

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 2009

OR

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

FOR THE TRANSITION PERIOD FROM TO

Commission file number 001-8359

NEW JERSEY RESOURCES CORPORATION
(Exact name of registrant as specified in its charter)

New Jersey
(State or other jurisdiction of
incorporation or organization)

22-2376465
(I.R.S. Employer
Identification Number)

1415 Wyckoff Road, Wall, New Jersey 07719
(Address of principal
executive offices)

732-938-1480
(Registrant's telephone number,
including area code)

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

Common Stock - \$2.50 Par Value
(Title of each class)

New York Stock Exchange
(Name of each exchange on which registered)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes: ☒ No: ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes: ☐ No: ☐

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes: ☐ No: ☒

The number of shares outstanding of \$2.50 par value Common Stock as of February 2, 2010, was 41,417,220.

TABLE OF CONTENTS

	Page
Information Concerning Forward-Looking Statements	1
<hr/>	
PART I – FINANCIAL INFORMATION	
ITEM 1. Unaudited Condensed Consolidated Financial Statements	2
Notes to Unaudited Condensed Consolidated Financial Statements	7
Note 1 General	7
Note 2 Regulation	9
Note 3 Derivative Instruments	13
Note 4 Fair Value	16
Note 5 Investments In Equity Investees	17
Note 6 Earnings Per Share	18
Note 7 Debt	18
Note 8 Capitalized Financing Costs And Deferred Interest	20
Note 9 Stock-Based Compensation	20
Note 10 Employee Benefit Plans	21
Note 11 Asset Retirement Obligations	21
Note 12 Income Taxes	21
Note 13 Commitments And Contingent Liabilities	22
Note 14 Business Segment and Other Operations Data	23
Note 15 Related Party Transactions	26
Note 16 Other	26
ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations for the Three Months Ended December 31, 2009	26
ITEM 3. Quantitative and Qualitative Disclosures About Market Risk	46
ITEM 4. Controls and Procedures	49
<hr/>	
PART II – OTHER INFORMATION	
ITEM 1. Legal Proceedings	50
ITEM 1A. Risk Factors	50
ITEM 2. Unregistered Sale of Equity Securities and Use of Proceeds	50
ITEM 4. Submission of Matters to a Vote of Security Holders	51
ITEM 6. Exhibits	52
Signatures	53

INFORMATION CONCERNING FORWARD-LOOKING STATEMENTS

Certain statements contained in this report, including, without limitation, statements as to management expectations and beliefs presented in Part I, Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” Part I, Item 3. “Quantitative and Qualitative Disclosures about Market Risk,” Part II, Item I. “Legal Proceedings” and in the notes to the financial statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements can also be identified by the use of forward-looking terminology such as “may,” “intend,” “expect,” “believe” or “continue” or comparable terminology and are made based upon management’s expectations and beliefs concerning future developments and their potential effect upon New Jersey Resources Corporation (NJR or the Company). There can be no assurance that future developments will be in accordance with management’s expectations or that the effect of future developments on the Company will be those anticipated by management.

The Company cautions readers that the assumptions that form the basis for forward-looking statements regarding customer growth, customer usage, financial condition, results of operations, cash flows, capital requirements, market risk and other matters for fiscal 2010 and thereafter include many factors that are beyond the Company’s ability to control or estimate precisely, such as estimates of future market conditions, the behavior of other market participants and changes in the debt and equity capital markets. The factors that could cause actual results to differ materially from NJR’s expectations include, but are not limited to, those discussed in Risk Factors in Item 1A, as well as the following:

- weather and economic conditions;
- NJR’s dependence on operating subsidiaries;
- demographic changes in the New Jersey Natural Gas (NJNG) service territory;
- the rate of NJNG customer growth;
- volatility of natural gas and other commodity prices and their impact on customer usage, NJR Energy Services’ (NJRES) operations and on the Company’s risk management efforts;
- changes in rating agency requirements and/or credit ratings and their effect on availability and cost of capital to the Company;
- the impact of volatility in the credit markets that would result in the increased cost and/or limit the availability of credit at NJR to fund and support physical gas inventory purchases and other working capital needs at NJRES, and all other non-regulated subsidiaries, as well as negatively affect access to the commercial paper market and other short-term financing markets at NJNG to allow it to fund its commodity purchases and meet its short-term obligations as they come due;
- the ability to comply with debt covenants;
- continued failures in the market for auction rate securities;
- the impact to the asset values and resulting higher costs and funding obligations of NJR’s pension and postemployment benefit plans as a result of downturns in the financial markets;
- the ability to maintain effective internal controls;
- accounting effects and other risks associated with hedging activities and use of derivatives contracts;
- commercial and wholesale credit risks, including the availability of creditworthy customers and counterparties and liquidity in the wholesale energy trading market;
- the ability to obtain governmental approvals and/or financing for the construction, development and operation of certain non-regulated energy investments;
- risks associated with the management of the Company’s joint ventures and partnerships;
- the level and rate at which costs and expenses are incurred and the extent to which they are allowed to be recovered from customers through the regulatory process in connection with constructing, operating and maintaining NJNG’s natural gas distribution system;
- dependence on third-party storage and transportation facilities;
- operating risks incidental to handling, storing, transporting and providing customers with natural gas;
- access to adequate supplies of natural gas;
- the regulatory and pricing policies of federal and state regulatory agencies;
- the ultimate outcome of pending regulatory proceedings;
- the disallowance of recovery of environmental-related expenditures and other regulatory changes; and
- environmental-related and other litigation and other uncertainties.

