

DORCHESTER MINERALS, L.P.
Form 10-K
February 21, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

- Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2012
- 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 or other jurisdiction of incorporation or organization)

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

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 each 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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§

232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) 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 the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

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 \$620,467,417 as of June 30, 2012, based on \$21.95 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 21, 2013: 30,675,431

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement for the registrant's 2013 Annual Meeting of Unitholders to be held on May 15, 2013, 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, 2012.

TABLE OF CONTENTS

PART I		1
ITEM 1.	BUSINESS	1
ITEM 1A.	RISK FACTORS	4
ITEM 1B.	UNRESOLVED STAFF COMMENTS	15
ITEM 2.	PROPERTIES	15
ITEM 3.	LEGAL PROCEEDINGS	20
ITEM 4.	MINE SAFETY DISCLOSURES	20
PART II		21
ITEM 5.	MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED UNITHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES	21
ITEM 6.	SELECTED FINANCIAL DATA	23
ITEM 7.	MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	23
ITEM 7A.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	28
ITEM 8.	FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	28
ITEM 9.	CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	28
ITEM 9A.	CONTROLS AND PROCEDURES	28
ITEM 9B.	OTHER INFORMATION	29
PART III		29
ITEM 10.	DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE	29
ITEM 11.	EXECUTIVE COMPENSATION	29
ITEM 12.	SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED UNITHOLDER MATTERS	29
ITEM 13.	CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE	29
ITEM 14.	PRINCIPAL ACCOUNTING FEES AND SERVICES	29
PART IV		30
ITEM 15.	EXHIBITS, FINANCIAL STATEMENT SCHEDULES	30
	GLOSSARY OF CERTAIN OIL AND NATURAL GAS TERMS	31
	SIGNATURES	33
	INDEX TO CONSOLIDATED FINANCIAL STATEMENTS	F-1

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 and its address and telephone number is 6201 15th Avenue, Brooklyn, NY 11219, (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 contains the last annual meeting presentation and a link to the NASDAQ website. You may obtain all current filings free of charge at our website. We will provide electronic or paper copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, 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 LP owns working interests and other properties underlying our Net Profits Interests (or "NPIs"), 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 general partner and the operating partnership are Delaware limited partnerships, and the general partners of their general partners are Delaware limited liability companies. These entities and our Partnership were initially formed in December 2001 in connection with the combination. Our wholly owned subsidiary, Dorchester Minerals Oklahoma LP and its general partner are Oklahoma entities that acquired our wholly owned acquisition subsidiary and its general partner by merger on December 31, 2009. On March 31, 2010, we formed a new subsidiary, and it acquired all of the outstanding partnership interests in Maecenas Minerals LLP, a Texas limited liability partnership.

Our business may be described as the acquisition, ownership and administration of Royalty Properties and NPIs. The Royalty Properties consist of producing and nonproducing mineral, royalty, overriding royalty, net profits, and leasehold interests located in 574 counties and parishes in 25 states. The NPIs represent net profits overriding royalty interests in various properties owned by the operating partnership.

Our partnership agreement requires that we distribute quarterly an amount equal to all funds that we receive from the Royalty Properties and the NPIs 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 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, 2,565,000 units remain available.

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;
- the method of drilling and completing 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 WPX Energy Marketing, LLC, a wholly owned subsidiary of WPX Energy, Inc.) on a daily market price basis using a yearly contract that will continue through October 2013. The operating partnership has reviewed alternative gas purchasers. We believe that the loss of Williams or any single customer would not have a material adverse effect on us due to the availability of 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.

Business Opportunities Agreement

Pursuant to a business opportunities agreement among us, our general partner, the general partner of our general partner, the owners of the general partner of our general partner (the "GP Parties"), and, in their individual capacities as officers of the general partner of our general partner, William Casey McManemin, James E. Raley and H.C. Allen, Jr., we have agreed that, except with the consent of our general partner, which it may withhold in its sole discretion, we will not engage in any business not permitted by our partnership agreement, and we will have no interest or expectancy in any business opportunity that does not consist exclusively of the oil and natural gas business within a designated area that includes portions of Texas County, Oklahoma and Stevens County, Kansas. All opportunities that are outside the designated area or are not oil and natural gas business activities are called renounced opportunities.

