

ATMOS ENERGY CORP  
Form DEF 14A  
December 22, 2008  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a)**

**of the Securities Exchange Act of 1934**

**(Amendment No.    )**

Filed by the Registrant  x

Filed by a Party other than the Registrant  ..

Check the appropriate box:

.. Preliminary Proxy Statement

x Definitive Proxy Statement

.. Definitive Additional Materials

.. Soliciting Material Pursuant to §240.14a-12

.. **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

**Atmos Energy Corporation**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

.. Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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(1) Title of each class of securities to which transaction applies:

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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(1) Amount Previously Paid:

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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December 22, 2008

Dear Atmos Energy Shareholder:

You are cordially invited to attend the annual meeting of shareholders on Wednesday, February 4, 2009, at 11:00 a.m. Central Standard Time. The meeting will be held in the Pavilion Ballroom at the Belo Mansion, 2101 Ross Avenue, Dallas, Texas 75201.

The matters to be acted upon at the meeting are described in the Notice of Annual Meeting of Shareholders and Proxy Statement. In addition, we will review with you the affairs and progress of the Company during the past year and review the results of operations for the first quarter of our 2009 fiscal year.

Your vote is very important, regardless of the number of shares you hold. Whether or not you plan to attend the meeting in person, please cast your vote, as instructed in the Notice of Internet Availability of Proxy Materials or proxy card, over the Internet or by telephone, as promptly as possible. If you received only a Notice of Internet Availability of Proxy Materials in the mail or by electronic mail, you may also request a paper proxy card to submit your vote by mail, if you prefer. However, we encourage you to vote over the Internet because it is convenient and will save printing costs and postage fees, as well as natural resources.

On behalf of your Board of Directors, thank you for your continued support and interest in Atmos Energy Corporation.

Sincerely,

Robert W. Best

Chairman of the Board

and Chief Executive Officer

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**ATMOS ENERGY CORPORATION**

**P.O. Box 650205**

**Dallas, Texas 75265-0205**

**NOTICE OF ANNUAL MEETING**

**OF SHAREHOLDERS**

To Our Shareholders:

The annual meeting of the shareholders of Atmos Energy Corporation will be held in the Pavilion Ballroom at the Belo Mansion, 2101 Ross Avenue, Dallas, Texas 75201 on Wednesday, February 4, 2009, at 11:00 a.m. Central Standard Time for the following purposes:

1. To elect one Class I director whose term will expire in 2011 and five Class II directors for three-year terms expiring in 2012;
2. To ratify the Audit Committee's appointment of Ernst & Young LLP to serve as the Company's registered independent public accounting firm for fiscal 2009;
3. To vote on one shareholder proposal, if properly presented at the meeting; and
4. To transact such other business as may properly come before the meeting or any adjournment thereof.

Shareholders of record of our common stock at the close of business on December 10, 2008 will be entitled to notice of, and to vote at, such meeting. The stock transfer books will not be closed. Your vote is very important to us. Regardless of the number of shares you own, please vote. All shareholders of record can vote (i) over the Internet, (ii) by toll-free telephone (please see the proxy card for instructions), (iii) by written proxy by signing and dating the proxy card and returning it or (iv) by attending the annual meeting in person. These various options for voting are described in the Notice of Internet Availability of Proxy Materials or proxy card.

For all shareholders who participate in our Retirement Savings Plan and Trust ( RSP ), your vote over the Internet, by telephone or on your proxy card will serve as voting instructions to the trustee of the RSP. If you have shares of our common stock issued to you under the RSP, only the trustee can vote your plan shares even if you attend the annual meeting in person.

All shareholders who hold their shares in street name (in the name of a broker, bank or other nominee) may submit a written vote through voting instruction forms provided by their brokers, banks or other nominees. Such shareholders who hold their shares in street name can also generally vote their proxies over the Internet or by telephone, in accordance with voting instructions provided by their brokers, banks or other nominees. Under rules of the New York Stock Exchange ( NYSE ), brokers, banks or other nominees will have the discretion to vote the shares of customers who fail to provide voting instructions for the proposals described above, other than the shareholder proposal. Therefore, if you do not provide instructions to your broker, bank or other nominee to vote your shares, they may vote your shares on such proposals being presented at our annual meeting, other than the shareholder proposal. If you own your shares in street name and you want to vote in person at the meeting, you must first obtain a legal proxy from your street name nominee and bring that legal proxy to the annual meeting.

We encourage you to receive all proxy materials in the future electronically to help us save printing costs and postage fees, as well as natural resources in producing and distributing these materials. If you wish to receive these materials electronically next year, please follow the instructions on the proxy card.

By Order of the Board of Directors,

DWALA KUHN  
Corporate Secretary  
December 22, 2008

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**ATMOS ENERGY CORPORATION**

**P.O. Box 650205**

**Dallas, Texas 75265-0205**

**PROXY STATEMENT**

**for the**

**2009 ANNUAL MEETING OF SHAREHOLDERS**

**to be Held on February 4, 2009**

**GENERAL**

**Date, Time, Place and Purpose of Meeting**

Our 2009 annual meeting of shareholders will be held on Wednesday, February 4, 2009, at 11:00 a.m., Central Standard Time in the Pavilion Ballroom at the Belo Mansion, 2101 Ross Avenue, Dallas, Texas 75201. The purpose of the 2009 annual meeting is set forth in the Notice of Annual Meeting of Shareholders to which this proxy statement is attached. Atmos Energy Corporation is referred to as the Company, we, our or us in this proxy statement.

**Internet Availability of Proxy Materials**

Under rules of the Securities and Exchange Commission ( SEC ), we are furnishing proxy materials to our shareholders primarily over the Internet, rather than mailing paper copies of the materials (including our Summary Annual Report and Annual Report on Form 10-K for fiscal 2008) to each shareholder. If you received only a Notice of Internet Availability of Proxy Materials (the Notice ) by mail or electronic mail, you will not receive a paper copy of these proxy materials unless you request one. Instead, the Notice will instruct you as to how you may access and review the proxy materials on the Internet. The Notice will also instruct you as to how you may access your proxy card to vote over the Internet. If you received a Notice by mail or electronic mail and would like to receive a paper copy of our proxy materials, free of charge, please follow the instructions included in the Notice.

We anticipate that the Notice will be mailed to our shareholders on December 22, 2008 and will be sent by electronic mail to our shareholders who have opted for such means of delivery on December 26, 2008.

**Revocability and Voting of Proxies**

Any shareholder of record giving a proxy has the power to revoke the proxy at any time prior to its exercise by (1) submitting a new proxy with a later date, including a proxy given over the Internet or by telephone; (2) notifying our Corporate Secretary in writing before the meeting or (3) voting in person at the meeting. Any shareholders owning shares in street name who wish to revoke voting instructions previously given to their broker, bank or other nominee should contact such broker, bank or other nominee for further instructions. An independent inspector will count the votes. Your vote will not be disclosed to us and will remain confidential except under special circumstances. For example, a copy of your proxy card will be sent to us if you add any written comments to the card. If you are a shareholder of record and give us your signed proxy, but do not specify how to vote, we will vote your shares in favor of the nominees for election of directors (see Proposal One Election of Directors beginning on page 5), in favor of the proposal to ratify the Audit Committee's appointment of Ernst & Young LLP as the independent registered public accounting firm for the Company for fiscal 2009 (see Proposal Two Ratification of Appointment of Independent Registered Public Accounting Firm beginning on page 44) and against the shareholder proposal (see Proposal Three Shareholder Proposal Regarding Declassification of Board of Directors beginning on page 45).



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### **Solicitation of Proxies**

The proxy accompanying this statement is solicited by the management of the Company at the direction of our Board of Directors. These materials were first sent to our shareholders on December 22, 2008. We expect to solicit proxies primarily by mail, but our directors, officers, employees and agents may also solicit proxies in person or by telephone or other electronic means. We will pay for all costs of preparing, assembling and distributing the proxies and accompanying materials for the annual meeting of shareholders, including the costs of reimbursing brokers and nominees for forwarding proxies and proxy materials to their principals. We will ask brokers, banks or other nominees to prepare and send a Notice to customers or clients for whom they hold shares and forward copies of the proxy materials to such beneficial owners who request a paper copy. In addition, Morrow & Co., LLC ( Morrow ) will assist us in the solicitation of proxies. We will pay approximately \$6,500 in fees, plus expenses and disbursements, to Morrow for its proxy solicitation services.

### **Common Stock Information; Record Date**

As of December 10, 2008, our record date, there were 91,556,911 shares of our common stock, no par value, issued and outstanding, all of which are entitled to vote. These shares constitute the only class of our stock issued and outstanding. As stated in the Notice of Annual Meeting of Shareholders, only shareholders of record at the close of business on December 10, 2008 will be entitled to vote at the meeting. Each share is entitled to one vote.

### **Quorum Requirement**

Our bylaws provide that if the holders of a majority of the issued and outstanding shares of our common stock entitled to vote are present in person or represented by proxy, there will be a quorum. The aggregate number of votes entitled to be cast by all shareholders present in person or represented by proxy at the annual meeting, whether those shareholders vote for, against or abstain from voting on any matter, will be counted for purposes of determining whether a quorum exists. Broker non-votes, which are described below, will also be considered present for purposes of determining whether a quorum exists.

### **Broker Non-Votes and Vote Required**

If a broker, bank or other nominee ( broker ) holds your shares and you have previously elected to receive a paper copy of your proxy materials, this proxy statement and a proxy card have been sent to your broker. You may have received this proxy statement directly from your broker, together with instructions as to how to direct the broker to vote your shares. If you desire to have your vote counted, it is important that you return your voting instructions to your broker. Rules of the NYSE determine whether proposals presented at shareholder meetings are routine or non-routine. If a proposal is routine, a broker holding shares for an owner in street name may vote on the proposal without voting instructions from the owner. If a proposal is non-routine, the broker may vote on the proposal only if the owner has provided voting instructions. A broker non-vote occurs when the broker is unable to vote on a proposal because the proposal is non-routine and the owner does not provide instructions. Proposal One the proposal to elect directors and Proposal Two the proposal to ratify the appointment of Ernst & Young LLP as the independent registered public accounting firm for the Company for fiscal 2009 are considered routine proposals under the rules of the NYSE. As a result, brokers holding shares for an owner in street name may vote on both Proposals One and Two, even if

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no voting instructions are provided by the owner of the shares. However, Proposal Three the shareholder proposal regarding the declassification of our Board of Directors, is not considered a routine proposal. Therefore, brokers may vote on this proposal only if voting instructions are provided by the owner of the shares.

For each of the proposals presented in this proxy statement, the number of votes required for approval is a majority of the shares of our common stock present or represented by proxy and entitled to vote at the meeting. If any other proposals are properly presented to the shareholders at the meeting, the number of votes required for approval will depend on the nature of the proposal. Generally, under Texas and Virginia law and our bylaws, the number of votes required to approve a proposal is a majority of the shares of common stock present or represented by proxy and entitled to vote at the meeting. The proxy gives discretionary authority to the proxy holders to vote on any matter not included in this proxy statement that is properly presented to the shareholders at the meeting. The persons named as proxies on the proxy card are Robert W. Best, Chairman and Chief Executive Officer, Charles K. Vaughan, Director and Presiding Director and Dan Busbee, Director and Chairman of the Audit Committee.

**BENEFICIAL OWNERSHIP OF COMMON STOCK****Security Ownership of Certain Beneficial Owners**

The following table lists the beneficial ownership, as of December 1, 2008, with respect to each person known by us to be the beneficial owner of more than five percent of any class of our voting securities.

<b>Title of Class</b>	<b>Name and Address of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Percent of Class</b>
Common stock	Franklin Resources, Inc.(a)  One Franklin Parkway  San Mateo, CA 94403	6,657,941	7.3%(c)
Common stock	Barclays Global Investors, NA(b)  45 Fremont Street  San Francisco, CA 94105	5,353,375	5.9%(c)

(a) Based solely upon information contained in the most recently filed Schedule 13G with the SEC on January 17, 2008, which was jointly filed by Franklin Resources, Inc. and its affiliates, Franklin Advisers, Inc., Charles B. Johnson and Rupert H. Johnson, Jr., reflecting beneficial ownership of 6,657,941 shares of common stock as of December 31, 2007. According to this Schedule 13G, the reporting group possessed sole voting power over 6,542,641 of these shares with no shared voting power and sole dispositive power over 6,657,941 shares with no shared dispositive power. Neither Franklin Resources, Inc. nor any of its affiliates has subsequently filed any Schedules 13G or amendments thereto with respect to their beneficial ownership of the Company's common stock.

(b) Based solely upon information contained in the most recently filed Schedule 13G with the SEC on January 10, 2008, which was jointly filed by Barclays Global Investors, NA and its affiliates, Barclays Global Fund Advisors and Barclays Global Investors, LTD, reflecting beneficial ownership of 5,353,375 shares of common stock as of December 31, 2007. According to this Schedule 13G, the reporting group possessed sole voting power over 4,217,152 of these shares with no shared voting power and sole dispositive power over 5,353,375 shares with no shared dispositive power. Neither Barclays Global Investors, NA nor any of its affiliates has subsequently filed any Schedules 13G or amendments thereto with respect to their beneficial ownership of the Company's common stock.

(c) The percent of voting securities is based on the number of outstanding shares of our common stock as of December 1, 2008.

**Table of Contents****Security Ownership of Management and Directors**

The following table lists the beneficial ownership, as of December 1, 2008, of our common stock, the only class of securities issued and outstanding, with respect to all our directors and nominees for director, our executive officers named in the Summary Compensation Table on page 31 of this proxy statement and all our directors and executive officers as a group. Except as otherwise noted, the directors, nominees and named executive officers, individually or as a group, have sole voting and investment power with respect to the shares listed.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Travis W. Bain II	37,911	(a)(b)
Robert W. Best	847,048(c)	(a)(d)
Dan Busbee	40,426(e)	(a)(b)
Richard W. Cardin	27,008	(a)(b)
Kim R. Cocklin	137,290	(a)
Richard W. Douglas	3,628	(a)(b)
Ruben E. Esquivel	1,000	(a)
Thomas J. Garland	37,088	(a)(b)
Richard K. Gordon	23,844	(a)(b)
Louis P. Gregory	83,456	(a)(d)
Mark H. Johnson	47,596(f)	(a)
Dr. Thomas C. Meredith	34,818	(a)(b)
Phillip E. Nichol	42,011	(a)(b)
Nancy K. Quinn	11,287	(a)(b)
John P. Reddy	215,528	(a)(d)
Stephen R. Springer	7,945(g)	(a)(b)
Charles K. Vaughan	72,255	(a)(b)
Richard Ware II	50,059	(a)(b)
All directors, nominees and executive officers as a group (19 individuals)	1,724,448	1.89%

- (a) The percentage of shares beneficially owned by such individual does not exceed one percent of the class so owned.
- (b) Includes cumulative share units credited to the following directors under our Equity Incentive and Deferred Compensation Plan for Non-Employee Directors ( Directors Plan ) and our 1998 Long-Term Incentive Plan ( LTIP ) in the following respective amounts: Mr. Bain, 30,960 units; Mr. Busbee, 31,426 units; Mr. Cardin, 23,508 units; Mr. Douglas, 2,561 units; Mr. Garland, 29,077 units; Mr. Gordon, 13,844 units; Dr. Meredith, 23,691 units; Mr. Nichol, 32,011 units; Ms. Quinn, 9,287 units; Mr. Springer, 6,945 units; Mr. Vaughan, 32,546 units and Mr. Ware, 22,293 units.
- (c) Includes 3,085 shares owned by Mr. Best's son through the Company's Direct Stock Purchase Plan.
- (d) Includes shares issuable upon the exercise of options held by the following named executive officers under our LTIP within 60 days of December 1, 2008, in the following respective amounts: Mr. Best, 448,492 shares; Mr. Reddy, 108,400 shares and Mr. Gregory, 9,965 shares.
- (e) Includes 2,000 shares owned by Mr. Busbee's spouse.
- (f) Includes 47 shares owned by Mr. Johnson's son.

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(g) Includes 1,000 shares owned by Mr. Springer's spouse with whom voting and investment power are shared.