While the Company periodically reassesses material trends and uncertainties affecting the Company’s results of operations and financial condition in connection with its preparation of management’s discussion and analysis of results of operations and financial condition contained in its Quarterly and Annual Reports, the Company does not, by including this statement, assume any obligation to review or revise any particular forward-looking statement referenced herein in light of future events.

New Jersey Resources Corporation
Part I

ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

	Three Months Ended December 31,	
<i>(Thousands, except per share data)</i>	2009	2008
OPERATING REVENUES		
Utility	\$258,475	\$340,908
Nonutility	351,071	460,396
Total operating revenues	609,546	801,304
OPERATING EXPENSES		
Gas purchases:		
Utility	154,950	230,452
Nonutility	294,443	440,638
Operation and maintenance	36,291	36,408
Regulatory rider expenses	13,673	13,561
Depreciation and amortization	7,869	7,361
Energy and other taxes	16,935	23,633
Total operating expenses	524,161	752,053
OPERATING INCOME	85,385	49,251
Other income	1,119	858
Interest expense, net of capitalized interest	5,417	6,547
INCOME BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF AFFILIATES	81,087	43,562
Income tax provision	30,929	15,804
Equity in earnings of affiliates, net of tax	1,744	514
NET INCOME	\$ 51,902	\$ 28,272
EARNINGS PER COMMON SHARE		
BASIC	\$1.25	\$0.67
DILUTED	\$1.24	\$0.67
DIVIDENDS PER COMMON SHARE	\$0.34	\$0.31
WEIGHTED AVERAGE SHARES OUTSTANDING		
BASIC	41,615	42,170
DILUTED	42,001	42,495

See Notes to Condensed Unaudited Consolidated Financial Statements

New Jersey Resources Corporation
Part I

ITEM 1. FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Three Months Ended December 31,	
<i>(Thousands)</i>	2009	2008
CASH FLOWS USED IN OPERATING ACTIVITIES		
Net income	\$51,902	\$28,272
Adjustments to reconcile net income to cash flows from operating activities:		
Unrealized (gain) loss on derivative instruments and related transactions	(6,633)	11,499
Depreciation and amortization	8,103	7,581
Allowance for equity used during construction	(384)	—
Allowance for bad debt expense	847	1,280
Deferred income taxes	28,656	5,765
Manufactured gas plant remediation costs	(1,479)	(5,875)
Equity in earnings of affiliates, net of distributions	(960)	(514)
Cost of removal – asset retirement obligations	(38)	(19)
Contributions to postemployment benefit plans	(4,550)	(182)
Changes in:		
Components of working capital	(136,542)	(73,901)
Other noncurrent assets	4,302	(38,448)
Other noncurrent liabilities	4,577	27,582
Cash flows used in operating activities	(52,199)	(36,960)
CASH FLOWS USED IN INVESTING ACTIVITIES		
Expenditures for:		
Utility plant	(10,326)	(18,207)
Real estate properties and other	(17)	(145)
Cost of removal	(1,097)	(1,462)
Investments in equity investees	(4,300)	(21,000)
Release from restricted cash construction fund	—	4,200
Cash flows used in investing activities	(15,740)	(36,614)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of common stock	3,109	6,196
Tax benefit from stock options exercised	224	972
Proceeds from sale-leaseback transaction	4,925	6,268
Payments of long-term debt	(1,346)	(30,973)
Purchases of treasury stock	(8,994)	(1,126)
Payments of common stock dividends	(13,249)	(11,776)
Net proceeds from short-term debt	57,400	87,350
Cash flows from financing activities	42,069	56,911
Change in cash and temporary investments	(25,870)	(16,663)
Cash and temporary investments at beginning of period	36,186	42,626
Cash and temporary investments at end of period	\$10,316	\$25,963
CHANGES IN COMPONENTS OF WORKING CAPITAL		
Receivables	\$(153,756)	\$(98,006)
Inventories	(34,096)	73,156
Recovery of gas costs	(22,351)	25,017
Gas purchases payable	99,141	(41,081)
Prepaid and accrued taxes	18,777	43,830
Accounts payable and other	(11,159)	(6,541)
Restricted broker margin accounts	14,496	(51,882)
Customers' credit balances and deposits	(31,574)	(24,957)
Other current assets	(16,020)	6,563
Total	\$(136,542)	\$(73,901)
SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION		
Cash paid for:		
Interest (net of amounts capitalized)	\$1,285	\$4,185
Income taxes	—	\$1,427

