions are received.

To vote by telephone (you will need a touch tone telephone):

1. Print out this page or write down your Control Number listed above. This number acts as your electronic signature to ensure security of your vote.
2. Dial 1-888-693-8683.
3. Be sure to follow all instructions including the final confirmation procedure to ensure that your instructions are received.

Sincerely,

Linda L. Foss

Assistant General Counsel

and Corporate Secretary

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Notice of Annual Meeting

The Annual Meeting of Shareholders of Ashland Inc. will be held on Thursday, January 29, 2009, at 10:30 a.m. EST at the Metropolitan Club, 50 E. RiverCenter Boulevard, Covington, Kentucky. Your proxy card for voting at the Annual Meeting is enclosed.

We encourage you to read the Annual Report and Proxy Statement and vote your shares. Per your request, the Annual Report and Proxy Statement are available over the Internet at http://www.ashland.com/proxy.

Your vote is important. We encourage you to vote over the Internet at http://www.cesvote.com, by telephone at 1-888-693-8683, or by returning your proxy card in the envelope provided.

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NOTICE TO SHAREHOLDERS IN ASHLAND S EMPLOYEE SAVINGS PLAN OR

LEVERAGED EMPLOYEE STOCK OWNERSHIP PLAN (THE LESOP) OR

HERCULES SAVINGS AND INVESTMENT PLAN (THE SIP)

As a participant in Ashland s Employee Savings Plan or the LESOP or Hercules SIP, you may instruct the Trustees how to vote the Ashland Common Stock credited to your account over the Internet, by telephone or by returning the enclosed proxy card. Your voting instructions also apply to the shares of Ashland Common Stock allocated to participant accounts for which voting instructions are not received on a timely basis by the Trustees (Non-Directed shares). Each participant who gives the Trustees instructions acts as a named fiduciary for the plan under the Employee Retirement Income Security Act of 1974, as amended. Any participant in the Employee Savings Plan or LESOP who wishes to vote the Non-Directed shares differently from the shares credited to his or her account or who wishes not to vote the Non-Directed shares at all may do so by requesting a separate voting instruction card from National City Bank, Corporate Trust Administration, Dept. 3116, 629 Euclid Avenue, Suite 635, Cleveland, Ohio 44114-3484. Participants in the SIP may not vote the Non-Directed shares differently from shares credited to his or her account.

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