**Table of Contents****Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Exchange Act requires our directors and executive officers and persons who beneficially own more than ten percent of our common stock to file with the SEC and the NYSE initial reports of ownership and reports of changes in their ownership in our common stock. Directors, executive officers and greater-than-ten-percent beneficial shareholders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. Based solely on a review of the copies of such reports furnished to us, we believe that, during fiscal 2008, all of our directors, executive officers and greater-than-ten-percent beneficial owners were in compliance with the Section 16(a) filing requirements, except for Mr. Best, who did not timely report on Form 4, a purchase of 1,887 shares for the account of his son in the Company's Direct Stock Purchase Plan.

**PROPOSAL ONE ELECTION OF DIRECTORS****Background**

Pursuant to our bylaws, the Board is divided into three classes, each of which class consists, as nearly as possible, of one-third of the total number of directors constituting the entire Board. In accordance with our bylaws, Ruben E. Esquivel who was elected to the Board effective September 1, 2008, is required to be elected by our shareholders at the immediately succeeding annual meeting of shareholders. Accordingly, Mr. Esquivel has been nominated to continue serving as a Class I director for a three-year term expiring in 2011. In addition, directors for Class II are to be elected at the 2009 annual meeting of shareholders for three-year terms expiring in 2012. Richard W. Cardin, Thomas C. Meredith, Nancy K. Quinn, Stephen R. Springer and Richard Ware have been nominated to serve as Class II directors. All nominees were recommended for nomination by the Nominating and Corporate Governance Committee of the Board. We did not pay a fee to any third party to identify, evaluate or assist in identifying or evaluating potential nominees for the Board. The Nominating and Corporate Governance Committee did not receive any recommendations from a shareholder or a group of shareholders who, individually or in the aggregate, beneficially owned greater than five percent of our common stock for at least one year. Ms. Quinn and Messrs. Cardin, Springer, Ware and Dr. Meredith were last elected to three-year terms by the shareholders at the 2006 annual meeting of shareholders in February 2006. The Board is nominating Ms. Quinn and Messrs. Cardin, Springer, Ware and Dr. Meredith to continue serving as Class II directors, whose three-year terms will expire in 2012.

The other directors listed below under **Directors Continuing in Office** will continue to serve in their positions for the remainder of their current terms, except for Mr. Busbee who will be retiring from the Board immediately following the annual meeting, in accordance with the Company's bylaws. The names, ages and biographical summaries of (i) the persons who have been nominated to serve as our directors and (ii) the directors who are continuing in office until the expiration of their terms and the class in which such nominee or other director has been designated, are set forth under **Nominees for Director** beginning on page 6 and **Directors Continuing in Office** beginning on page 8. Each of the nominees has consented to be a nominee and to serve as a director if elected and all votes authorized by the proxy will be cast FOR all of the nominees. If we receive proxies that are signed but do not specify how to vote, we will vote your shares FOR all of the nominees. If we receive proxies that contain a vote to withhold authority for the election of one or more director nominees, such vote will not be counted in determining the number of votes cast for those nominees but will be counted for quorum purposes. In order to be elected as a director, our bylaws require a nominee to receive the vote of a majority of all outstanding shares of our common stock entitled to vote and represented in person or by proxy at a meeting of shareholders at which a quorum is present.

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According to our bylaws, any shareholder may make nominations for the election of directors if notice of such nominations is delivered to, or mailed and received by the Corporate Secretary of the Company at our principal executive offices, not less than 60 days nor more than 85 days prior to the date of the originally scheduled meeting. However, if less than 75 days notice or prior public disclosure of the date of the meeting is given by the Company, notice of such nomination must be so received not later than the close of business on the 25th day following the earlier of the day on which notice of the meeting was sent or the day on which such public disclosure was made. Since we are providing less than 75 days notice or prior public disclosure of the date of the 2009 annual meeting, shareholders may make nominations for the election of directors at the 2009 annual meeting, if notice of such nominations is delivered to, or mailed and received by the Corporate Secretary of the Company at our principal executive offices no later than the close of business on January 16, 2009, the 25th day following the day on which notice of the meeting was sent, December 22, 2008. If nominations are not so made, only the nominations made by the Board of Directors may be voted upon at the 2009 annual meeting.

## **Nominees for Director**

**Richard W. Cardin**, Retired, formerly with Arthur Andersen LLP from 1958 to 1994 where he served as office managing partner in the Chattanooga and Nashville, Tennessee offices from 1969 to 1994; and currently a director of United States Lime and Minerals, Inc. Mr. Cardin, 73, has been a director of Atmos Energy since 1997. *Class II Director Term Expiring in 2012.*

**Ruben E. Esquivel**, Vice President for Community and Corporate Relations for UT Southwestern Medical Center in Dallas, Texas since December 1995. Mr. Esquivel, 65, has been a director of Atmos Energy since September 2008. *Class I Director Term Expiring in 2011.*

**Thomas C. Meredith, Ed.D.**, Retired, formerly Commissioner of Mississippi Institutions of Higher Learning in Jackson, Mississippi from October 2005 until November 2008; previously served as Chancellor of the University System of Georgia in Atlanta, Georgia from January 2002 through September 2005; and currently a director of American Cast Iron and Pipe Company. Dr. Meredith, 67, has been a director of Atmos Energy since 1995. *Class II Director Term Expiring in 2012.*

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**Nancy K. Quinn**, Principal of Hanover Capital, LLC in New York, New York since July 1996; and currently a director of Endeavor International Corporation. Ms. Quinn, 55, has been a director of Atmos Energy since 2004. *Class II Director Term Expiring in 2012.*

**Stephen R. Springer**, Retired, formerly Senior Vice President and General Manager of the Midstream Division of The Williams Companies, Inc. in Tulsa, Oklahoma from January 1999 to February 2002; and currently a director of DCP Midstream Partners, LP. Mr. Springer, 62, has been a director of Atmos Energy since 2005. *Class II Director Term Expiring in 2012.*

**Richard Ware II**, President of Amarillo National Bank in Amarillo, Texas since 1981; and currently a member of the Board of Trustees of Southern Methodist University in Dallas, Texas. Mr. Ware, 62, has been a director of Atmos Energy since 1994. *Class II Director Term Expiring in 2012.*

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE

**FOR** EACH OF THE ABOVE NOMINEES.

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**Directors Continuing in Office**

**Travis W. Bain II**, Chairman of Texas Custom Pools, Inc. in Plano, Texas since 1999; and currently a director of Delta Industries, Inc. Mr. Bain, 74, has been a director of Atmos Energy since 1988. *Class I Director Term Expiring in 2011.*

**Robert W. Best**, Chairman of the Board and Chief Executive Officer of Atmos Energy since March 1997. Mr. Best, 62, has been a director of Atmos Energy since 1997. *Class III Director Term Expiring in 2010.*

**Dan Busbee**, Adjunct Professor at the Southern Methodist University Dedman School of Law in Dallas, Texas since February 2003; Professional Fellow at the SMU Dedman School of Law Institute of International Banking and Finance since January 2001. Mr. Busbee, 75, has been a director of Atmos Energy since 1988. *Class I Director Term Expiring in 2011.* In accordance with the bylaws of the Company, Mr. Busbee will be retiring from the Board of Directors immediately following the annual meeting on February 4, 2009.

**Richard W. Douglas**, Executive Vice President for Jones Lang LaSalle LLC since July 2008; formerly Executive Vice President with The Staubach Company in Dallas, Texas from October 2004 to July 2008 and served in numerous other executive officer positions from February 1999 to October 2004. Mr. Douglas, 61, has been a director of Atmos Energy since 2007. *Class I Director Term Expiring in 2011.*



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**Thomas J. Garland**, Senior Advisor to the Niswonger Foundation since July 2002 and Chairman of the Tusculum Institute for Public Leadership and Policy in Greeneville, Tennessee since 1998. Mr. Garland, 74, has been a director of Atmos Energy since 1997. *Class III Director Term Expiring in 2010.*

**Richard K. Gordon**, General Partner of Juniper Energy LP in Houston, Texas since September 2006; General Partner of Juniper Capital LP and Juniper Advisory LP in Houston, Texas since March 2003; formerly Vice Chairman Investment Banking for Merrill Lynch & Co. in Houston, Texas from October 1994 through March 2003. Mr. Gordon, 59, has been a director of Atmos Energy since 2001. *Class I Director Term Expiring in 2011.*

**Phillip E. Nichol**, Retired, formerly Senior Vice President of Central Division Staff of UBS Paine Webber Incorporated in Dallas, Texas from July 2001 through July 2003. Mr. Nichol, 73, has been a director of Atmos Energy since 1985. *Class III Director Term Expiring in 2010.*

**Charles K. Vaughan**, Retired, formerly Chairman of the Board of Atmos Energy from June 1994 until March 1997. Mr. Vaughan, 71, has been a director of Atmos Energy since 1983. *Class III Director Term Expiring in 2010.*

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**CORPORATE GOVERNANCE AND OTHER BOARD MATTERS**

**Corporate Governance**

In accordance with and pursuant to the corporate governance-related listing standards of the NYSE, the Board has adopted and periodically updated our Corporate Governance Guidelines, which govern the structure and proceedings of the Board and contain the Board's position on many governance issues. The Board has also adopted and periodically updated the Code of Conduct for our directors, officers and employees. The Code of Conduct provides guidance to the Board and management in areas of ethical business conduct and risk and provides guidance to employees and directors by helping them to recognize and deal with ethical issues including, but not limited to (i) conflicts of interest, (ii) gifts and entertainment, (iii) confidential information, (iv) fair dealing, (v) protection of corporate assets and (vi) compliance with rules and regulations. We have provided to our employees a toll-free compliance hotline and a Web site by which they may report on an anonymous basis any observation of unethical behavior. In addition, the Board has adopted and periodically updated the charters for each of its Audit, Human Resources and Nominating and Corporate Governance Committees. All of the foregoing documents are posted on the Corporate Governance page of our Web site at [www.atmosenergy.com](http://www.atmosenergy.com). Such documents are also available in print free of charge to any shareholder upon request to our Corporate Secretary at our principal executive offices.

**Independence of Directors**

The Board is comprised of a majority of independent directors in accordance with NYSE corporate governance-related listing standards. The Board made its determination of the independence of each of its members based on the Categorical Standards of Director Independence (Standards) it has adopted, which are consistent with the NYSE listing standards. In accordance with the Standards and the Company's Corporate Governance Guidelines, in order to be considered independent, a director must not have a direct or indirect material relationship with the Company or its management, other than as a director. The Standards specify the criteria by which the independence of our directors will be determined, including guidelines for directors and their immediate families with respect to past employment or affiliation with the Company, our management or our independent registered public accounting firm. For purposes of the Standards, the Board has adopted the definition of an immediate family member as set forth by the NYSE, which includes a director's spouse, parents, children, siblings and in-laws of the director, as well as anyone else (other than domestic employees) who shares such director's home. The Standards and our Corporate Governance Guidelines are posted on the Corporate Governance page of our Web site. Such documents are also available in print free of charge to any shareholder upon request to our Corporate Secretary at our principal executive offices.

Based on its review of the Standards, as well as the NYSE listing standards, and taking into consideration all business relationships between the Company and each director other than Mr. Springer, the Board has concluded that none of such relationships are material. Accordingly, the Board has determined that all non-employee members of the Board, other than Mr. Springer, are independent members of the Board. However, because Mr. Springer's son-in-law is a partner with the firm of Ernst & Young LLP, our independent registered public accounting firm, under the Standards and the corporate governance-related listing standards of the NYSE, Mr. Springer may not be considered independent from the Company. Mr. Springer's son-in-law is not involved in our audit and is not considered a covered person with respect to us, as defined under the SEC's independence-related regulations for auditors. Thus, this relationship has no effect on Ernst & Young LLP's

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independence as our independent registered public accounting firm. In addition, Mr. Springer does not serve on our Audit, Nominating and Corporate Governance or Human Resources Committees.

### **Related Person Transactions**

In accordance with applicable SEC rules and in recognition that transactions into which we enter with related persons can present potential or actual conflicts of interest, our Board has adopted written guidelines with respect to related person transactions. For purposes of these guidelines, a reportable related person transaction is a transaction between the Company and any related person (i) involving more than \$120,000 when aggregated with all similar transactions during any fiscal year and (ii) such related person has or will have a direct or indirect material interest in such transaction (other than solely as a result of being a director or a less than 10 percent beneficial owner of another entity). A related person is any (a) person who is or was (since the beginning of the last fiscal year) an executive officer, director or nominee for election as a director of the Company; (b) person who beneficially owns more than five percent of the Company's common stock or (c) immediate family member of any of the foregoing. An immediate family member includes a person's spouse, parents, stepparents, children, stepchildren, siblings, in-laws and anyone residing in such person's home (other than a tenant or employee).

Under the guidelines, all executive officers, directors and director nominees are required to identify, to the best of their knowledge after reasonable inquiry, business and financial affiliations involving themselves or their immediate family members that could reasonably be expected to give rise to a reportable related person transaction. Executive officers, directors and director nominees are required to advise the Corporate Secretary of the Company promptly of any change in the information provided and are asked periodically to review and reaffirm this information.

The Nominating and Corporate Governance Committee reviews reports developed under the guidelines and makes a recommendation to the Board as to whether the committee determines that an identified transaction is required to be reported as a related person transaction under SEC rules. In determining materiality for this purpose, information is considered material if, in light of all the circumstances, there is a substantial likelihood a reasonable investor would consider the information important in deciding whether to buy, sell or vote shares of Company stock. Transactions within the categorical standards specified below, which are pre-approved by the committee, will be presumed not to be material and therefore, not reportable. Other transactions are assessed for materiality based on the specific facts and circumstances of the transaction. An individual director is required to abstain from the decision regarding transactions involving that director or his or her family members.

Under SEC rules, certain transactions are deemed not to involve a material interest (including transactions in which the amount involved in any 12-month period is less than \$120,000 and transactions with entities where a related person's interest is limited to service as a non-employee director). In addition, the committee will presume that the following transactions do not involve a material interest for purposes of reporting under applicable SEC rules:

Transactions in the ordinary course of business with an entity for which a related person serves as an executive officer, provided (i) the affected director or executive officer does not participate in the decision on the part of the Company to enter into such transactions and (ii) the amount involved in any related category of transactions during any particular fiscal year is the lesser of (a) \$1 million or (b) an amount which is less than one percent of the entity's gross revenue for the most recently completed fiscal year for which data is publicly available;

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Charitable gifts made in the ordinary course of business to a foundation, university or other nonprofit organization, provided (i) the affected director or executive officer does not participate in the decision on the part of the Company to make such gifts and (ii) the amount of gifts during any particular fiscal year is the lesser of (a) \$120,000 or (b) an amount which is less than one percent of the nonprofit entity's gross revenues for the most recently completed fiscal year for which data is publicly available;

Employment by the Company of a family member of an executive officer, provided the executive officer does not participate in decisions regarding the hiring, performance evaluation, or compensation of the family member; and

Payments under the Company's employee benefit plans and other programs that are available generally to the Company's employees (including contributions under the Company's educational matching gift programs and payments to providers under the Company's health care plans).

The committee has reviewed the Company's ordinary course of business transactions during fiscal 2008 with companies for which non-employee directors serve as executive officers and all other related person transactions and determined that, in accordance with the categorical standards described above, none of those transactions involved a material interest and thus are not reportable. In addition, the Company is not aware of any related person transactions required to be reported under applicable SEC rules since the beginning of the last fiscal year where our policies and procedures did not require review, or where such policies and procedures were not followed.

### **Qualifications for Directors**

The Nominating and Corporate Governance Committee utilizes a variety of methods for identifying nominees for director, including considering potential director candidates who come to the committee's attention through current officers, directors, professional search firms, shareholders or other persons. Nominees for director should possess the level of education, experience, sophistication and expertise required to perform the duties of a member of the board of directors of a public company of our size and scope. Once a person is nominated, the committee will assess the qualifications of the nominee, including an evaluation of the nominee's judgment and skills. The Company's Corporate Governance Guidelines provide that nominees for director will be selected on the basis of outstanding achievement in their personal careers; prior board experience; wisdom; integrity; ability to make independent, analytical inquiries; understanding of the business environment; and willingness to devote adequate time to Board duties. Each nominee for director should also have a basic understanding of (i) the principal operational and financial objectives and plans and strategies of the Company, (ii) the results of operations and financial condition of the Company and of any significant subsidiaries or business segments and (iii) the relative standing of the Company and its business segments in relation to its competitors. The Board is committed to diversified membership and will not discriminate on the basis of race, color, national origin, gender, religion, disability or other personal characteristics in selecting nominees.