See Notes to Condensed Unaudited Consolidated Financial Statements

New Jersey Resources Corporation
Part I

ITEM 1. FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

ASSETS

<i>(Thousands)</i>	December 31, 2009	September 30, 2009
PROPERTY, PLANT AND EQUIPMENT		
Utility plant, at cost	\$1,452,096	\$1,438,945
Real estate properties and other, at cost	30,214	30,195
	1,482,310	1,469,140
Accumulated depreciation and amortization	(411,295)	(404,701)
Property, plant and equipment, net	1,071,015	1,064,439
CURRENT ASSETS		
Cash and temporary investments	10,316	36,186
Customer accounts receivable		
Billed	181,505	101,945
Unbilled revenues	79,103	8,616
Allowance for doubtful accounts	(3,202)	(6,064)
Regulatory assets	5,037	5,878
Gas in storage, at average cost	331,329	297,464
Materials and supplies, at average cost	6,257	6,026
Prepaid state taxes	21,108	37,886
Derivatives, at fair value	104,285	131,070
Restricted broker margin account	11,754	26,250
Deferred taxes	10,984	20,801
Other	29,679	18,131
Total current assets	788,155	684,189
NONCURRENT ASSETS		
Investments in equity investees	166,375	160,508
Regulatory assets	384,172	391,025
Derivatives, at fair value	10,767	9,536
Other	11,145	11,333
Total noncurrent assets	572,459	572,402
Total assets	\$2,431,629	\$2,321,030

See Notes to Unaudited Condensed Consolidated Financial Statements

New Jersey Resources Corporation
Part I

ITEM 1. FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

CAPITALIZATION AND LIABILITIES

<i>(Thousands)</i>	December 31, 2009	September 30, 2009
CAPITALIZATION		
Common stock equity	\$ 722,851	\$ 689,726
Long-term debt	438,412	455,492
Total capitalization	1,161,263	1,145,218
CURRENT LIABILITIES		
Current maturities of long-term debt	27,169	6,510
Short-term debt	200,800	143,400
Gas purchases payable	229,253	130,112
Accounts payable and other	34,794	44,448
Dividends payable	14,148	13,026
Deferred and accrued taxes	5,474	3,475
Regulatory liabilities	13,852	36,203
New Jersey clean energy program	10,955	10,920
Derivatives, at fair value	58,347	94,853
Customers' credit balances and deposits	41,643	73,218
Total current liabilities	636,435	556,165
NONCURRENT LIABILITIES		
Deferred income taxes	262,432	243,593
Deferred investment tax credits	6,790	6,870
Deferred revenue	7,467	8,203
Derivatives, at fair value	5,250	6,250
Manufactured gas plant remediation	146,700	146,700
Postemployment employee benefit liability	87,866	89,035
Regulatory liabilities	55,874	56,450
New Jersey clean energy program	27,718	28,449
Asset retirement obligation	25,450	25,097
Other	8,384	9,000
Total noncurrent liabilities	633,931	619,647
Commitments and contingent liabilities (Note 13)		
Total capitalization and liabilities	\$2,431,629	\$2,321,030

See Notes to Unaudited Condensed Consolidated Financial Statements

New Jersey Resources Corporation
Part I

ITEM 1. FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

	Three Months Ended December 31,	
(Thousands)	2009	2008
Net income	\$51,902	\$28,272
Unrealized gain on available for sale securities, net of tax of \$(264) and \$(380), respectively ⁽¹⁾	378	545
Net unrealized (loss) on derivatives, net of tax of \$23 and \$18, respectively	(33)	(26)
Other comprehensive income	345	519
Comprehensive income	\$52,247	\$28,791

(1) Available for sale securities are included in Investments in equity investees in the Unaudited Condensed Consolidated Balance Sheets.

See Notes to Unaudited Condensed Consolidated Financial Statements

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The accompanying Unaudited Condensed Consolidated Financial Statements have been prepared by New Jersey Resources Corporation (NJR or the Company) in accordance with the rules and regulations of the Securities and Exchange Commission (SEC). The September 30, 2009 Balance Sheet data is derived from the audited financial statements of the Company. These Unaudited Condensed Consolidated Financial Statements should be read in conjunction with the financial statements and the notes thereto included in NJR's 2009 Annual Report on Form 10-K.