The parties also have agreed that, as long as the activities of the general partner, the GP Parties and their affiliates or manager designees are conducted in accordance with specified standards, or are renounced opportunities:

- our general partner, the GP Parties and their affiliates or the manager designees will not be prohibited from engaging in the oil and natural gas business or any other business, even if such activity is in direct or indirect competition with our business activities;
- affiliates of our general partner, the GP Parties and their affiliates and the manager designees will not have to offer us any business opportunity;
- we will have no interest or expectancy in any business opportunity pursued by affiliates of our general partner, the GP Parties or their affiliates and the manager designees; and
- we waive any claim that any business opportunity pursued by our general partner, the GP Parties or their affiliates and the manager designees constitutes a corporate opportunity that should have been presented to us.

The standards specified in the business opportunities agreement generally provide that the GP Parties and their affiliates and manager designees must conduct their business through the use of their own personnel and assets and not with the use of any personnel or assets of us, our general partner or operating partnership. A manager designee or personnel of a company in which any affiliate of our general partner or any GP Party or their affiliates has an interest or in which a manager designee is an owner, director, manager, partner or employee (except for our general partner and its general partner and their subsidiaries) is not allowed to usurp a business opportunity solely for his or her personal benefit, as opposed to pursuing, for the benefit of the separate party an opportunity in accordance with the specified standards.

In certain circumstances, if a GP Party or any subsidiary thereof, any officer of the general partner of our general partner or any of their subsidiaries, or a manager of the general partner of our general partner that is an affiliate of a

GP Party signs a binding agreement to purchase oil and natural gas interests, excluding oil and natural gas working interests, then such party must notify us prior to the consummation of the transactions so that we may determine whether to pursue the purchase of the oil and natural gas interests directly from the seller. If we do not pursue the purchase of the oil and natural gas interests or fail to respond to the purchasing party's notice within the provided time, the opportunity will also be considered a renounced opportunity.

In the event any GP Party or one of their subsidiaries acquires an oil and natural gas interest, including oil and natural gas working interests, in the designated area, it will offer to sell these interests to us within one month of completing the acquisition. This obligation also applies to any package of oil and natural gas interests, including oil and natural gas working interests, if at least 20% of the net acreage of the package is within the designated area; however, this obligation does not apply to interests purchased in a transaction in which the procedures described above were applied and followed by the applicable affiliate.

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;
- 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 21, 2013, the operating partnership had 19 full-time employees in our Dallas, Texas office and seven full-time employees in field locations.

ITEM 1A. RISK FACTORS

Risks Related to Our Business

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;
 - 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.

We do not control operations and development of the Royalty Properties or the properties underlying the NPIs 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 NPI 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 NPIs. 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 NPIs are under no obligation to continue operating the underlying properties. The operating partnership can sell any of the properties underlying the NPIs that it operates and relinquish the ability to control or influence operations. Any such sale or transfer must also simultaneously include the NPIs 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.

Significant portions 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 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 NPIs.

Our general partner, through the operating partnership, may at any time transfer all or part of the properties underlying the NPIs. Our unitholders are not entitled to vote on any transfer; however, any such transfer must also simultaneously include the NPIs 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 NPIs 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 NPIs, 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 by the operating partnership 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 such as NPIs 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 us 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 NPIs, 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.

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 NPIs, the costs of unsuccessful future drilling on the working interest properties that are subject to the NPIs will reduce amounts payable to us under the NPIs 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 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.

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.

A significant portion of the properties subject to the NPIs are geographically concentrated, which could cause net proceeds payable under the NPIs to be impacted by regional events.

A significant portion of the properties subject to the NPIs are natural gas properties located 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 NPIs more than if the properties were more geographically diversified.