### **Procedures for Nomination or Recommending for Nomination Candidates for Director**

The Nominating and Corporate Governance Committee also considers sound and meritorious nomination suggestions for directors from shareholders. Any shareholder may submit a nomination for director by following the procedures outlined in our bylaws and described under Proposal One Election of Directors beginning on page 5. There are no differences in the manner in which the

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committee evaluates nominees for director based on whether or not the nominee is recommended by a shareholder. All director candidates shall, at a minimum, possess the qualifications for director discussed above. All letters of recommendation for nomination at the 2009 annual meeting should be sent to our Corporate Secretary at our principal executive offices and must be received no later than January 16, 2009. Such letters should include the following: (i) name, address and number of shares owned by the nominating shareholder, (ii) the nominee's name and address, (iii) a listing of the nominee's background and qualifications, (iv) a description of all arrangements between such shareholder and each nominee and any other person and (v) all other information relating to such person that is required to be disclosed in the solicitations for proxies for election of directors under applicable SEC and NYSE rules. A signed statement from the nominee should accompany the letter of recommendation indicating that he or she consents to being considered as a nominee and that, if nominated by the Board and elected by the shareholders, he or she will serve as a director.

## **Presiding Director and Communications with Directors**

In accordance with the corporate governance-related listing standards of the NYSE, the Board has designated Charles K. Vaughan as the presiding director at all meetings of non-management directors during fiscal 2009, which meetings will continue to be held by the Board on a regular basis. In addition, all independent members of the Board meet as a group at least once annually. Shareholders and other interested parties may communicate with Mr. Vaughan, individual non-management directors, or the non-management directors as a group, by writing to Board of Directors, Atmos Energy Corporation, P.O. Box 650205, Dallas, Texas, 75265-0205 or by email at [boardofdirectors@atmosenergy.com](mailto:boardofdirectors@atmosenergy.com). Our Senior Vice President and General Counsel, Louis P. Gregory, receives all such communications initially and forwards such communications to Mr. Vaughan or another individual non-management director, if applicable, as he deems appropriate. Shareholders may also contact our only director who is a member of management, Mr. Robert W. Best, Chairman and Chief Executive Officer, by mail at Atmos Energy Corporation, P.O. Box 650205, Dallas, Texas 75265-0205, by email at [robert.best@atmosenergy.com](mailto:robert.best@atmosenergy.com) or by telephone at 972-934-9227.

## **Committees of the Board of Directors**

*Standing Committees.* We have certain standing committees, each of which is described below. The Executive Committee consists of the chairpersons of each of our standing committees and our presiding director, Mr. Vaughan. Current members of the Executive Committee are Messrs. Bain, Busbee, Gordon, Nichol and Vaughan. Mr. Vaughan, as presiding director, serves as chairman of the committee. In accordance with our bylaws, the Executive Committee has, and may exercise, all of the powers of the Board of Directors during the intervals between the Board's meetings, subject to certain limitations and restrictions as set forth in the bylaws or as may be established by resolution of the Board from time to time. The Executive Committee held no meetings during fiscal 2008.

The Board has established a separately-designated standing Audit Committee in accordance with applicable provisions of the Securities Exchange Act of 1934. The Audit Committee consists of Ms. Quinn and Messrs. Bain, Busbee, Cardin, Esquivel and Dr. Meredith. Mr. Busbee serves as chairman of the committee. The Board has determined that each member of the committee satisfies the independence requirements of the NYSE. The Audit Committee oversees our accounting and financial reporting processes and procedures; reviews the scope and procedures of the internal audit function; appoints our independent registered public accounting firm and is responsible for the oversight of its work and the review of the results of its independent audits. The Audit Committee held five meetings

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during the last fiscal year and has adopted a charter, which it follows in conducting its activities. The committee's charter is available on the Corporate Governance page of our Web site at [www.atmosenergy.com](http://www.atmosenergy.com).

The Human Resources Committee consists of Messrs. Bain, Busbee, Douglas, Esquivel, Garland, Gordon and Nichol. Mr. Gordon serves as chairman of the committee. The Board has determined that each member of the committee satisfies the independence requirements of the NYSE. This committee reviews and makes recommendations to the Board regarding executive compensation policy and strategy and specific compensation recommendations for the Chief Executive Officer as well as our other officers and division presidents. This committee has retained the worldwide consulting firm of Towers Perrin to serve as its independent compensation advisor, which is directly accountable to the committee for the performance of its consulting services. In addition, the committee determines, develops and makes recommendations to the Board regarding severance agreements, succession planning and other related matters concerning our Chief Executive Officer as well as other officers and division presidents. This committee also administers our 1998 Long-Term Incentive Plan and Annual Incentive Plan for Management. During the last fiscal year, the committee held five meetings. The committee has adopted a charter, which it follows in conducting its activities. The committee's charter is available on the Corporate Governance page of our Web site at [www.atmosenergy.com](http://www.atmosenergy.com).

The Nominating and Corporate Governance Committee consists of Ms. Quinn and Messrs. Cardin, Gordon, Nichol, Ware and Dr. Meredith. Mr. Nichol serves as chairman of the committee. The Board has determined that each member of the committee satisfies the independence requirements of the NYSE. This committee makes recommendations to the Board regarding the nominees to be submitted to our shareholders for election at each annual meeting of shareholders, selects candidates for consideration by the full Board to fill any vacancies on the Board, which may occur from time to time, and oversees all of our corporate governance matters. The committee held four meetings during the last fiscal year. The committee has adopted a charter, which it follows in conducting its activities. The committee's charter is available on the Corporate Governance page of our Web site at [www.atmosenergy.com](http://www.atmosenergy.com).

The Work Session/Annual Meeting Committee consists of Messrs. Bain, Douglas, Garland, Nichol, Springer and Ware. Mr. Bain serves as chairman of the committee. This committee selects the site and plans the meeting and agenda for the special meeting of the Board held each year for the purpose of focusing on long-range planning and corporate strategy issues and selects the site for the annual meeting of shareholders. During the last fiscal year, the Work Session/Annual Meeting Committee held two meetings.

## **Other Board and Board Committee Matters**

*Human Resources Committee Interlocks and Insider Participation.* As discussed above, the members of the Human Resources Committee during the last fiscal year were Messrs. Bain, Busbee, Douglas, Esquivel, Garland, Gordon and Nichol. None of such persons were, during fiscal 2008, or previously, an officer or employee of the Company or any of our subsidiaries. In addition, there were no interlocking relationships between any executive officer of the Company and any other corporation during fiscal 2008.

*Attendance at Board Meetings.* During fiscal 2008, our Board held 12 meetings and each director attended at least 75 percent of the aggregate of (a) all meetings of the Board and (b) all meetings of the committees of the Board on which such director served. In addition, all members of

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our Board, other than Mr. Esquivel who joined the Board on September 1, 2008, attended the 2008 annual meeting of shareholders in Fort Worth, Texas on February 6, 2008. We strongly support and encourage each member of our Board to attend our annual meeting of shareholders.

**DIRECTOR COMPENSATION**

*Annual Compensation.* As compensation for serving as a director during fiscal 2008, each of our non-employee directors received an annual retainer of \$37,500, payable on a quarterly basis. Beginning October 1, 2008, each of our non-employee directors will receive an annual retainer of \$45,000. Since June 1, 2007, our presiding director, Mr. Vaughan, has received an annual fee of \$25,000 for additional services he performs in connection with those duties. All annual fees and retainers paid to Board members who have served less than a full year are pro-rated on a daily basis. Each non-employee director receives a fee of \$1,500 per meeting for attendance at each meeting of the Board or Board committee as well as any other Company-related business meeting, excluding telephone conference meetings. The fee paid to non-employee directors for participation in any telephonic conference meeting is one-half of the regular meeting fee. Committee chairpersons are also paid an additional annual fee of \$5,000 for additional services performed in connection with their committee duties and responsibilities. All directors are reimbursed for reasonable expenses incurred in connection with attendance at Board and committee meetings. A director who is also an officer or employee receives no compensation for his or her service as a director. We provide business travel accident insurance for non-employee directors and their spouses. The policy provides \$100,000 coverage to directors and \$50,000 coverage to their spouses per accident while traveling on Company business.

The following table sets forth all compensation paid to our non-employee directors for fiscal 2008.

**Director Compensation for Fiscal Year 2008(a)**

Name	Fees Earned or Paid in Cash \$(b)	Stock Awards \$(c)	Change in Pension Value and Nonqualified Deferred Compensation Earnings \$(d)	All Other Compensation \$(e)	Total (\$)
Travis W. Bain II	103,481	100,752	9,261		213,494
Dan Busbee	86,000	101,339			187,339
Richard W. Cardin	69,750	91,353			161,103
Richard W. Douglas	60,646	64,935			125,581
Ruben E. Esquivel	7,641		8		7,649
Thomas J. Garland	64,500	98,377			162,877
Richard K. Gordon	75,500	79,165			154,665
Dr. Thomas C. Meredith	19,993	142,175	1,329		163,497
Phillip E. Nichol	84,500	102,077			186,577
Nancy K. Quinn	71,250	73,417			144,667
Stephen R. Springer	63,750	70,463			134,213
Charles K. Vaughan	92,250	102,752			195,002
Richard Ware II	27,805	126,641			154,446

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- (a) No options were awarded to our directors and no non-equity incentive plan compensation was earned by our directors in fiscal 2008.
- (b) Non-employee directors may defer all or a part of their annual cash retainer and meeting fees under our Directors Plan and LTIP. During fiscal 2008, \$101,013 of the total amount payable for directors' fees was deferred, at the election of three of our directors, under our Directors Plan and LTIP. Messrs. Bain, Esquivel and Dr. Meredith elected to defer all or a portion of their director fees in fiscal 2008, as described in the table immediately below. Deferred amounts are invested, at the election of the participating director, either in a stock account or a cash account. Amounts in a cash account earn interest at a rate equal to the 10-year U.S. Treasury Note rate on the first day of the plan year (January 1) plus 250 basis points. The amounts shown above for Messrs. Bain, Esquivel and Dr. Meredith include interest earned during fiscal 2008 on the accumulated balances of their respective cash accounts, payable monthly (not including the portion of interest earned that is attributable to above-market rate of interest. See footnote (d) below). Deferrals of amounts in the stock account are treated as though the deferred amounts are invested in our common stock at the fair market value (average of the high and low prices as reported on the NYSE Consolidated Tape) on the date earned. Amounts in the stock account earn the equivalent of dividends declared on our common stock, reinvested in shares of our common stock based on the fair market value of our common stock on the last trading day of each quarter. Shares of our common stock equal to the number of share units in a director's stock account are issued to such director on the last day of the director's service or a later date selected by the director.
- (c) The amounts in this column reflect the compensation cost of awards recognized for financial statement reporting purposes for fiscal 2008, in accordance with Statement of Financial Accounting Standards No. 123, as revised (FAS 123R), for share unit awards accrued by directors under the Directors Plan and LTIP for service on our Board or a Board committee in fiscal 2008. The share units do not contain restrictions and are valued based on the average of the high and low price of our common stock (\$25.76), as reported on the NYSE Consolidated Tape on the date of grant on March 7, 2008. The Company recognizes compensation cost (which is the same as the grant date fair value of these share units) for share units accrued for each non-employee director over a 12-month period following the grant date. Dividend equivalents accrued on share unit awards are included in the amounts reported for share unit awards.

The amounts described above also reflect the compensation cost of shares of stock issued under our Non-Employee Directors Stock-for-Fee Plan (Stock-for-Fee Plan) to Dr. Meredith and Mr. Ware, who elected to receive their directors' fees in the form of shares of stock in lieu of cash retainers and meeting fees for service on our Board or a Board committee in fiscal 2008. These shares do not contain restrictions on the grant date and are valued based on the closing price as reported on the NYSE Consolidated Tape on the final day of the previous fiscal quarter. The closing prices for fiscal 2008 were as follows: \$28.32 on September 28, 2007, \$28.04 on December 31, 2007, \$25.50 on March 31, 2008 and \$27.57 on June 30, 2008. The Company recognizes compensation cost (which is the same as the grant date fair value of these shares) for such shares over a 12-month period following the grant date.

- (d) Represents the amount of above-market portion of interest earned during fiscal 2008 on the accumulated amount of Board fees deferred to cash accounts. Interest considered above-market is the incremental rate of interest earned above 120 percent of the 10-year U.S. Treasury Note rate, which is reset on January 1 each year.
- (e) No director received perquisites and other personal benefits with an aggregate value equal to or exceeding \$10,000 during fiscal 2008. The following table sets forth, for each participating non-employee director, the amount of director compensation deferred during fiscal 2008 and cumulative deferred compensation as of September 30, 2008.

**Director Deferred Board Fees for Fiscal Year 2008(a)**

Director	Dividend Equivalents Earned on Stock Account and Reinvested in 2008 \$(b)	Cumulative Board Fees Deferred to Stock Account at September 30, 2008 (\$)	Board Fees Deferred to Cash Account in 2008 (\$)	Interest Earned on Cash Account in 2008 \$(c)	Cumulative Board Fees Deferred to Cash Account at September 30, 2008 \$(c)
Travis W. Bain II			83,000	29,742	506,999
Ruben E. Esquivel			4,500	24	4,524



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Dr. Thomas C. Meredith	1,948	37,251	13,513	4,237	73,003
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- (a) No director elected to defer any Board fees to his or her stock account in fiscal 2008.
- (b) Dividend equivalents earned on amounts of share units in the stock account are reinvested in additional share units based on the average of the high and low trading prices of our common stock as reported on the NYSE Consolidated Tape on last trading day of each quarter. Such stock prices for fiscal 2008 were as follows: \$28.01 on December 31, 2007, \$25.32 on March 31, 2008, \$27.20 on June 30, 2008 and \$26.34 on September 30, 2008.
- (c) Includes interest earned on accumulated amount of Board fees deferred to the cash account, including deferrals made to cash account in fiscal 2008, at a rate equal to the 10-year U.S. Treasury Note rate on the first day of the plan year (January 1) plus 250 basis points.

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The following table sets forth the number of share units issued to our non-employee directors during fiscal 2008 for service on our Board or a Board committee, the number of share units earned as dividend equivalents during fiscal 2008 on the accumulated balances of share units for each director and the aggregate number of share units awarded to each director. The table also shows the amount of shares granted to directors in fiscal 2008 who elected to take all or a portion of their directors' fees in stock under our Stock-for-Fee Plan along with the aggregate number of shares received by participating directors as of September 30, 2008.

**Director Share Units and Stock-for-Fee Awards****for Fiscal Year 2008**

Director	Share Units		Shares		Aggregate	
	Share Units Awarded (#)	Share Units Earned as Dividend Equivalents #(a)	Shares Received as Stock-for-Fee Awards #(b)	Aggregate Grant Date Fair Value (\$)	Aggregate Share Units Awarded (#)	Aggregate Shares Received as Stock-for-Fee Awards (#)
Travis W. Bain II	2,500	1,404		100,752	30,960	
Dan Busbee	2,500	1,426		101,339	31,426	2,728
Richard W. Cardin	2,500	1,051		91,353	23,508	
Richard W. Douglas	2,500	61		64,935	2,561	
Ruben E. Esquivel (c)						
Thomas J. Garland	2,500	1,315		98,377	29,077	1,890
Richard K. Gordon	2,500	595		79,165	13,844	
Dr. Thomas C. Meredith	2,500	1,058	1,848	142,175	23,691	8,514
Phillip E. Nichol	2,500	1,453		102,077	32,011	
Nancy K. Quinn	2,500	379		73,417	9,287	
Stephen R. Springer	2,500	268		70,463	6,945	
Charles K. Vaughan	2,500	1,479		102,752	32,546	
Richard Ware II	2,500	994	1,349	126,641	22,293	12,010

(a) Share units earned as dividend equivalents are calculated based on the average of the high and low trading prices of our common stock as reported on the NYSE Consolidated Tape on the last trading day of each quarter. See footnote (b) to Director Deferred Board Fees for Fiscal Year 2008 table on page 16.