The Unaudited Condensed Consolidated Financial Statements include the accounts of NJR and its subsidiaries. NJR provides regulated gas distribution services and certain non-regulated businesses primarily through the following subsidiaries:

New Jersey Natural Gas Company (NJNG) provides natural gas utility service in central and northern New Jersey and is subject to rate regulation by the New Jersey Board of Public Utilities (BPU). NJNG comprises the Natural Gas Distribution segment;

NJR Energy Services Company (NJRES) comprises the Energy Services segment and is the Company's principal non-utility subsidiary that maintains and trades a portfolio of natural gas storage and transportation positions and provides wholesale energy and energy management services;

NJR Energy Holdings Corporation (NJREH) primarily invests in energy-related ventures through its subsidiaries, NJNR Pipeline Company (Pipeline), which holds the Company's 5.53 percent ownership interest in Iroquois Gas and Transmission System, L.P. (Iroquois) and NJR Steckman Ridge Storage Company, which holds the Company's 50 percent combined interest in Steckman Ridge GP, LLC and Steckman Ridge, LP (collectively, Steckman Ridge), a natural gas storage facility that began commercial operation in April 2009. Effective October 1, 2009, Iroquois and Steckman Ridge comprise the Midstream Assets segment;

NJR Retail Holdings Corporation (Retail Holdings), which has two principal subsidiaries, NJR Home Services Company (NJRHS) and Commercial Realty & Resources Corporation (CR&R) along with NJR Energy Corporation (NJR Energy) are included in Retail and Other operations.

Intercompany transactions and accounts have been eliminated.

In the opinion of management, the accompanying Unaudited Condensed Consolidated Financial Statements reflect all adjustments necessary, for a fair presentation of the results of the interim periods presented. These adjustments are of a normal and recurring nature. Because of the seasonal nature of NJR's utility and wholesale energy services operations, in addition to other factors, the financial results for the interim periods presented are not indicative of the results that are to be expected for the fiscal year ended September 30, 2010.

Change in Reportable Segments

Effective October 1, 2009, NJR established Midstream Assets as a new reportable segment to reflect the way it currently views and manages growth opportunities associated with investments in natural gas transportation and storage facilities. Consequently, the results of operations, assets and other financial information for Iroquois and Steckman Ridge, previously included in Retail and Other operations, are now reported as components of the Midstream Assets segment. As required, prior year information for both Midstream Assets and Retail and Other operations has been restated throughout this report to be consistent with current year presentation (see *Note 14. Business Segment and Other Operations Data and Item 2. Management Discussion and Analysis of Financial Condition and Results of Operations*).

Subsequent Events

The Company evaluates subsequent events through the date it issues its financial statements. Accordingly, for the period ended December 31, 2009, events occurring between December 31, 2009 and February 3, 2010, have been reviewed to determine appropriate recognition and disclosures. See *Note 2. Regulation* and *Note 15. Related Party Transactions*, for subsequent events disclosures.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Gas in Storage

The following table summarizes Gas in storage by company as of:

	December 31, 2009		September 30, 2009	
(\$ in thousands)	Assets	Bcf	Assets	Bcf
NJNG	\$143,499	17.6	\$175,201	21.9
NJRES	187,830	40.4	122,263	36.3
Total	\$331,329	58.0	\$297,464	58.2

Gas in storage increased during the three months ended December 31, 2009, due primarily to an increase in the average cost of gas at NJRES coupled with optimization activities that allowed NJRES to purchase and inject additional volumes, offset by a 19.7 percent decrease in NJNG's inventory volumes due to the start of the winter heating season.

Customer Accounts Receivable

Customer accounts receivable include outstanding billings from the following subsidiaries as of:

(Thousands)	December 31, 2009		September 30, 2009	
NJNG	\$ 21,912	12%	\$ 21,239	21%
NJRES	151,305	83	73,451	72
NJRHS and other	8,288	5	7,255	7
Total	\$181,505	100%	\$101,945	100%

Accounts receivable increased during the three months ended December 31, 2009, due primarily to the impact of higher commodity prices on NJRES' receivables.

Recent Updates to the Accounting Standards Codification (ASC)

Topic 715, Compensation—Retirement Benefits:

On December 30, 2008, the FASB issued guidance that requires additional disclosures surrounding postretirement benefit plans to provide users of financial statements information related to a company's plan assets, investment policies and strategies and significant concentrations of risk. Disclosures will include information related to the fair value of plan assets, including inputs and valuation techniques that are used to measure plan assets and the effect of Level 3 measurements on changes in plan assets. The guidance is effective for fiscal years ending after December 15, 2009. As it is a disclosure only standard, it will have no impact on the Company's statement of financial position, results of operations or cash flows.