(b) Shares received as Stock-for-Fee awards are paid in arrears of the quarter in which they are earned. The number of shares awarded equals the amount of fees divided by the closing price as reported on the NYSE Consolidated Tape on the last day of the quarter in which such fees are earned. Only whole shares may be issued; fractional shares are paid in cash. See footnote (c) to Director Compensation table on page 16.

(c) Mr. Esquivel was elected to the Board of Directors effective September 1, 2008 and therefore did not receive an annual grant of share units, which were awarded March 7, 2008.

**AUDIT COMMITTEE-RELATED MATTERS****Independence of Audit Committee Members, Financial Literacy and Audit Committee Financial Experts**

In addition to being declared as independent under the NYSE listing standards, applicable NYSE and SEC rules and regulations require that each member of an audit committee satisfy additional independence and financial literacy requirements, and at least one of these members must satisfy the additional requirement of having accounting or related financial management expertise. This additional requirement can be satisfied if the Board determines that at least one Audit Committee member is an audit committee financial expert within the meaning of applicable SEC rules and regulations.



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Generally, the additional independence requirements provide that (i) a member of the Audit Committee, or his or her immediate family members, are prohibited from receiving any direct or indirect compensation or fee from the Company or its affiliates and (ii) he or she may not be an affiliated person of the Company or any of its subsidiaries. An immediate family member is defined by applicable NYSE rules to include a director's spouse, parents, children, siblings and in-laws of the director, as well as anyone else (other than domestic employees) who shares such director's home.

Generally, the financial literacy requirements provide that the Board, in its business judgment, shall determine if each member is financially literate, taking into account factors such as the member's education, experience and ability to read and understand financial statements of public companies. Also, audit committee financial experts must have the following five additional attributes: (i) an understanding of generally accepted accounting principles and financial statements, (ii) the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves, (iii) experience preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Company's financial statements, or experience actively supervising one or more persons engaged in such activities, (iv) an understanding of internal control over financial reporting and (v) an understanding of how an audit committee functions.

Based on its review of the independence, financial literacy and financial expert requirements discussed above as well as its review of their individual backgrounds and qualifications, the Board has determined that all members of the Audit Committee satisfy the additional independence and financial literacy requirements imposed by the SEC and NYSE for members of an audit committee. The Board has also designated Ms. Quinn, and Messrs. Busbee and Cardin, each as an audit committee financial expert, as such term is defined by applicable rules and regulations of the SEC. As provided by the safe harbor contained in applicable SEC rules and regulations, our audit committee financial experts will not be deemed experts for any purpose as a result of being so designated. In addition, such designation does not impose on such persons any duties, obligations or liabilities that are greater than the duties, obligations and liabilities imposed on such persons as members of the Audit Committee or the Board in the absence of such designation. Such designation also does not affect the duties, obligations or liabilities of any other member of the Audit Committee or the Board.

## **Audit Committee Report**

The Audit Committee of the Board of Directors is composed of six directors who are independent directors as required by and in compliance with all applicable listing standards of the NYSE as well as all applicable rules and regulations of the SEC. The Audit Committee acts under a written charter adopted by the Board of Directors, which sets forth its detailed responsibilities and duties, as well as requirements for the Audit Committee's composition and meetings. A copy of the charter is available on the Corporate Governance page of the Company's Web site at [www.atmosenergy.com](http://www.atmosenergy.com).

The primary purpose of the Audit Committee is to oversee the Company's financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the financial reporting process, including systems of internal control over financial reporting and disclosure controls and procedures. Ernst & Young LLP, our independent registered public accounting firm, is responsible for (i) expressing an opinion, based on its audit, as to the conformity of the audited financial statements with generally accepted accounting principles and

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(ii) expressing an opinion, based on its audit, on the effectiveness of the Company's internal control over financial reporting.

In fulfilling its oversight responsibilities, the Audit Committee reviewed and discussed the audited financial statements in the Company's 2008 Annual Report on Form 10-K with both management and Ernst & Young, which included a discussion of the critical accounting policies and practices used by the Company, and alternative treatments of financial information within generally accepted accounting principles, if any, and their effects, including the treatments preferred by the independent registered public accounting firm, if applicable. In addition, the Audit Committee reviewed all other material communications between the Company and the independent registered public accounting firm.

Management has represented to the Audit Committee that the Company's internal control over financial reporting is effective. The Audit Committee then reviewed and discussed management's assessment with management and Ernst & Young. The Audit Committee also discussed with Ernst & Young its report on the Company's internal control over financial reporting as well as the matters required to be discussed under generally accepted auditing standards, including those matters set forth in Statement on Auditing Standards No. 61, *Communication with Audit Committees*, as amended, as adopted by the Public Company Accounting Oversight Board in its Rule 3200T.

In addition, the Audit Committee has received and reviewed the written disclosures and letter from Ernst & Young, which are required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the Audit Committee concerning independence and discussed with Ernst & Young the firm's independence, as well as those disclosures related to the independence of the Company's independent registered public accounting firm required by the provisions of the Sarbanes-Oxley Act of 2002 and related rules and regulations of the SEC. The Audit Committee has also considered the fees paid to Ernst & Young during the last fiscal year for audit and non-audit services and has determined that the non-audit services provided are compatible with the firm's independence and are in compliance with applicable law.

The Audit Committee has also discussed with KPMG LLP, which provides internal audit services to the Company, and Ernst & Young, the overall scope and plans for their respective audits. The Audit Committee periodically meets with both firms, with and without management present, to discuss the results of their examinations, the assessments of the Company's internal control over financial reporting, as well as the overall quality of the Company's financial reporting.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors (which the Board has approved) that the Company's audited financial statements be included in its Annual Report on Form 10-K for the year ended September 30, 2008 for filing with the SEC. The Audit Committee has also appointed Ernst & Young as the Company's independent registered public accounting firm for the 2009 fiscal year, which appointment will be submitted to our shareholders for their ratification at our 2009 annual meeting of shareholders.

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Respectfully submitted by the members of the Audit Committee of the Board of Directors:

Dan Busbee, Chairman

Travis W. Bain II

Richard W. Cardin

Ruben E. Esquivel

Dr. Thomas C. Meredith

Nancy K. Quinn

### **Audit Committee Pre-Approval Policy**

The Audit Committee has adopted a pre-approval policy relating to the provision of both audit and non-audit services by our independent registered public accounting firm, Ernst & Young LLP. Our Audit Committee Pre-Approval Policy provides for the pre-approval of audit, audit-related, tax and other services specifically described in appendices to the policy on an annual basis. Such services are pre-approved up to a specified fee limit. All other permitted services, as well as proposed services exceeding the pre-approved fee limit, must be separately pre-approved by the Audit Committee. Requests for services that require separate approval by the Audit Committee must be submitted to the Audit Committee by both our Chief Financial Officer and the independent auditor and must include a joint statement as to whether, in their view, the request is consistent with the SEC's rules on auditor independence. The policy authorizes the Audit Committee to delegate to one or more of its members pre-approval authority with respect to permitted services. The Audit Committee did not delegate any such pre-approval authority in fiscal 2008. The Audit Committee pre-approved all of the audit, audit-related and tax fees for services performed by Ernst & Young LLP in fiscal 2008 in accordance with such pre-approval policy. The Audit Committee further concluded that the provision of these services by Ernst & Young LLP was compatible with maintaining its independence. The Audit Committee Pre-Approval Policy is available on the Corporate Governance page of our Web site at [www.atmosenergy.com](http://www.atmosenergy.com).

## **COMPENSATION DISCUSSION AND ANALYSIS**

### **Introduction**

In this Compensation Discussion and Analysis, we will discuss our executive compensation objectives and strategy, the elements of compensation that we provide to our named executive officers and the analysis we employed in reaching the decisions to pay the specific amounts and types of executive compensation discussed. Later in the proxy statement under the heading "Named Executive Officer Compensation," beginning on page 31, we have presented a series of tables containing specific information about the compensation paid to or earned by our named executive officers in fiscal 2008, as well as more information on our executive officer compensation programs. The discussion below is intended to assist you in understanding the information provided in the tables and putting that information into context.

Our executive compensation program is built upon the strategy of "Total Rewards," which we adopted in 1998. Total Rewards is a comprehensive view of the various compensation plans and employee benefits that comprise the total package of compensation that is offered to our officers, including the five named executive officers in this proxy statement, division presidents and other key employees. The Total Rewards strategy is based on the payment of (i) total cash compensation, composed of base salary and annual incentive compensation and (ii) total direct compensation,

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composed of total cash compensation and the annualized expected value of long-term incentive compensation awards, being targeted at the 50<sup>th</sup> percentile of such compensation for equivalent positions at companies of comparable size in the natural gas distribution business, represented by companies in our proxy peer group and in the energy services industry database, as discussed below. We believe this strategy also fosters a philosophy of pay for performance through the use of both annual and long-term incentive plans. Our Total Rewards strategy, in which we limit the use of executive benefits and perquisites, is reviewed each year and updated as needed by the Human Resources Committee ( HR Committee ) with assistance from its independent compensation advisor, the consulting firm of Towers Perrin.

### **Executive Compensation Objectives and Strategy**

Our executive compensation program is designed to ensure that the interests of our executive officers are aligned with those of our shareholders. At the same time, and in consideration of our ownership of regulated natural gas distribution properties and related nonregulated operations, our executive compensation program considers the interests of both our regulated and nonregulated customers. We believe that our executive compensation program is effective in allowing the organization to attract and retain highly-qualified senior management who can deliver outstanding performance.

As discussed above, our executive compensation program is built on the Total Rewards strategy and is founded upon the following principles:

Our compensation strategy should be aligned with the overall business strategy of providing quality service to our customers, seeking ongoing improvements in operating efficiencies and focusing upon growth opportunities in both regulated and nonregulated business operations.

Overall pay targets should reflect the intent to pay executive base salaries at the 50<sup>th</sup> percentile of the competitive market practice with targeted total cash compensation and targeted total direct compensation to be paid at the 50<sup>th</sup> percentile of competitive market practice, if established performance targets are reached.

Key executives charged with the responsibility for establishing and executing business strategy should have incentive compensation opportunities that are aligned with the creation of shareholder value and include upside potential with commensurate downside risk.

Incentive compensation plans, to the extent that they are practical and consistent with our overall corporate business strategy, should comply with Section 162(m) of the Internal Revenue Code so that full income tax deductions for executive compensation may be utilized by the Company.

Stock ownership is an important component of our executive compensation strategy and should closely align executives' interests with those of shareholders. To facilitate stock ownership for executives, stock-based incentive vehicles should be utilized, along with share ownership guidelines.

Our compensation strategy should have limited emphasis upon perquisites and other personal benefits.

### **Executive Compensation Consultant**

As permitted in its charter, the HR Committee has retained the worldwide consulting firm of Towers Perrin to serve as its independent compensation advisor, which is directly accountable to the committee for the performance of its consulting services. The committee entered into a written

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agreement with Towers Perrin to act as its executive compensation advisor and directed Towers Perrin to (i) regularly attend meetings of the committee, (ii) conduct studies of competitive compensation practices and (iii) develop conclusions and recommendations related to the executive compensation plans of the Company for consideration by the committee. Specifically, the HR Committee instructed Towers Perrin to prepare reports and analyses on such matters as the (i) identification of proxy peer group companies, (ii) assessment of competitive compensation for non-employee directors, (iii) review of base salary, annual incentives and long-term incentive compensation opportunities relative to competitive practices for executive compensation and (iv) discussion of emerging issues and trends in executive compensation.

A senior consultant from Towers Perrin generally attends all regularly-scheduled HR Committee meetings, which occurred five times in fiscal 2008. In its role as advisor to the committee, Towers Perrin annually presents reports to the committee on the executive compensation matters discussed above, including benchmarking compensation compared to companies in our proxy peer group and industry, a critique of our incentive compensation plans and recommendations on the establishment of target opportunities for participants in the plans. Towers Perrin also provides to the committee assistance with and guidance regarding performance measures and principles under our incentive compensation plans, as well as advice regarding rules, regulations and developments relating to executive compensation.

### **Management's Role in Setting Executive Compensation**

The HR Committee and our chairman and chief executive officer, Robert W. Best, met with representatives of Towers Perrin to review and discuss the compensation of all other named executive officers. However, at no time did Mr. Best meet with representatives of Towers Perrin regarding his compensation. The only other executive officer of the Company who regularly works with Towers Perrin is the Senior Vice President, Human Resources. For fiscal 2008, Mr. Best recommended to the committee compensation for Messrs. Reddy, Cocklin, Johnson and Gregory, while Towers Perrin provided to the committee general guidance and competitive compensation data for Mr. Best.

Based upon competitive compensation data, the HR Committee established the compensation levels for the Company's CEO, Mr. Best. Mr. Best may be present during a portion of the committee's meetings on executive compensation. However, Mr. Best and any other members of management in attendance at committee meetings are excused when Mr. Best's compensation is discussed and decisions regarding his compensation are reached by the committee. Messrs. Reddy, Cocklin, Johnson and Gregory attend the committee's meetings except when compensation of the executive officers is discussed. All decisions by the committee concerning executive compensation levels to be paid to the CEO and named executive officers are subject to approval by the Board.

### **Competitive Compensation Benchmarking**

We operate in a competitive environment for talented executives. Towers Perrin, in its role as the independent compensation consultant to the HR Committee, provided a comprehensive review of the compensation program elements and pay levels for companies with similar business content and of comparable size as measured by annual revenues and market capitalization. The competitive compensation benchmarking included assessments of all elements of compensation for the five named executive officers and most of our other officers, as well as the compensation program for the non-employee directors serving on the Board.



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The competitive compensation benchmarking data reviewed by the HR Committee primarily was based on competitive compensation levels and program elements, including base salary, annual incentive compensation and long-term incentive compensation found in the proxy statements filed by 12 public companies with significant natural gas distribution operations (the proxy peer group). This set of proxy peer group companies was also used to benchmark annual share utilization data, stock overhang and market capitalization data for long-term incentive compensation analysis. The companies in the proxy peer group were selected because they represent those companies considered by the committee to be the most comparable to the Company in terms of business operations, annual revenues, market capitalization and overall financial performance. The companies in the proxy peer group are selected annually by the committee, after its review of the recommendation of Towers Perrin. The companies in the proxy peer group selected for fiscal year 2008 were as follows:

AGL Resources Inc.  
CenterPoint Energy Resources Corporation  
CMS Energy Corporation  
Equitable Resources, Inc.  
Integrus Energy Group, Inc.  
Nicor, Inc.

NiSource, Inc.  
ONEOK Inc.  
Piedmont Natural Gas Company, Inc.  
Questar Corporation  
Vectren Corporation  
WGL Holdings, Inc.

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In order to supplement the executive compensation information derived from its study of the proxy peer group, the HR Committee also considered executive compensation benchmarking data from the Towers Perrin 2007 Energy Services Executive Compensation Database ( energy services industry database ). The companies in this database represent a more diverse set of companies in the energy services industry, including companies in the gas, nuclear and electric utilities industries. In order to adjust for size differences, Towers Perrin employed a statistical analysis (single regression analysis) based on relative total annual revenues to determine competitive pay rates for our named executive officers based upon the data derived from all companies in the Towers Perrin database. The component companies in this database are as follows:

AGL Resources Inc.

Allegheny Energy

Allete

Alliant Energy

Ameren

American Electric Power

Areva NP

Ashmore Energy International

Atmos Energy

Avista

Black Hills

California Independent System

Operator

Calpine

CenterPoint Energy Resources

Cleco

CMS Energy Corporation

Colorado Springs Utilities

Consolidated Edison

Constellation Energy

Covanta Energy

DKRW Energy

Dominion Resources

DTE Energy

Duke Energy

Dynegy

E.ON U.S.

Edison International

El Paso

Enbridge Energy

Energen

Energy Northwest

Enron

Entergy

EPCO

Equitable Resources, Inc.

Eugene Water & Electric

Board

Exelon

First Energy

FPL Group

Great Plains Energy

IDACORP

JEA

KAPL

Lower Colorado River

Authority

MDU Resources

MGE Energy

Mirant

National Fuel Gas

New York Power Authority

Nicor, Inc.

Northeast Utilities

NorthWestern Energy

NRG Energy

NSTAR

Nuclear Management

NW Natural

OGE Energy

Omaha Public Power

ONEOK Inc.