Topic 810, Consolidation:

On December 4, 2007, the FASB amended consolidation guidance relating to the accounting and reporting for minority interests and clarified that a non-controlling interest in a subsidiary is considered to be an ownership interest in the consolidated entity and, therefore, should be reported as equity in the consolidated financial statements. The guidance is effective for fiscal years beginning after December 15, 2008, and early adoption is prohibited. The guidance became effective for the Company on October 1, 2009. There was no impact to the Company's statement of financial position, results of operations or cash flows upon adoption.

In June 2009, the FASB issued guidance requiring qualitative evaluations, which will replace the quantitative assessments currently in practice, when determining whether a company has a controlling financial interest in a variable interest entity (VIE). In addition, the assessments will be required on an ongoing basis, rather than limiting the reassessments to when certain triggering events occur. Additional disclosures will provide information on a company's involvement with VIE's. The guidance is effective at the beginning of a company's annual reporting period that begins after November 15, 2009, including interim reporting periods. The Company will adopt the provisions of the statement prospectively during its first quarter of fiscal 2011 and is evaluating the effect on its financial position, results of operations and cash flows.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Topic 820, Fair Value Measurements and Disclosures:

In August 2009, the FASB issued additional guidance for measuring the fair value of liabilities and clarifies that the quoted price for the identical liability, when traded as an asset in an active market, is a Level 1 measurement, providing there are no adjustments to the quoted price. Alternatively, when no quoted price is available, the guidance affirms the use of other permitted valuation techniques. The guidance became effective for the Company on October 1, 2009. There was no impact to the Company's statement of financial position, results of operations or cash flows upon adoption.

2. REGULATION

Base Rates

In October 2008, the BPU unanimously approved and made effective certain changes in the design of NJNG's base rates. As a result, NJNG received a revenue increase in its base rates of \$32.5 million, which is inclusive of an approximate \$13 million impact of a change to the Conservation Incentive Program (CIP) baseline usage rate. Other changes included an allowed rate of return of 7.76 percent that includes a return on equity component of 10.3 percent and a reduction to NJNG's depreciation expense component.

Conservation Incentive Program (CIP)

The CIP allows NJNG to recover utility gross margin variations related to both weather and customer usage. Recovery of such utility gross margin variations (filed for annually and recovered in the year following the end of the CIP usage year) is subject to additional conditions, including an earnings test and an evaluation of Basic Gas Supply Service (BGSS) related savings.

As of December 31, 2009, under the CIP, NJNG has \$8 million accrued to recover from residential and commercial customers, which includes \$2.4 million related to the weather component of the CIP and \$5.6 million related to the usage component of the CIP.

The following are NJNG's BPU filings and results during fiscal 2009 and 2010 related to CIP:

- October 2008 – The BPU provisionally approved, effective October 3, 2008, NJNG's CIP petition filed in May 2008 requesting an additional \$6.8 million and modification to its CIP recovery rates. The additional amount brought the total recovery requested to \$22.4 million and included amounts accrued and estimated through September 30, 2008.
- April 2009 – NJNG submitted a proposal to extend its CIP mechanism, as currently structured, until October 1, 2010. The extension was requested due to the continuing nature of energy efficiency programs at the state and federal levels in concert with the issuance of the economic stimulus programs. As a result of no action taken by the BPU as of September 30, 2009, the CIP remained in effect for an additional year or until a final order was issued by the BPU.
- June 2009 – The BPU issued their final order approving NJNG's recovery of \$6.8 million of CIP rates for fiscal 2008. In addition, NJNG filed its annual BGSS and CIP filing for recoverable CIP amounts for fiscal 2009, requesting approval to modify its CIP recovery rates effective October 1, 2009, resulting in total annual recovery requested for fiscal 2009 of \$6.9 million, representing amounts accrued and estimated through September 30, 2009. NJNG also included a request to reduce the WNC rate to facilitate recovery of its remaining balance in fiscal 2010. The rates included in the filing were provisionally approved on September 16, 2009.
- December 2009 – NJNG submitted a petition requesting approval from the BPU for an extension of its CIP mechanism, as currently structured, through September 30, 2013. On January 20, 2010, the BPU approved an extension to NJNG's CIP through September 30, 2013.

In addition, NJNG and NJRES entered into an asset management agreement that begins in January 2010 and ends in March 2013. Under the terms of this agreement, NJNG will release certain transportation and storage contracts to NJRES for the entire term of the agreement. NJNG also will sell approximately 1 Bcf of natural gas in storage at cost to NJRES. In return, NJNG will receive capacity release payments and will also have the option to purchase index priced gas at certain delivery locations to maintain operational reliability. These capacity release payments provide BGSS savings pursuant to the terms of the CIP as approved in the January 20, 2010 BPU Board Order, and reduce costs to NJNG's BGSS customers.