Otter Tail

Pacific Gas & Electric

PacifiCorp

Pepco Holdings

Pinnacle West Capital

PNM Resources

Portland General Electric

PPL

Progress Energy

Public Service Enterprise Group

Puget Energy

Salt River Project

Santee Cooper

SCANA

Sempra Energy

Southern Company

Southern Union Company

Spectra Energy

STP Nuclear Operating

SUEZ Energy North America

Targa Resources

Tennessee Valley Authority

TransCanada

TXU

UIL Holdings

Unisource Energy

Unitil

USEC

Westar Energy

Williams Companies

Wisconsin Energy

Xcel Energy

As a secondary source of more general information to assist in its executive compensation level deliberations (rather than for compensation benchmarking purposes), the HR Committee also considered and reviewed proprietary executive compensation information found in the 2007 American Gas Association Compensation Survey and the 2007 Towers Perrin General Industry Executive Compensation Database, comprised of general industry compensation data gathered by Towers Perrin

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from over 800 participant companies. Using primarily the proxy peer group compensation analysis, along with the data from the energy services industry database, the committee determined the total targeted level of compensation for each named executive officer that represented the 50<sup>th</sup> percentile level for each position. A named executive officer's base salary, total cash compensation (base salary plus annual bonus) and total direct compensation (base salary plus annual bonus plus annualized long-term incentive compensation) were considered competitive if his targeted level of compensation (for each element as well as total compensation) fell within +/- 15 percent of the 50<sup>th</sup> percentile competitive benchmark amount. The targeted level of compensation of each of our named executive officers fell within such range.

### **Elements of Executive Compensation**

The following discussion contains a description of the various elements of executive compensation we have provided to our named executive officers, as well as an analysis of why we pay each element, how we determine the amount we pay under each element and how each element fits into our overall compensation objectives. Additional information on long-term incentive compensation, as well as retirement and change in control benefits may be found below under "1998 Long-Term Incentive Plan" beginning on page 33.

*Base Salary.* The amount of base salary paid to each named executive officer is a major determinant of the amounts of all other elements of compensation paid to our named executive officers. Positions are compared on the basis of job content to similar positions in companies in the proxy peer group and the energy services industry database. Salary ranges are reviewed on an annual basis and proposed salary ranges are reviewed and considered by the HR Committee in October of each year. The midpoint of each salary range is designed to approximate the 50<sup>th</sup> percentile of base salaries of such comparable companies. Our Chief Executive Officer provided the committee with an oral presentation discussing his individual performance and contributions, along with a performance evaluation of each named executive officer that reflected individual goals and areas of accountability. Each named executive officer's final base salary for 2008 was established by the committee after considering the competitive benchmarking data for each position as discussed above, the committee's subjective evaluation of the performance of each named executive officer, the Company's overall salary increase budget and related salary increase guidelines established by the Company as well as current economic conditions. Generally, the base salary for each named executive officer, as finally determined by the committee for 2008, was established at or near the salary range midpoint for his pay grade, based upon the factors discussed above. The committee believes that the base salaries as finally determined for each of the named executive officers are competitive with salaries offered for similar positions by companies in our proxy peer group and the energy services industry database and are consistent with our Total Rewards strategy.

*Annual Incentive Compensation.* We believe it is important to provide our named executive officers a direct financial incentive to maximize the Company's financial performance each year. Through our Annual Incentive Plan for Management ("Incentive Plan"), we provide our named executive officers, along with other officers, division presidents and other key management employees, an opportunity to earn an annual bonus based upon the Company's actual financial performance each year. The Incentive Plan, which has been designed to comply with Section 162(m) of the Internal Revenue Code, is based on our ability to achieve a target level of earnings per share ("EPS") each year. The EPS performance measurement is the lynchpin of both our annual and long-term compensation programs. The HR Committee believes that EPS is the most appropriate measurement of our financial

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performance both on an annual and long-term basis, as it reflects the growth of both our regulated and nonregulated operations and any changes in the value of our shareholders' investment in the Company. EPS is also one of the most well-known measurements of overall financial performance, which is commonly used by financial analysts as well as the investing public. The committee feels that utilization of this measurement as the basis for our incentive compensation programs maximizes the alignment of the interests of the participants in the Incentive Plan and the 1998 Long-Term Incentive Plan, including our named executive officers, with the interests of our shareholders.

For fiscal 2008, the HR Committee utilized competitive compensation benchmarking data, as discussed above, to establish an annual target opportunity expressed as a percentage of base salary for each participant in the Incentive Plan. The committee has historically used varying percentages for annual target bonus opportunities for all our officers, based on each officer's particular pay grade, which range from Grades 10-13 for our named executive officers. Our pay grades are based on both the competitive market data as well as the job content and responsibility of each officer position and the potential impact that each officer could have on the operations and financial condition of the Company. The target bonus opportunities for each officer are reviewed each year and benchmarked against the 50<sup>th</sup> percentile as described above.

The Incentive Plan targets for fiscal 2008 for each of the five named executive officers were as follows:

<b>Name</b>	<b>Fiscal Year 2008 Incentive Plan Target as % of Base Salary</b>
Robert W. Best	80%
John P. Reddy	55%
Kim R. Cocklin	55%
Mark H. Johnson	55%
Louis P. Gregory	45%

At its meeting in October 2007, the HR Committee established the threshold, target and maximum performance levels of EPS presented below, upon which the Incentive Plan's awards would be based for fiscal 2008. The target EPS goal was based on our annual business plan and budget and took into account such factors in our regulated operations as the allowed rate of return in our established service areas, natural gas pricing and volatility, budgeted capital expenditures, expected growth within our service areas, competitive factors from other service providers and other business considerations embedded in the annual business planning process. The target EPS goal also took into account earnings expected from our nonregulated operations, including earnings from the provision of natural gas management and marketing services to municipalities, other local gas distribution companies and industrial customers as well as the provision of natural gas transportation and storage services to certain of our natural gas distribution divisions and third parties.

The HR Committee set a target EPS goal of \$1.94 for fiscal 2008. A threshold level of performance was established at an EPS amount of \$1.71. If we had earned an EPS that was less than \$1.71, no awards would have been paid to any participant under the Incentive Plan. If we had earned an EPS amount of \$1.71 for fiscal 2008, participants in the Incentive Plan would have earned an award equal to 50 percent of their expressed target award (as a specified percentage of base salary). The maximum payout opportunity under the Incentive Plan would have resulted in our named executive officers receiving an award equal to 200 percent of their target award, or a total of 90 to 160 percent of their respective base salaries, depending on

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each officer's pay grade. To achieve a maximum award under the Incentive Plan, we would have had to earn an equivalent of \$2.17 in EPS. For our actual performance level attainment, which fell between the target and maximum levels of EPS, straight-line interpolation was used to calculate the level of award.

For fiscal 2008, we earned an EPS of \$2.00. This performance attainment resulted in the named executive officers receiving awards equal to 126 percent of their respective target awards. The HR Committee has the discretion under the Incentive Plan to make downward adjustments to earned awards but may not make upward adjustments. For fiscal 2008, the committee did not use its discretion to make negative adjustments to any awards for any participant in the Incentive Plan, including the named executive officers.

For each of the last three fiscal years prior to fiscal 2008, we exceeded our target level of performance based on EPS, with the payouts to participants averaging 110 percent of their target awards each year. Our EPS target levels under the plan have historically increased between 4-6 percent each year and typically have been within the range of announced EPS guidance provided to the public in October or November of each year. The following table is a summary of the performance targets and actual performance attainment for the Incentive Plan for fiscal 2008:

<b>Performances</b>	<b>Company EPS Performance</b>	<b>Percent (%) of Target Award Earned</b>
Below Threshold	Less than \$1.71	No award
Threshold	\$1.71	50%
Target	\$1.94	100%
Actual EPS Earned	\$2.00	126%
Maximum	\$2.17	200%

*Long Term Incentive Compensation.* Since fiscal 2004, we have used time-lapse restricted shares with a three-year vesting period and performance-based restricted stock units that are subject to a three-year performance criteria expressed as a cumulative EPS target amount, as our two forms of long-term incentive compensation. The Board awarded grants in April 2008 with approximately 50 percent of the targeted long-term value in the form of time-lapse restricted shares with the remaining 50 percent in the form of performance-based restricted stock units. Typically, the value of the long-term compensation we grant ranges from 80 percent to 150 percent of each named executive officer's midpoint of their respective salary ranges. All such grants in fiscal 2008 fell within that range for all named executive officers. See the discussion below under "1998 Long-Term Incentive Plan" beginning on page 33 for more information on our long-term incentive compensation and the Grants of Plan-Based Awards table on page 34 for information on the number and value of the grants made in fiscal 2008. We based the actual number and value of awards granted on competitive compensation benchmarking of grants made by the companies in our proxy peer group and the energy services industry database, as discussed above.

The HR Committee believes that the payment of long-term incentive compensation in the form of grants of time-lapse restricted stock promotes and encourages long-term retention and service to the Company and better aligns the interests of our named executive officers with those of our shareholders through increased share ownership. The committee also believes that the grants of performance-based restricted stock units, as measured by cumulative EPS over a three year performance period, provide a balanced approach to long-term compensation by providing more incentive-based opportunities to our named executive officers to reward them based on improved financial performance of the Company.



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This approach should also better align the interests of our named executive officers with those of our shareholders through promoting improved financial performance of the Company along with increased share ownership.

With respect to the Company's actual performance during prior performance periods, grants of performance-based restricted stock units were awarded in May 2005 for the fiscal 2005-2007 performance period. For that period, the Company achieved a cumulative EPS amount of \$5.46, compared to the cumulative EPS target amount of \$5.30. Since the performance level attained was between target and maximum, straight-line interpolation was used to compute the actual number of performance-based restricted stock units earned. Therefore, the participants, including the named executive officers, earned a total number of performance-based restricted stock units equal to 140 percent of the target plus dividend equivalents, in the form of shares of common stock issued in November 2007.

The Board also awarded grants of performance-based restricted stock units in May 2006 for the fiscal 2006-2008 performance period. The Company achieved a cumulative EPS amount for that period of \$5.74 compared to the cumulative EPS target of \$5.60. Since the performance level attained was between target and maximum, straight-line interpolation was again used to compute the actual number of performance-based restricted stock units earned. Therefore, the participants, including the named executive officers, earned a total number of performance-based restricted stock units equal to 135 percent of the target plus dividend equivalents in the form of shares of common stock issued in November 2008. The following table sets forth the three-year performance criteria for fiscal 2006-2008:

**Performance-Based Restricted Stock Units****Fiscal Years 2006-2008 Cumulative EPS Targets**

	<b>Below Threshold</b>	<b>Threshold</b>	<b>Target</b>	<b>Maximum</b>
Three-Year Cumulative EPS	<\$5.40	\$5.40	\$5.60	\$5.80
Percent of Award Earned	None	50%	100%	150%

In addition, the Board awarded grants of performance-based restricted stock units in May 2007 for the fiscal 2007-2009 performance period, which will end on September 30, 2009 and in April 2008 for the fiscal 2008-2010 performance period, which will end on September 30, 2010. As discussed above, the cumulative EPS targets have historically represented a growth in EPS of 4-6 percent per year, on average. Accordingly, the threshold, target and maximum amounts have been increased proportionately for each succeeding performance period.

*Retirement Benefits.* Our Pension Account Plan serves as the foundation of retirement benefits for our named executive officers. It is a qualified, cash balance defined benefit pension plan. Benefits under this plan become vested and non-forfeitable after completion of three years of continuous employment. For any named executive officer who retires with vested benefits under the plan, the compensation shown as Salary in the Summary Compensation Table on page 31 could be considered eligible compensation in determining benefits.

Our named executive officers also participate in one of two supplemental retirement plans, which provide retirement benefits (as well as supplemental disability and death benefits), at the discretion of our Board of Directors, to all our officers, division presidents and any other employees designated by the Board. A participant in either supplemental plan who has been a participant in the supplemental

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retirement plan for at least two years and has attained age 55 is entitled to an annual supplemental pension in an amount that, when added to his or her annual pension payable under the Pension Account Plan, equals 60 percent of his compensation, which will be generally equal to the sum of the amount of the participant's last annual base salary and the amount of his last award under the Incentive Plan (75 percent of compensation in the case of Mr. Best), subject to reductions for less than ten years of participation in the plan and for retirement prior to age 62. The HR Committee believes that these retirement benefits at the amounts provided are an important component of the total compensation and benefits we provide under our Total Rewards strategy and are critical in ensuring that our overall executive compensation package remains competitive with packages offered by other major public companies in our industry in attracting and retaining highly qualified executives to serve in our named executive officer positions. See the discussion below under Retirement Plans beginning on page 37 for more information on our retirement benefits.

*Change in Control Benefits.* We have entered into severance agreements with each of the named executive officers to provide certain severance benefits for them in the event of the termination of their employment within three years following a change in control of the Company (as defined in the severance agreements and described generally below under Change in Control Severance Agreements beginning on page 39). The severance agreement for each named executive officer generally provides that the Company will pay such officer as severance pay in one lump sum an amount equal to (a) 2.5 times his total compensation (annual base salary and average amount of annual incentive compensation received under the Incentive Plan) and (b) the total of (i) an amount that is actuarially equivalent to an additional three years of annual age and service credits payable to the officer under the Company's Pension Account Plan and (ii) an amount that is actuarially equivalent to an additional three years of Company matching contributions payable to the officer under the Company's Retirement Savings Plan and Trust. If such lump sum severance payment results in the imposition of excise taxes imposed by Section 4999 of the Internal Revenue Code, the lump sum severance payment will be increased in an amount required for the executive officer to pay any such excise taxes or any resulting income or other taxes due to the Internal Revenue Service. We provide these change in control severance benefits to our named executive officers because the HR Committee believes it is important to offer a certain degree of financial security to our highly qualified executives in the event of organizational and personnel changes that frequently follow a change in control. The provision of such benefits at the amounts provided is necessary to remain competitive with other major public companies in our industry and continue to attract and retain highly qualified executives to serve in our named executive officer positions.

**Share Ownership Guidelines**

We have adopted share ownership guidelines for our named executive officers, along with other officers and division presidents, which are voluntary and are intended to be achieved by each such executive over the course of five years. The HR Committee strongly advocates executive share ownership as a means by which to better align the interests of our executives with those of our shareholders and monitors compliance with the ownership guidelines each year. The Chief Executive Officer has a guideline to reach a share ownership position of five times his base salary over the course of five years, with each of the remaining named executive officers having a share ownership guideline to reach a share ownership position of 2.5 times base salary. The share ownership positions include shares of unvested time-lapse restricted stock but do not include stock options or unvested performance-based restricted stock units. In addition, any shares that an executive officer may own subject to a market put or call option are excluded for purposes of determining compliance with our share ownership guidelines. We do not have a formal policy prohibiting transactions in which an

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executive officer may hedge his economic risk of owning shares of our common stock or in which such officer may pledge or create a security interest in our common stock. However, each executive officer must obtain prior clearance from our Corporate Secretary or General Counsel for all transactions involving our common stock, prior to engaging in such transactions, including any hedging or pledging transaction, in order to ensure compliance with applicable laws. Each of the named executive officers has achieved his individual ownership objective.

## **Additional Information**

The compensation of our Chief Executive Officer, Mr. Best, is higher than that of any of our other named executive officers, primarily in recognition of his level of responsibility and the competitive market data for chief executive officers of comparably-sized natural gas distribution companies in our proxy peer group and the energy services industry database. However, Mr. Best, as the Chief Executive Officer, participates in all the same compensation plans as the other officers and division presidents and is subject to the same performance measurement determinations under the incentive compensation plans. We do not have any individual compensation policies or plans that are not applied consistently to all of our officers and division presidents. We also do not have a policy under which the annual levels of compensation, and the grant of both Incentive Plan and LTIP awards, are adjusted each year to reflect the projected gains that may be realized by an executive officer from stock-based compensation. Each year, the establishment of target opportunities in incentive compensation is based solely upon competitive market conditions and the other factors discussed above.

## **FISCAL YEAR 2008 REPORT OF THE HUMAN RESOURCES COMMITTEE**

The Human Resources Committee of the Board of Directors has the responsibility for reviewing, and recommending to the full Board of Directors, the Company's executive compensation programs. The committee is composed entirely of persons who qualify as independent directors under the listing standards of the NYSE.

In this context, the committee has met, reviewed and discussed with management the Compensation Discussion and Analysis contained in this proxy statement. Based on this review and discussion, the committee recommended to the Board of Directors, and the Board of Directors approved, the inclusion of the Compensation Discussion and Analysis in this proxy statement.

Respectfully submitted by the members of the Human Resources Committee of the Board of Directors:

Richard K. Gordon, Chairman

Travis W. Bain II

Dan Busbee

Richard W. Douglas

Ruben E. Esquivel

Thomas J. Garland

Phillip E. Nichol

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The following table shows all compensation for the named executive officers serving as such on September 30, 2008.

**Summary Compensation Table for Fiscal Year 2008(a)**

Name and Principal Position	Year	Salary (\$)	Stock Awards \$(b)	Non-Equity Incentive Plan Compensation \$(c)	Change in Pension Value and Nonqualified Deferred Compensation Earnings \$(d)	All Other Compensation \$(e)	Total (\$)
Robert W. Best(f) Chairman of the Board, President and Chief Executive Officer	2008	820,354	2,544,991	835,200	819,121	212,634	5,232,300
	2007	790,262	2,299,801	698,200	2,960,142	77,865	6,826,270
John P. Reddy(g) Senior Vice President and Chief Financial Officer	2008	413,920	859,787	289,700	406,365	111,531	2,081,303
	2007	399,470	804,897	242,200	629,884	49,462	2,125,913
Kim R. Cocklin(f) Senior Vice President, Regulated Operations	2008	398,000	742,891	278,600	345,303	114,067	1,878,861
	2007	384,591	1,251,693	232,900	342,657	147,079	2,358,920
Mark H. Johnson Senior Vice President, Nonregulated Operations	2008	349,000	636,348	251,500	194,932	48,510	1,480,290
	2007	303,970	306,239	187,700	176,464	19,511	993,884
Louis P. Gregory Senior Vice President and General Counsel	2008	301,534	443,546	172,700	206,753	66,526	1,191,059
	2007	291,375	402,609	144,400	253,591	31,233	1,123,208

(a) No bonuses were paid or options awarded to any named executive officers in fiscal 2008 or 2007.

(b) In accordance with applicable SEC rules, the valuation of stock awards in this table is based upon the compensation cost of awards recognized for financial statement purposes for fiscal 2008 under Statement of Financial Accounting Standards No. 123, as revised (FAS 123R). The compensation cost reported in this table reflects the fair value of time-lapse restricted stock granted during fiscal 2005-2008 and performance-based restricted stock units granted during fiscal 2006-2008 and excludes any estimate of forfeitures related to service vesting conditions, in accordance with SEC rules. In our financial statements, we use an estimated forfeiture rate of two percent (2%) of each grant (other than special one-time grants). The fair value of both time-lapse restricted stock and performance-based restricted stock units for the purposes of FAS 123R was determined based on the average of the high and low prices of our common stock on the grant date as reported on the NYSE Consolidated Tape, plus the value of dividend equivalents for performance-based restricted stock units. The costs associated with these stock awards are recognized on a straight-line basis over the requisite service period. The amount for Mr. Cocklin includes the costs attributable to the lapse of restrictions in both November 2007 and November 2006 on 20,000 shares each of time-lapse restricted stock granted in connection with his appointment as Senior Vice President, Utility Operations in June 2006.

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- (c) Reflects payments attributable to performance achieved at the level of 126 percent of target EPS in fiscal 2008 under our Incentive Plan. For a discussion of the performance criteria established by our HR Committee for awards in fiscal 2008 under our Incentive Plan, see Elements of Executive Compensation beginning on page 25 above in Compensation Discussion and Analysis. Awards under the Incentive Plan are paid in cash. However, participants may make an election prior to the beginning of each fiscal year to convert all or a portion of such award either to bonus stock, with a premium equal to 10 percent of the total amount converted or to time-lapse restricted stock, with a premium equal to 50 percent of the amount converted, with such shares being awarded under our LTIP. The amounts shown above do not include incentive compensation that was converted through an election by participating named executive officers prior to the beginning of fiscal 2008 to shares of time-lapse restricted stock, as shown in the table below. Such Incentive Plan payments include a premium of 50 percent of the value associated with the conversion in November 2008 to shares of time-lapse restricted stock, which will be reflected in the Grants of Plan-Based Awards table for fiscal 2009. These shares vest three years following the date of grant. The conversion elections are reflected in the table below.

	<b>Incentive Plan</b>	<b>Cash</b>		<b>Restricted Stock</b>	<b>Value of Restricted</b>	
	<b>Award</b>	<b>Elected</b>	<b>Amount</b>	<b>Elected</b>	<b>Stock</b>	<b>Shares</b>
	(\$)	(%)	(\$)	(%)	(\$)	(#)
Robert W. Best	835,200	75	626,400	25	313,200	13,328
John P. Reddy	289,700	-0-	-0-	100	434,550	18,491
Kim R. Cocklin	278,600	-0-	-0-	100	417,900	17,783
Mark H. Johnson	251,500	50	125,750	50	188,625	8,027
Louis P. Gregory	172,700	-0-	-0-	100	259,050	11,023

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Mr. Best elected to convert to time-lapse restricted stock 25 percent of his Incentive Plan payment attributable to fiscal 2008. Accordingly, in November 2008, Mr. Best received 75 percent of his total Incentive Plan payment of \$835,200 in cash or \$626,400, while he received 25 percent in the form of time-lapse restricted stock valued at \$313,200 (reflecting a 50 percent premium on the remaining \$208,800 of his total Incentive Plan payment). Such shares were issued on November 11, 2008 at the average of the high and low prices of our common stock that day, as reported on the NYSE Consolidated Tape, of \$23.50 per share or 13,328 shares.

Messrs. Reddy, Cocklin and Gregory elected to convert 100 percent of their respective Incentive Plan payments attributable to fiscal 2008 to time-lapse restricted stock. Accordingly, on November 11, 2008, Mr. Reddy received his Incentive Plan payment in the form of time-lapse restricted stock valued at \$434,550 or 18,491 shares; Mr. Cocklin received time-lapse restricted stock valued at \$417,900 or 17,783 shares and Mr. Gregory received time-lapse restricted stock valued at \$259,050 or 11,023 shares (with all such grants reflecting a 50 percent premium). Mr. Johnson elected to convert 50 percent of his Incentive Plan payment to time-lapse restricted stock. Accordingly, in November 2008, Mr. Johnson received 50 percent of his total Incentive Plan payment of \$251,500 in cash or \$125,750, while he received 50 percent in the form of time-lapse restricted stock valued at \$188,625 (reflecting a 50 percent premium) or 8,027 shares.

- (d) Reflects aggregate current year increase in pension values for each named executive officer based on the change in the present value of the benefit as presented in the Pension Benefits table on page 39 reflecting the combined effects of additional service, additional earnings, discount rate changes and the decrease in the length of the discount period. The present value is based on the earliest age for which an unreduced benefit is available and assumptions from the June 30, 2007 and June 30, 2008 measurement dates for our Pension Account Plan.
- (e) The components of All Other Compensation are reflected in the table below.
- (f) Effective October 1, 2008, Mr. Cocklin was appointed President and Chief Operating Officer of the Company. In connection with Mr. Cocklin's appointment on October 1, 2008, Mr. Best's title was changed to Chairman of the Board and Chief Executive Officer.
- (g) Mr. Reddy has notified the Company of his resignation as Senior Vice President and Chief Financial Officer, effective December 31, 2008.

**All Other Compensation****for Fiscal Year 2008**

Name	Company Contributions to Retirement Savings Plan (\$)	Cost of Premiums for Company-Paid Term Life Insurance (\$)	Dividends Paid on Restricted Stock Awards (\$)(a)	Financial Planning (\$)(b)	Cost of Living (\$)	Perquisites (\$)(d)	Total All Other Compensation (\$)
Robert W. Best	9,154	2,184	197,039	4,257			212,634
John P. Reddy	9,154	2,184	97,149	3,044			111,531
Kim R. Cocklin	6,549	2,184	79,579	2,380	23,375(c)		114,067
Mark H. Johnson	9,154	2,126	36,849	381			48,510
Louis P. Gregory	9,154	1,884	55,488				66,526

- (a) Represents dividends paid on unvested time-lapse restricted stock awards. Dividends are paid on shares of unvested restricted shares of common stock at the same rate as on non-restricted shares of common stock.
- (b) We provide financial planning services to our named executive officers, which benefit is valued at the actual charge for the services.
- (c)

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Represents a cost of living allowance under our employee relocation program in connection with Mr. Cocklin's relocation to Dallas, Texas in fiscal 2007. All benefits under this program are generally available to all employees with prior approval of management.

- (d) No named executive officer received perquisites and other personal benefits with an aggregate value equal to or exceeding \$10,000 during fiscal 2008.

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**1998 Long-Term Incentive Plan**

To provide our named executive officers, other officers, division presidents and other key management employees with the incentive to achieve our long-term growth and profitability goals, as well as to focus upon the creation of shareholder value, the HR Committee makes recommendations to the Board concerning grants of long-term incentive awards under our 1998 Long-Term Incentive Plan ( LTIP ).

For the last several years, the HR Committee has recommended all annual long-term incentive grants at its regularly scheduled March meeting, which are approved by the Board at its regularly scheduled May meeting. In addition, when an award is granted in connection with a pre-established performance goal, the committee has approved the performance goal and the related compensation formula within the first 90 days of the fiscal year. Each year, prior to making grants, the committee establishes a target long-term incentive value for the LTIP participants, including the named executive officers. The actual value of grants ultimately received by participants may differ from the intended value or target long-term incentive value granted, depending upon share price performance and any performance considerations imposed upon such awards.

No options have been granted to any participants since fiscal 2003 although they may still be granted under the terms of the LTIP. However, some participants did receive options in fiscal 2004 and 2005 pursuant to their election to convert all or a portion of their incentive compensation received under the Incentive Plan in those years, which election is no longer allowed under the Incentive Plan. Options may be exercisable in full at the time of grant or may become exercisable in one or more installments. Options are exercisable for a period of ten years after the date of grant of the option. Since October 1, 2007, at least 25 percent of the number of shares of common stock acquired through the exercise of any options granted after that date may not be sold or otherwise transferred by the participant for at least one year after the date of exercise.

In the event of termination of service, the options lapse 90 days after said termination, except in the case of retirement, in which case the retiring participant may exercise the options at any time within three years from the date of retirement. In the event of death, the options may be exercised by the personal representative of the optionee at any time within three years from the date of death. As discussed above under Long-Term Incentive Compensation in our Compensation Discussion and Analysis beginning on page 27, since fiscal 2004, we have used time-lapse restricted shares and performance-based restricted stock units as our form of long-term incentive compensation. All restrictions lapse on time-lapse restricted shares at the conclusion of the third year following the date of grant, except for any grants that may be made by our Board in connection with the appointment of an officer. Dividends are paid on all time-lapse restricted shares after the date of grant during the period before the restrictions have lapsed at the same rate as other shares. Once the restrictions have lapsed, the participant will take full ownership of the shares, net of shares withheld for taxes, provided that he is an employee of the Company at that time.

Performance-based restricted stock units are subject to a three-year performance criteria expressed as a cumulative EPS target amount. The EPS target is derived from our annual business plan and represents the same EPS target at the time of grant as that used under the Incentive Plan; the EPS targets added to the Incentive Plan's target EPS for the second and third years have historically represented a growth in EPS of 4-6 percent each year, on average. At the conclusion of the three-year performance period, the total number of performance-based restricted stock units to be issued is determined by a formula with established threshold, target and maximum number of restricted stock



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units earned, ranging from 0 percent to 150 percent of the value of the performance-based restricted stock units granted, based on the cumulative amount of EPS achieved over the three-year performance period. Although our LTIP provides that cash, shares of our common stock or a combination thereof may be issued to participants in payment for their units, to date, we have always paid participants for their units in the form of shares of our common stock at the end of each three-year performance period. In addition, dividend equivalents are credited to each participant's account with respect to the performance-based restricted stock units beginning at the date of grant, with the payment of such dividend equivalents in the form of additional shares of stock not occurring until the three-year cumulative EPS performance targets are measured and vesting is completed.

**Grants of Plan-Based Awards**

The following table shows the grants of executive compensation plan-based awards to the named executive officers during fiscal 2008.

**Grants of Plan-Based Awards for Fiscal Year 2008(a)**

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards(b)			Estimated Future Payouts Under Equity Incentive Plan Awards(c)			All Other Stock Awards: Number of Shares of Stock or Units (#)	Grant Date Fair Value of Stock and Option Awards (\$)
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)		
<b>Robert W. Best</b>									
Incentive Plan	10/01/07	320,000	640,000	1,280,000					
Restricted Stock	11/06/07						9,428(d)	261,825(d)	
Restricted Stock	04/29/08						26,000	728,000	
PBR Stock Units	04/29/08				14,000	28,000	42,000		784,000
<b>John P. Reddy</b>									
Incentive Plan	10/01/07	111,004	222,008	444,015					
Restricted Stock	11/06/07						13,082(d)	363,300(d)	
Restricted Stock	04/29/08						8,100	226,800	
PBR Stock Units	04/29/08				4,400	8,900	13,200		249,200
<b>Kim R. Cocklin</b>									
Incentive Plan	10/01/07	106,734	213,469	426,938					
Restricted Stock	11/06/07						12,580(d)	349,350(d)	
Restricted Stock	04/29/08						8,100	226,800	
PBR Stock Units	04/29/08				4,400	8,900	13,200		249,200
<b>Mark H. Johnson</b>									
Incentive Plan	10/01/07	86,020	172,040	344,080					
Restricted Stock	11/06/07						5,069(d)	140,775(d)	
Restricted Stock	04/29/08						8,100	226,800	
PBR Stock Units	04/29/08				4,400	8,900	13,200		249,200
<b>Louis P. Gregory</b>									
Incentive Plan	10/01/07	66,162	132,323	264,647					
Restricted Stock	11/06/07						7,800(d)	216,600(d)	
Restricted Stock	04/29/08						4,250	119,000	
PBR Stock Units	04/29/08				2,300	4,600	6,900		128,800

(a) No options were awarded to any named executive officer in fiscal 2008.

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- (b) Reflects estimated payments which could have been made under our Incentive Plan. The plan provides that our officers may receive annual cash incentive awards based on the performance and profitability of the Company. The HR Committee establishes annual target awards for each officer. The actual amounts earned by the named executive officers in fiscal 2008 under the plan are set forth under the Non-Equity Incentive Plan Compensation column in the Summary Compensation Table on page 31.
- (c) Reflects performance-based restricted stock units ( PBR Stock Units ) granted under our LTIP, which vest three years from the beginning of the performance measurement period (October 1, 2007), at which time the holder is entitled to receive a percentage of the performance-based restricted stock units granted, based on our cumulative EPS performance over the period October 1, 2007 to September 30, 2010, payable in shares of our common stock including credited dividend equivalents. The grant date fair value of \$28.00, which is the average of the high and low prices of the stock on the date of grant on April 29, 2008, as reported on the NYSE Consolidated Tape, is reflected at the target level of performance.
- (d) Reflects incentive compensation received under the Incentive Plan for fiscal 2007 attributable to conversions to shares of time-lapse restricted stock issued under our LTIP. Such shares were granted at the average of the high and low prices of our common stock of \$27.77 on the date of grant on November 6, 2007, as reported on the NYSE Consolidated Tape. The grant date fair value is the value of the shares attributable to the original amount of incentive compensation converted plus the 50 percent value premium received in connection with such conversion.

**Outstanding Equity Awards**

The following table shows the outstanding equity awards held by the named executive officers at September 30, 2008.