In conjunction with the CIP, NJNG incurs costs related to its obligation to fund programs that promote customer conservation efforts during the pilot program. As of December 31, 2009, NJNG had a remaining liability of \$207,000 related to these programs.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Basic Gas Supply Service (BGSS)

BGSS is a BPU-approved rate mechanism designed to allow for the recovery of natural gas commodity costs. NJNG occasionally adjusts its periodic BGSS rates for its residential and small commercial customers to reflect increases or decreases in the cost of natural gas sold to customers.

The following are NJNG's BGSS filings during fiscal 2009 and 2010 related to its requested rate adjustments and refunds to its residential and small commercial customers:

- December 2008 – NJNG provided notice that it would implement a \$30 million BGSS-related rate credit that would lower residential and small commercial sales customers' bills in January and February 2009. This rate credit was due primarily to a decline in wholesale commodity costs subsequent to the October 2008 BGSS price change. On February 20, 2009, NJNG provided notice to the BPU that its BGSS-related rate credit would be extended through March 31, 2009, to reduce BGSS charges by an additional \$15 million.
- June 2009 – NJNG filed its annual BGSS and CIP filing (2010 BGSS/CIP filing) proposing a decrease of 17.6 percent for the average residential heating customer of which 15.7 percent is due to the reduction in commodity costs based on the continuing decline in the wholesale natural gas market. The balance of the rate change is related to changes to the CIP rate, as discussed above, and a minor reduction to the rate related to collecting the remaining balance under the Weather Normalization Clause (WNC). On September 16, 2009, the BPU approved on a provisional basis a decrease of approximately 19 percent to the average residential heating customer of which 17.2 percent is due to the reduction to the BGSS price and the balance of rate change is related to the CIP and WNC rates as discussed above.
- October 2009 – NJNG provided refunds of approximately \$37.4 million to residential and small commercial customers due to the decline in the wholesale price of natural gas.
- January 2010 – NJNG notified the BPU that bill credits in the amount of \$37.5 million will be provide to residential and small commercial customers, based on individual customer usage, in February 2010 and March 2010.

Other Incentive Programs

NJNG is eligible to receive financial incentives for reducing BGSS costs through a series of utility gross margin-sharing programs that include Off-System Sales, Capacity Release, Storage Incentive and Financial Risk Management (FRM) programs. In October 2008, the BPU approved the extension of the incentive programs through October 31, 2011, along with an increase to certain annual cost and volume limitations.

Societal Benefits Clause (SBC)

The SBC is comprised of three primary components, a Universal Service (USF) rider, a Manufactured Gas Plant (MGP) Remediation Rider (RA) and the New Jersey Clean Energy Program (NJCEP). The USF is a permanent statewide program for all natural gas and electric utilities for the benefit of income-eligible customers; the RA is a rider that provides for recovery of actual expenditures incurred to remediate former gas manufacturing facilities; and the NJCEP is a program designed to promote energy efficiency and renewable energy. Recovery of SBC program costs is subject to BPU approval based on annual filings that include an updated report of expenditures incurred each year.

On January 27, 2009, NJNG filed an application (January 2009 SBC filing) regarding its SBC to increase its RA factor and its NJCEP factor while maintaining its effective rate on USF. This filing, if approved, will result in an overall increase of approximately 0.48 percent per month for an average residential bill. The January 2009 SBC filing is subject to BPU Staff and Rate Counsel review and must be approved by the BPU prior to implementing the new SBC rates.

USF

Through the USF, eligible customers receive a credit toward their utility bill. The credits applied to eligible customers are recovered through the USF rider in the SBC. NJNG recovers carrying costs on deferred USF balances.

In June 2008, the natural gas utilities in New Jersey collectively filed with the BPU to increase the statewide USF recovery, which was provisionally approved by the BPU in October 2008. In addition, the BPU approved changes associated with interest collected on USF deferred balances. The changes had a negligible impact on NJNG's customers.

In June 2009, the natural gas utilities in the State of New Jersey collectively filed with the BPU to decrease the statewide USF, which was approved by the BPU on a provisional basis, effective October 12, 2009. The USF change decreases the average monthly bill of a residential heating customer by 0.6 percent.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

MGP

In June 2009, the BPU approved the February 2008 SBC filing, which included recovery of MGP remediation expenditures incurred through June 30, 2007, resulting in an expected total annual recovery of \$17.7 million. The January 2009 SBC filing included MGP remediation expenditures incurred through June 30, 2008, resulting in an expected total annual recovery of \$20.7 million. The review of the January 2009 filing is currently pending before the BPU.

NJCEP

The BPU has established a statewide program to promote energy efficiency and renewable energy. All New Jersey utilities are required to share in the funding for the program, which is recoverable from customers through the SBC.

In October 2008, the BPU released a final Order, updating state utilities' funding obligations for the period from January 1, 2009, to December 31, 2012. As a result, NJNG recorded an obligation and a corresponding regulatory asset at a present value of \$44.3 million in the Unaudited Condensed Consolidated Balance Sheets. As of December 31, 2009, NJNG had a \$38.7 million obligation remaining.

The January 2009 SBC filing included an increase to the NJCEP factor. The proposed factor is expected to recover \$12.9 million annually.

Economic Stimulus

In January 2009, NJNG filed two petitions with the BPU seeking approval to implement programs designed to both stimulate the state and local economy through infrastructure investments and encourage energy efficiency. The Accelerated Infrastructure Program (AIP) was approved in April 2009, and allows NJNG to expedite 14 previously planned infrastructure projects, with a cost of approximately \$70.8 million. The projects are designed to maintain safe and reliable service to NJNG's customers while creating the opportunity for approximately 75 to 100 new jobs. Approved as a 2-year program, the AIP will be funded through an annual adjustment to customers' base rates with the first adjustment expected in October 2010. The second filing, for an Energy Efficiency (EE) Program and associated cost recovery mechanism, requested BPU approval to implement various programs to encourage energy efficiency for residential and commercial customers. NJNG proposed to recover the EE Program costs over a 4-year period through a clause mechanism similar to the SBC, of \$21.1 million, if fully subscribed. A true-up to actual EE Program investments and costs is to be filed with the BPU on an annual basis. The BPU approved the EE Program in July 2009. Both the AIP and EE Programs include the recovery of NJNG's overall weighted average cost of capital on these investments.

New Jersey Resources Corporation
Part I

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Regulatory Assets & Liabilities

The Company had the following regulatory assets, all related to NJNG, on the Unaudited Condensed Consolidated Balance Sheets:

(Thousands)	December 31, 2009	September 30, 2009	Recovery
Regulatory assets—current			
WNC	\$ 60	\$ 78	(1)
CIP	4,977	5,800	(2)
Total current	\$ 5,037	\$ 5,878	
Regulatory assets—noncurrent			
Remediation costs (Note 13)			
Expenditures, net of recoveries	\$ 81,461	\$ 85,461	(3)
Liability for future expenditures	146,700	146,700	(4)
CIP	3,036	—	(2)
Deferred income and other taxes	11,560	11,560	(2)
Derivatives, net (Note 3)	5,763	8,073	(5)
Energy Efficiency Program	—	1,174	(6)
New Jersey Clean Energy Program	38,673	39,369	(6)
Pipeline Integrity Management (PIM)	448	448	(7)
Postemployment benefit costs (Note 10)	94,570	94,305	(8)
Other regulatory assets	1,961	3,935	(6)
Total noncurrent	\$384,172	\$391,025	

- (1) Recoverable as a result of BPU approval in October 2008, without interest. This balance reflects the net results from winter period of fiscal 2006. No new WNC activity is being recorded since October 1, 2006 due to the existence of the CIP.
- (2) Recoverable, subject to BPU annual approval, without interest.
- (3) Recoverable, subject to BPU approval, with interest over rolling 7-year periods.
- (4) Estimated future expenditures. Recovery will be requested when actual expenditures are incurred (see Note 13. *Commitments and Contingent Liabilities – Legal Proceedings*).
- (5) Recoverable, subject to BPU approval, through BGSS, without interest.
- (6) Recoverable with interest, subject to BPU approval.
- (7) Recoverable, subject to BPU review and approval in the next base rate case. NJNG is limited annually to recording a regulatory asset that does not exceed \$700,000. In addition, to the extent that project costs are lower than the approved PIM annual expense of \$1.4 million, NJNG will record a regulatory liability that will be refundable as a credit to customer's gas costs when the net cumulative liability exceeds \$1.0 million.
- (8) Recoverable, subject to BPU approval, without interest. Includes unrecognized service costs recorded, that NJNG has determined are recoverable in rates charged to customers (see Note 10. *Employee Benefit Plans*).

If there are any changes in regulatory positions that indicate the recovery of regulatory assets is not probable, the related cost would be charged to income in the period of such determination.

The Company had the following regulatory liabilities, all related to NJNG, on the Unaudited Condensed Consolidated Balance Sheets:

(Thousands)	December 31, 2009	September 30, 2009
Regulatory liabilities—current		
Overrecovered gas costs ⁽¹⁾	\$13,852	\$36,203
Total current	\$13,852	\$36,203
Regulatory liabilities—noncurrent		
Cost of removal obligation ⁽²⁾	\$55,747	\$56,450
Energy Efficiency Program ⁽³⁾	127	—
Total noncurrent	\$55,874	\$56,450

- (1) Refundable, subject to BPU approval, through BGSS with interest.
- (2) NJNG accrues and collects for cost of removal in rates. This liability represents collections in excess of actual expenditures. Approximately \$22.8 million, including accretion of \$400,000 for the quarter ended December 31, 2009, of regulatory assets relating to asset retirement obligations have been netted against the cost of removal obligation as of December 31, 2009 (see Note 11. *Asset Retirement Obligations*).
- (3) Refundable with interest, subject to BPU approval.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. DERIVATIVE INSTRUMENTS