**Outstanding Equity Awards at Fiscal Year-End for 2008(a)**

Name	Option Awards			Stock Awards			Equity
	Number of Securities Underlying Unexercised Options (#) Exercisable	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)(b)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(c)	Equity Incentive Plan Awards: Number of Unearned Shares, Other Rights That Have Not Vested (#)(d)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Other Rights That Have Not Vested (\$)(e)
Robert W. Best	50,000	24.41	3/2/2009	122,515	3,261,349	56,000	1,490,720
	50,000	15.65	3/7/2010				
	75,000	23.56	3/6/2011				
	62,282	21.30	11/6/2011				
	100,000	22.68	3/7/2012				
	48,310	21.58	11/12/2012				
	62,900	21.23	3/11/2013				
John P. Reddy	20,000	24.41	3/2/2009	60,263	1,604,201	17,700	471,174
	30,000	23.56	3/6/2011				
	40,000	22.68	3/7/2012				
	18,400	21.23	3/11/2013				
Kim R. Cocklin				48,780	1,298,524	17,700	471,174

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Mark H. Johnson				30,838	820,908	17,700	471,174
Louis P. Gregory				35,098	934,309	9,200	244,904
	3,832	21.58	11/12/2012				
	6,133	21.23	3/11/2013				

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- (a) There were no securities underlying either unexercised options that were unexercisable or unexercised unearned options granted under any equity incentive plan at the end of fiscal 2008.
- (b) Time-lapse restricted stock vests three years from the date of grant, which is reflected in the table immediately below.
- (c) Market value is based on the closing price of our common stock of \$26.62 as reported on the NYSE Consolidated Tape on September 30, 2008.
- (d) See footnote (c) to the Grants of Plan-Based Awards for Fiscal Year 2008 table on page 35 for a discussion of the vesting terms of our performance-based restricted stock units. Based on our projected performance at September 30, 2008, performance units, at the target level of performance, vest as indicated below in the Performance-Based Restricted Stock Units Vesting Schedule below.

**Time-Lapse Restricted Stock Vesting Schedule**

	11-08-08	11-30-08	05-09-09	11-07-09	05-01-10	11-06-10	04-29-11	Total
Robert W. Best	27,086		26,000	8,001	26,000	9,428	26,000	122,515
John P. Reddy	10,802		9,000	11,179	8,100	13,082	8,100	60,263
Kim R. Cocklin		20,000			8,100	12,580	8,100	48,780
Mark H. Johnson	1,052		6,500	2,017	8,100	5,069	8,100	30,838
Louis P. Gregory	7,904		4,250	6,694	4,200	7,800	4,250	35,098

**Performance-Based Restricted Stock Units Vesting Schedule**

	9-30-09	9-30-10	Total
Robert W. Best	28,000	28,000	56,000
John P. Reddy	8,800	8,900	17,700
Kim R. Cocklin	8,800	8,900	17,700
Mark H. Johnson	8,800	8,900	17,700
Louis P. Gregory	4,600	4,600	9,200

**Option Exercises and Stock Vested**

The following table sets forth the exercises of stock options and vested stock received by the named executive officers during fiscal 2008.

**Option Exercises and Stock Vested for Fiscal Year 2008(a)**

Name	Stock Awards (b)	
	Number of Shares Acquired on Vesting (#)(c)	Value Realized on Vesting (\$)(d)
Robert W. Best	74,755	2,067,152
John P. Reddy	34,052	933,751
Kim R. Cocklin	20,000	525,800
Mark H. Johnson	1,155	30,827
Louis P. Gregory	16,848	461,571

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- (a) No named executive officer exercised any options in fiscal 2008.
  
- (b) The named executive officers elected to have vested shares withheld, in each case to cover applicable state and federal taxes incurred, upon receipt of their vested shares. As a result, the net shares received and the related net value realized appear in the table immediately below.

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- (c) Includes shares received during fiscal 2008 of vested time-lapse restricted stock and performance-based restricted stock units, including shares received as dividend equivalents on performance-based restricted stock units over the three fiscal year performance period.
- (d) The value received on vesting represents the market value of the shares received based on the average of the high and low prices of our common stock as reported on the NYSE Consolidated Tape on the vesting dates as follows: \$27.77 on November 6, 2007; \$26.69 on November 9, 2007; \$26.29 on November 30, 2007 and \$27.77 on May 9, 2008.

Name	Net Shares Acquired on Vesting (#)	Net Value Realized on Vesting (\$)
Robert W. Best	51,568	1,426,455
John P. Reddy	22,134	606,944
Kim R. Cocklin	13,400	352,286
Mark H. Johnson	734	19,590
Louis P. Gregory	10,708	293,358

**Retirement Plans**

*Pension Account Plan.* Our Pension Account Plan is a qualified, cash balance defined benefit pension plan under both the Internal Revenue Code and the Employee Retirement Income Security Act of 1974, as amended. The plan covers substantially all of our employees (other than employees of Atmos Energy Holdings, Inc.), including all named executive officers. Benefits under this plan become vested and non-forfeitable after completion of three years of continuous employment. A vested participant receives the monthly retirement benefit at normal retirement age under the retirement plan, unless an early retirement benefit is elected, in which case the retirement benefit may be actuarially reduced for early commencement. Participants retiring on or after age 65 receive 100 percent of their accrued monthly benefit, which may be reduced depending on the optional form of payment elected at retirement. Benefits payable under our retirement plan are not offset by social security benefits. Under the Internal Revenue Code, the annual compensation of each employee to be taken into account under our retirement plan for 2008 cannot exceed \$230,000.

The earnings utilized in the Pension Account Plan includes W-2 earnings, 401(k) deferrals and Internal Revenue Code Section 125 ( cafeteria plan ) reductions, while it excludes all incentive pay and expense reimbursements. All participants are fully vested in their account balances after three years of eligible service and may choose to receive their account balances in the form of a lump sum or an annuity. For any named executive officer who retires with vested benefits under the plan, the compensation shown as Salary in the Summary Compensation Table on page 31 could be considered eligible compensation in determining benefits.

*Supplemental Plans.* Mr. Best also participates in the Company's Supplemental Executive Benefits Plan ( SEBP ), while Messrs. Reddy, Cocklin, Johnson and Gregory participate in the Company's Supplemental Executive Retirement Plan, formerly known as the Performance-Based Supplemental Executive Benefits Plan ( SERP ) (collectively, the Supplemental Plans ), which provide retirement benefits (as well as supplemental disability and death benefits) to all officers, division presidents and other employees, all as approved by the Board. An officer or division president (or any other employee selected by the Board) who has participated in the SERP for at least two years and has attained age 55 is entitled to an annual supplemental pension in an amount that, when added to his or her annual pension payable under the Pension Account Plan, equals 60 percent of his compensation, subject to reductions for less than ten years of participation in the plan and for retirement prior to age 62. Mr. Best is entitled to 75 percent of his compensation under the SEBP.

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The Supplemental Plans cover compensation in an amount equal to the sum of (a) the greater of the participant's annual base salary at the date of termination of employment or the average of the participant's annual base salary for the highest of three calendar years (whether or not consecutive) of employment with the Company; and (b) the greater of the amount of the participant's last award under any of the Company's annual performance bonus or incentive plans or the average of the participant's highest three performance awards under such plans (whether or not consecutive). The amount of current compensation covered by the Supplemental Plans as of the end of fiscal 2008 for each of the named executive officers listed in the Summary Compensation Table is as follows: Robert W. Best, \$1,663,200; John P. Reddy, \$707,478; Kim R. Cocklin, \$680,309; Mark H. Johnson, \$614,098 and Louis P. Gregory, \$477,044. Each of such named executive officers has the following approximate number of years of credited service under the retirement plans: Mr. Best, 11 years; Mr. Reddy, ten years; Mr. Cocklin, two years; Mr. Johnson, three years and Mr. Gregory, eight years.

Each of the named executive officers has also entered into a Participation Agreement with the Company as required by the Supplemental Plans. Each of the Supplemental Plans provides that the accrued benefits, as calculated pursuant to the plan, of each participant will vest if: (a) the plan is terminated by the Company; (b) the plan is amended by the Company, resulting in a decrease in the benefits otherwise payable to the participant; (c) the participant's employment is terminated by the Company for any reason other than cause; (d) the participant's participation in the plan is terminated by the Company for any reason other than cause prior to the participant's termination of employment; (e) within any time during the three year period following a change of control of the Company (as such term is defined in the plan), (i) the participant's employment is terminated involuntarily by the Company for any reason other than cause or (ii) the participant is demoted or reassigned to a position that would cause him to cease to be eligible for participation in the plan; or (f) in anticipation of a change in control (whether or not a change in control ever occurs), (i) the participant's employment is terminated involuntarily by the Company for any reason other than cause at the request of a party to a pending transaction that would constitute a change in control, if and when the transaction were consummated or (ii) the participant's participation in the plan is terminated for any reason other than cause prior to the participant's termination of employment. The Participation Agreements set forth the specific rights of the participants to their accrued benefits upon the occurrence of the events described above and constitute enforceable contracts separate from the provisions of the Supplemental Plans.

**Table of Contents****Pension Benefits for Fiscal Year 2008**

The table below shows the present value of accumulated benefits payable to each of the named executive officers, including the number of years of service credited to each such named executive officer under our Pension Account Plan and Supplemental Plans, along with the total amount of payments made during fiscal 2008. See the discussion under Pension Account Plan on page 37 and Supplemental Plans beginning on page 37 for more information on these plans. We used the following assumptions in calculating the present value of accumulated benefits for the Pension Account Plan and Supplemental Plans:

Retirement age:	(a) 65 (62 for Mr. Best, since he was a participant in the Company's retirement plan in 1998 at the time of the adoption of the Pension Account Plan and thus is eligible for grandfathered benefits ) for the Pension Account Plan
Discount Rate:	(b) 62 for the SEBP and the SERP 6.68 percent
Postretirement mortality:	Use of the RP-2000 White Collar mortality table Projected to 2010

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit (\$)	Payments During Last Fiscal Year (\$)
Robert W. Best (a)	Pension Account Plan	11.25	349,380	\$0
	Supplemental Executive Benefits Plan	11.25	12,315,562	\$0
John P. Reddy (b)	Pension Account Plan	9.83	110,499	\$0
	Supplemental Executive Retirement Plan	9.83	2,863,419	\$0
Kim R. Cocklin (c)	Pension Account Plan	2.08	13,942	\$0
	Supplemental Executive Retirement Plan	2.08	674,018	\$0
Mark H. Johnson (d)	Pension Account Plan	2.75	23,023	\$0
	Supplemental Executive Retirement Plan	2.75	440,584	\$0
Louis P. Gregory (d)	Pension Account Plan	7.75	76,052	\$0
	Supplemental Executive Retirement Plan	7.75	1,280,239	\$0

- (a) Mr. Best is currently eligible for retirement in both plans. His retirement benefit payable from the SEBP as of June 30, 2008 was estimated to be \$1,103,812 payable for 10 years certain and life. His retirement benefit payable from the Pension Account Plan as of June 30, 2008 was estimated to be \$32,172 annually for his lifetime or \$368,289 payable as a lump sum, assuming the applicable segment interest rates for 2008 and an immediate commencement of his benefits at that time. However, the present value of the accumulated benefits shown in the table above are based on the same assumptions used in the financial statements appearing in our Annual Report on Form 10-K for fiscal 2008 (commencement at age 62 and an interest rate of 6.68 percent).
- (b) Mr. Reddy is eligible for early retirement under the Pension Account Plan and the SERP with a reduced benefit under both plans. Early retirement in both plans with reduced benefits is available to participants after attaining age 55 with three years of credited service under the Pension Account Plan and two years of participation in the SERP. Retirement with unreduced benefits is available after attaining age 65 with three years of credited service in the Pension Account Plan and age 62 with ten years of participation in the SERP.
- (c) Mr. Cocklin is eligible for early retirement with a reduced benefit under the SERP and will be eligible for early retirement with a reduced benefit under the Pension Account Plan when he achieves three years of credited service.
- (d) Messrs. Johnson and Gregory will be eligible for early retirement with a reduced benefit under both the Pension Account Plan and the SERP when they have attained age 55.

**Change in Control Severance Agreements**



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We have entered into severance agreements with each of the named executive officers to provide certain severance benefits for them in the event of the termination of their employment within three years following a change in control of the Company (as defined in the severance agreements and described generally below).

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The severance agreement for each named executive officer generally provides that the Company will pay such officer as severance pay in one lump sum an amount equal to (1) 2.5 times his total compensation (annual base salary and average amount of annual incentive compensation received under the Incentive Plan) and (2) the total of (i) an amount that is actuarially equivalent to an additional three years of annual age and service credits payable to the officer under the Company's Pension Account Plan and (ii) an amount that is actuarially equivalent to an additional three years of Company matching contributions payable to the officer under the Company's Retirement Savings Plan and Trust. However, if an executive officer is terminated by the Company for cause (as defined in the severance agreement), or his employment is terminated by retirement, death, or disability, the Company is not obligated to pay such officer the lump sum severance payment. Further, if an executive officer voluntarily terminates his employment except for constructive termination (as defined in the severance agreement), the Company is not obligated to pay such officer the lump sum severance payment. If the total of such lump sum severance payment plus all other payments, distributions or benefits of any type made to or on behalf of the executive officer results in the imposition of the excise tax imposed by Section 4999 of the Internal Revenue Code, the lump sum severance payment will be increased in an amount required for the executive officer to pay any such excise taxes or any resulting income or other taxes due the Internal Revenue Service. In addition, such executive officer will be entitled to all rights and benefits, if any, provided under any other plan or agreement between him and the Company.

For the purposes of these agreements, a change in control generally means any of the following events:

on the date any person acquires ownership of stock, that together with stock already held by such person, results in the person having beneficial ownership of 50 percent or more of the total fair market value or total voting power of our stock;

on the date that a person acquires or has acquired over a 12-month period ownership of our stock possessing 30 percent or more of the total voting power of our stock;

on the date a majority of the members of our Board is replaced during any 12-month period by directors whose election is not endorsed by a majority of the Board before the date of the election; or

on the date that a person acquires at least 40 percent of the total gross fair market value of our assets over a 12-month period immediately before such acquisition, except if such sale is to a person or entity owning, directly or indirectly, at least 50 percent of the total value or voting power of our stock before such acquisition.

For the purposes of these severance agreements, cause means (i) the willful and continued failure by the employee to substantially perform his duties with the Company (other than any such failure resulting from his incapacity due to physical or mental illness) after a written demand for substantial performance is delivered to the employee by the Board that specifically identifies the manner in which the Board believes that the employee has not substantially performed his duties or (ii) an employee's willful engagement in conduct that is demonstrably and materially injurious to the Company, monetarily or otherwise. No act, or failure to act, on an employee's part shall be deemed willful unless done, or omitted to be done, by the employee not in good faith and without a reasonable belief that the action or omission was in the best interests of the Company. Notwithstanding the foregoing, the employee shall not be deemed to have been terminated for cause unless approved by an affirmative vote of not less than three-quarters (3/4) of the entire membership of our Board at a meeting called and held for such determination.

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### **Potential Payments Upon Termination or Change in Control**

*Payments Made Upon Any Termination.* Regardless of the manner in which a named executive officer's employment is terminated, he is entitled to receive the following amounts earned during his term of employment. Such amounts include:

amount of accrued but unpaid salary;

amounts contributed under, or otherwise vested in our Retirement Savings Plan;

amounts accrued and vested through our Pension Account Plan and Supplemental Plans; and

amounts attributable to the exercise of rights with respect to each outstanding and vested stock option granted under our LTIP.

*Payments Made Upon Retirement.* In the event of the retirement of a named executive officer, in addition to the items identified above, such named executive officer will:

be entitled to receive a portion, based on the value at the target level, of each outstanding performance-based restricted stock unit granted under our LTIP, depending on the number of months completed of the three-year performance period;

be entitled to receive each share of outstanding time-lapse restricted stock granted under our LTIP;

if eligible, continue to receive health and welfare benefits for himself and his dependents, as applicable; and

if eligible, continue to receive life insurance benefits until death.

*Payments Made Upon Death or Disability.* In the event of the death or disability of a named executive officer, in addition to the benefits listed under the headings, *Payments Made Upon Any Termination* and *Payments Made Upon Retirement* above, the named executive officer or designated beneficiary will receive benefits under the Company's disability plan or payments under the Company's life insurance plan, as appropriate.

*Payments Made Upon a Change in Control.* As discussed above in *Change in Control Severance Agreements* beginning on page 39, we have also entered into severance agreements with each of the named executive officers to provide certain severance benefits for them in the event of the termination or constructive termination of their employment within three years following a change in control of the Company, as such terms are defined in the agreements. The severance agreement for each such executive officer provides that the Company will pay such executive officer a lump sum severance payment equal to (i) 2.5 times such executive officer's total compensation, as such term is defined in the agreements and (ii) an amount actuarially equivalent to three years of additional credits under the Pension Account Plan and three years of matching contributions under the Retirement Savings Plan, subject to certain conditions and adjustments, as described above.

*Potential Post-Employment Payments Tables.* The following tables reflect estimates of the incremental amount of compensation due each named executive officer in the event of such executive's termination of employment by reason of death, disability or retirement, termination of employment without cause, or termination of employment following a change in control. The amounts shown assume that such termination was effective as of September 30, 2008 and are estimates of the amounts which would be paid out to the executives upon such termination. The actual amounts to be paid out can only be determined at the time of such executive's separation from the Company.



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In addition to the amounts set forth in the following tables, in the event of the termination of employment for any reason, each of the named executive officers would receive the following payments or benefits, which had been earned as of September 30, 2008: Mr. Best, \$2,196,354 in exercisable options; Mr. Reddy, \$392,776 in exercisable options; and Mr. Gregory, \$52,370 in exercisable options.

	<b>Termination Upon Death, Disability or Retirement</b>	<b>Termination Without Cause</b>	<b>Termination Upon a Change in Control</b>
<b>Robert W. Best</b>			
Cash Severance			\$ 4,158,000
Equity			
Time-Lapse Restricted Stock	\$ 3,261,349	\$ 3,261,349	\$ 3,261,349
Performance-Based Restricted Stock Units	\$ 803,079	\$ 803,079	\$ 803,079
Unexercisable Options			
Total	\$ 4,064,428	\$ 4,064,428	\$ 4,064,428
Retirement Benefits			
Pension Account Plan			\$ 59,652
Supplemental Executive Benefits Plan			\$ 85,775
Retirement Savings Plan			\$ 25,200
Total			\$ 170,627
Other Benefits			
Health & Welfare			\$ 19,056
Tax Gross-Ups			
Total			\$ 19,056
Total	\$ 4,064,428	\$ 4,064,428	\$ 8,412,111

	<b>Termination Upon Death, Disability or Retirement</b>	<b>Termination Without Cause</b>	<b>Termination Upon a Change in Control</b>
<b>John P. Reddy</b>			
Cash Severance			\$ 1,768,695
Equity			
Time-Lapse Restricted Stock	\$ 1,604,201	\$ 1,604,201	\$ 1,604,201
Performance-Based Restricted Stock Units	\$ 253,328	\$ 253,328	\$ 253,328
Unexercisable Options			
Total	\$ 1,857,529	\$ 1,857,529	\$ 1,857,529
Retirement Benefits			
Pension Account Plan			\$ 56,906
Supplemental Executive Retirement Plan			\$ 2,043,541
Retirement Savings Plan			\$ 25,200
Total			\$ 2,125,647
Other Benefits			
Health & Welfare			\$ 18,651
Tax Gross-Ups			\$ 1,177,285
Total			\$ 1,195,936
Total	\$ 1,857,529	\$ 1,857,529	\$ 6,947,807

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	<b>Termination Upon Death, Disability or Retirement</b>	<b>Termination Without Cause</b>	<b>Termination Upon a Change in Control</b>
<b>Kim R. Cocklin</b>			
Cash Severance			\$ 1,700,773
Equity			
Time-Lapse Restricted Stock	\$ 1,298,524	\$ 1,298,524	\$ 1,298,524
Performance-Based Restricted Stock Units	\$ 253,328	\$ 253,328	\$ 253,328
Unexercisable Options			
Total	\$ 1,551,852	\$ 1,551,852	\$ 1,551,852
Retirement Benefits			
Pension Account Plan			\$ 44,128
Supplemental Executive Retirement Plan			\$ 4,611,207
Retirement Savings Plan			\$ 25,200
Total			\$ 4,680,535
Other Benefits			
Health & Welfare			\$ 24,588
Tax Gross-Ups			\$ 2,274,830
Total			\$ 2,299,418
Total	\$ 1,551,852	\$ 1,551,852	\$ 10,232,578

	<b>Termination Upon Death, Disability or Retirement</b>	<b>Termination Without Cause</b>	<b>Termination Upon a Change in Control</b>
<b>Mark H. Johnson</b>			
Cash Severance			\$ 1,535,245
Equity			
Time-Lapse Restricted Stock	\$ 820,908	\$ 820,908	\$ 820,908
Performance-Based Restricted Stock Units	\$ 253,328	\$ 253,328	\$ 253,328
Unexercisable Options			
Total	\$ 1,074,236	\$ 1,074,236	\$ 1,074,236
Retirement Benefits			
Pension Account Plan			\$ 44,128
Supplemental Executive Retirement Plan			\$ 3,021,930
Retirement Savings Plan			\$ 25,200
Total			\$ 3,091,258
Other Benefits			
Health & Welfare			\$ 23,892
Tax Gross-Ups			\$ 2,005,601
Total			\$ 2,029,493
Total	\$ 1,074,236	\$ 1,074,236	\$ 7,730,232

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	Termination Upon Death, Disability or Retirement	Termination Without Cause	Termination Upon a Change in Control
<b>Louis P. Gregory</b>			
Cash Severance			\$ 1,192,610
Equity			
Time-Lapse Restricted Stock	\$ 934,309	\$ 934,309	\$ 934,309
Performance-Based Restricted Stock Units	\$ 131,934	\$ 131,934	\$ 131,934
Unexercisable Options			
Total	\$ 1,066,243	\$ 1,066,243	\$ 1,066,243
Retirement Benefits			
Pension Account Plan			\$ 48,193
Supplemental Executive Retirement Plan			\$ 1,841,055
Retirement Savings Plan			\$ 25,200
Total			\$ 1,914,448
Other Benefits			
Health & Welfare			\$ 23,353
Tax Gross-Ups			\$ 1,086,422
Total			\$ 1,109,775
Total	\$ 1,066,243	\$ 1,066,243	\$ 5,283,076

**PROPOSAL TWO RATIFICATION OF APPOINTMENT OF****INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee of the Board has appointed Ernst & Young LLP to continue as our independent registered public accounting firm for the fiscal year ending September 30, 2009. The firm of Ernst & Young LLP and its predecessors have been our independent registered public accounting firm since our incorporation in 1983. It is expected that representatives of Ernst & Young LLP will be present at the annual meeting. The representatives of Ernst & Young LLP will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions.

**Audit and Related Fees**

Fees for professional services provided by our independent registered public accounting firm, Ernst & Young LLP, in each of the last two fiscal years, in each of the following categories are:

	September 30 2008	September 30 2007
	(In thousands)	
Audit Fees	\$ 2,798	\$ 2,893
Audit-Related Fees	76	63
Tax Fees	100	112
All Other Fees		
<b>Total Fees</b>	<b>\$ 2,974</b>	<b>\$ 3,068</b>

*Audit Fees.* Fees for audit services include fees associated with the annual audit, the assessment by the firm of our design and operating effectiveness of internal control over financial reporting and the reviews of our quarterly reports on Form 10-Q.

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*Audit-Related Fees.* Audit-related fees principally include fees relating to procedures performed in connection with the statutory audit of Blueflame Insurance Services, Ltd. and the examination of the Illinois Annual Reconciliation of Over/Under Gas Recoveries.

*Tax Fees.* Tax fees include fees relating to reviews of tax returns, tax consulting and assistance with sales and use tax filings.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS VOTE **FOR**

THE RATIFICATION OF THE APPOINTMENT OF ERNST & YOUNG LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR FISCAL 2009.

**PROPOSAL THREE SHAREHOLDER PROPOSAL REGARDING**

**DECLASSIFICATION OF BOARD OF DIRECTORS**

Gerald R. Armstrong, 910 Sixteenth Street, No. 412, Denver, Colorado, 80202-2917, owning 660 shares of our common stock, has given notice that he intends to present the following proposal at the annual meeting. The proposal will be voted on only if properly presented at the annual meeting. The Board recommends that you vote **AGAINST** this proposal. In accordance with rules of the Securities and Exchange Commission, the text of Mr. Armstrong's resolution and supporting statement is printed verbatim from his submission and we take no responsibility for them.

**Shareholder Proposal**

RESOLUTION

That the shareholders of ATMOS ENERGY CORPORATION request its Board of Directors to take the steps necessary to eliminate classification of terms of its Board of Directors to require that *all* Directors stand for election annually. The Board declassification shall be completed in a manner that does not affect the unexpired terms of the previously-elected Directors.

STATEMENT

The proponent believes the election of directors is the strongest way that shareholders influence the directors of any corporation. Currently, our board of directors is divided into three classes with each class serving three-year terms. Because of this structure, shareholders may only vote for one-third of the directors each year. This is not in the best interest of shareholders because it reduces accountability.

Xcel Energy, Inc., Devon Energy Corporation, ConocoPhillips, ONEOK, Inc., CenterPoint Energy, Inc., and Hess Corporation have adopted this practice and it has been approved by shareholders at C H Energy Group, Inc., Central Vermont Public Service Corporation, Black Hills Corporation, Spectra Energy Corp., Chesapeake Energy Corp. upon presentation of a similar resolution by the proponent during 2008. The proponent is a professional investor who has studied this issue carefully.

The performance of our management and our Board of Directors is now being more strongly tested due to economic conditions and the accountability for performance must be given to the shareholders whose capital has been entrusted in the form of share investments.



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A study by researchers at Harvard Business School and the University of Pennsylvania's Wharton School titled "Corporate Governance and Equity Prices" (Quarterly Journal of Economics, February, 2003), looked at the relationship between corporate governance practices (including classified boards) and firm performance. The study found a significant positive link between governance practices favoring shareholders (such as annual directors election) and firm value.

While management may argue that directors need and deserve continuity, management should become aware that continuity and tenure may be best assured when their performance as directors is exemplary and is deemed beneficial to the best interests of the corporation and its shareholders.

The proponent regards as unfounded the concern expressed by some that annual election of all directors could leave companies without experienced directors in the event that all incumbents are voted out by shareholders. In the unlikely event that shareholders do vote to replace all directors, such a decision would express dissatisfaction with the incumbent directors and reflect a need for change.

If you agree that shareholders may benefit from greater accountability afforded by annual election of *all* directors, please vote **FOR** this proposal.

### **Statement in Opposition to Shareholder Proposal**

After careful consideration, the Board of Directors believes that the shareholder proposal presented above, which seeks to declassify the Board and to have annual elections of all directors, is not in the best interests of our shareholders and the Company. The Board unanimously recommends that you vote **AGAINST** this proposal for the reasons discussed below.

The Company's Articles of Incorporation provides that the Board of Directors is to be divided into three classes with directors elected to staggered three-year terms. Accordingly, approximately one-third of the directors stand for election each year and the entire Board can be replaced in the course of three annual meetings. The Board believes that an active, professional, independent Board benefits from the classification of our directors for the reasons discussed below.

#### *Continued Accountability of Board to Shareholders*

The Board of Directors believes that the benefits of the current classified Board structure do not come at the cost of directors' accountability to shareholders. We believe that directors elected to three-year terms are just as accountable to shareholders as directors elected annually, since all directors are required to uphold their fiduciary duties to the Company and its shareholders, regardless of the length of their term of office. In the Board's view, the annual election of approximately one-third of the directors provides shareholders with an orderly means to effect change and to communicate their views on the performance of the Company and its directors.

Overall accountability of the Board is achieved through our shareholders' selection of responsible, experienced and respected individuals as directors; it is not compromised by the length of any director's term. We believe that directors elected for staggered terms are not any less accountable or responsive to shareholders than they would be if they were elected annually. The Board has implemented a variety of measures to further promote accountability and good corporate governance practices, including the adoption of our Corporate Governance Guidelines that focus on the independence and quality of directors, the effective functioning of the Board, and an annual evaluation

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of the Board and its committees. The Board's adoption of effective corporate governance practices is demonstrated by the RiskMetrics Group (formerly Institutional Shareholder Services) Corporate Governance Quotient rating the Company's corporate governance practices, as of December 1, 2008, as higher than 94.7 percent of the companies in the S&P 500 and 76.6 percent of the companies in the Utilities group. Moreover, our directors are always required to act in the best interests of our shareholders and the Company, in accordance with their ongoing fiduciary duties under applicable Texas and Virginia law, regardless of the length of their terms.

### *Continued Board Stability and Independence*

Three-year staggered terms are designed to provide stability and to ensure that, at any given time, a majority of the Company's directors have prior experience as directors of the Company and a more thorough knowledge of the Company's businesses and strategy. In addition, because a classified Board produces more orderly change in the composition of the Board and in the policies and strategies of the Company, the Company is better equipped to attract and retain prominent and well-qualified directors who are willing and able to commit the time and resources required to understand fully the Company and its operations. The Board believes that its classified structure has helped to attract experienced directors and to enhance shareholder value. Given the current corporate governance climate, in which many qualified individuals are increasingly reluctant to serve on public boards, the Company could also be placed at a competitive disadvantage in recruiting qualified director candidates if their Board service could potentially be limited to a one-year period.

The Board also believes that the longer term of office provided by three-year terms, rather than one-year terms, increases the independence of our non-employee directors. With one-year terms, directors can be less insulated from management or other groups who may have an agenda that is not aligned with the long-term interests of all shareholders. Independence may also be enhanced when directors are not concerned about being re-nominated by the Company's other directors every year. The Board believes that the current classified Board structure strengthens our directors' ability to act independently and to focus on the long-term interests of the Company and its shareholders.

### *Enhanced Ability to Protect Shareholder Value in a Potential Takeover*

The Board believes that a classified Board reduces the Company's vulnerability to unfriendly or unsolicited takeover tactics from investor groups focusing on short-term financial gains, which may not be in the best long-term interests of the Company's shareholders. A mere attempt to obtain control, even if unsuccessful, can seriously disrupt the conduct of a company's business and cause it to incur substantial expense. Classified board structures have been shown to be an effective means of protecting long-term shareholder interests against these types of abusive tactics. A classified board structure encourages potential acquirers to initiate arms-length negotiations with management and seasoned directors. Because only one-third of the Company's directors are elected at any annual meeting of shareholders, at least two annual meetings would be required to replace a majority of the Board and to dismantle other shareholder protection measures. This gives the directors the time and leverage necessary to evaluate the adequacy and fairness of any takeover proposal, consider alternative proposals and ultimately negotiate the best result for all shareholders. The classified Board structure does not prevent or preclude unsolicited takeover attempts, but it empowers the incumbent Board to negotiate terms to maximize the value of the transaction to all our shareholders.

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*Effect of the Proposal*

Passage of the shareholder proposal would not automatically eliminate the Company's classified board structure. A vote of our shareholders on amending the Company's Articles of Incorporation would be required to effect this change. Under the Company's Articles of Incorporation, the affirmative vote of two-thirds (2/3) of the Company's shares outstanding having voting power with respect to such an amendment would be required for approval. The Board of Directors and its Nominating and Corporate Governance Committee, with the assistance of their professional advisors, have carefully considered this proposal and the arguments for and against a classified board structure. For the reasons discussed above, the Board, upon the recommendation of the Nominating and Corporate Governance Committee (which is comprised entirely of independent directors), has concluded that the Company's classified board structure continues to promote the best interests of our shareholders and the Company.

THE BOARD OF DIRECTORS RECOMMENDS THAT SHAREHOLDERS

VOTE **AGAINST** THIS SHAREHOLDER PROPOSAL.

**OTHER MATTERS**

**Shareholder Proposals**

In the event a shareholder intends to present a proposal at our annual meeting of shareholders on February 4, 2009, he or she must be a shareholder of record on the record date, December 10, 2008, who shall continue to be entitled to vote at the annual meeting and who mails a notice of such proposal so that it is received by the Corporate Secretary at our principal executive offices by January 16, 2009. In the event a shareholder intends to present a proposal at our 2010 annual meeting of shareholders, in order for such proposal to be included in our proxy statement relating to such meeting, it must be received by the Corporate Secretary at our principal executive offices no later than August 20, 2009 and it must be prepared according to applicable law, as determined by the Company.

**Other Business**

We know of no other business that may come before the annual meeting. However, if any other matters are properly brought before the meeting by the management or any shareholder, it is the intention of each person named in the accompanying proxy to vote such proxy in accordance with his judgment on such matters. The proxy confers discretionary authority to take action with respect to any such additional matters that may come before the meeting.

By Order of the Board of Directors,

Dwala Kuhn

Corporate Secretary

Dallas, Texas

December 22, 2008

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