The Company and its subsidiaries are subject to commodity price risk due to fluctuations in the market price of natural gas. To manage this risk, the Company and its subsidiaries enter into a variety of derivative instruments including, but not limited to, futures contracts, physical forward contracts, financial options and swaps to economically hedge the commodity price risk associated with its existing and anticipated commitments to purchase and sell natural gas. These contracts, with a few exceptions as described below, are accounted for as derivatives in accordance with the Derivatives and Hedging topic (ASC 815) of the ASC. Accordingly, all of the financial and certain of the Company's physical derivative instruments are recorded at fair value in the Unaudited Condensed Consolidated Balance Sheets. Since the Company chooses not to designate its derivatives as accounting hedges, changes in the fair value of the derivative instruments are concurrently recorded as a component of gas purchases or operating revenues, as appropriate for NJRES and NJR Energy, in the Unaudited Condensed Consolidated Statements of Income as unrealized gains or losses. For NJRES at settlement, realized gains and losses on all financial derivative instruments are recognized as a component of gas purchases and realized gains and losses on all physical derivatives follow the presentation of the related unrealized gains and losses as a component of either gas purchases or operating revenues. For NJR Energy, realized gains and losses on all financial derivatives are recorded as a component of operating revenues.

Changes in fair value of NJNG's derivative instruments, however, are recorded as a component of regulatory assets or liabilities in accordance with ASC 980 in the Unaudited Condensed Consolidated Balance Sheets, as NJNG has received regulatory approval to recover these amounts through future BGSS rates as an increase or decrease to the cost of natural gas in NJNG's tariff. For a more detailed discussion of the Company's fair value measurement policies and level disclosures associated with the NJR's derivative instruments (see *Note 4. Fair Value*).

As a result of entering into transactions to borrow gas, commonly referred to as "park and loans," an embedded derivative is created related to potential differences between the fair value of the amount borrowed and the fair value of the amount that may ultimately be repaid, based on changes in forward natural gas prices during the contract term. This embedded derivative is accounted for as a forward sale in the month in which the repayment of the borrowed gas is expected to occur, and is considered a physical derivative transaction that is recorded at fair value on the balance sheet, with changes in value recognized in current period earnings.

The Company continues to elect normal treatment on all physical commodity contracts when appropriate at NJNG and NJR Energy. These contracts are accounted for on an accrual basis.

The following table reflects the fair value of NJR's derivative assets and liabilities recognized in the Unaudited Condensed Consolidated Balance Sheets:

(Thousands)		Fair Value			
Balance Sheet Location		December 31, 2009		September 30, 2009	
		Asset Derivatives	Liability Derivatives	Asset Derivatives	Liability Derivatives
Derivatives not designated as hedging instruments under ASC 815:					
NJNG:					
Financial derivative commodity contracts	Derivatives - current	\$ 2,853	\$ 8,616	\$ 15,801	\$24,274
	Derivatives - noncurrent	—	—	1,077	677
NJRES:					
Physical forward commodity contracts	Derivatives - current	16,298	9,478	22,674	10,044
	Derivatives - noncurrent	5,339	58	3,878	214
Financial derivative commodity contracts	Derivatives - current	82,315	39,935	89,140	60,054
	Derivatives - noncurrent	5,428	5,192	4,157	5,316
NJR Energy:					
Financial derivative commodity contracts	Derivatives - current	2,819	318	3,455	481
	Derivatives - noncurrent	—	—	424	43
Total fair value of derivatives		\$115,052	\$63,597	\$140,606	\$101,103

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NJRES utilizes financial derivatives to economically hedge the margin associated with the purchase of physical gas for injection into storage and the subsequent sale of physical gas at a later date. Upon settlement of the financial transaction, the previously recognized unrealized amounts are adjusted to reflect the final realized gains (losses) in earnings. However, the gains (losses) on the financial transactions that are economic hedges of the cost of the purchased gas are recognized prior to the gains (losses) on the physical transaction, which are recognized in earnings when the natural gas is sold. Therefore, mismatches between the timing of the recognition of realized gains or losses on the financial derivative instruments and gains (losses) associated with the actual sale of the natural gas that is being economically hedged creates volatility in the results of NJRES, although the Company's intended economic results relating to the entire transaction are unaffected.

Gains (losses) recognized at NJRES and NJR Energy are as follows:

(Thousands)	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative
Derivatives not designated as hedging instruments under ASC 815:		Three Months Ended December 31, 2009 ⁽¹⁾
NJRES:		
Physical commodity contracts	Operating revenues	\$ (354)
Physical commodity contracts	Gas purchases	(619)
Financial derivatives	Gas purchases	23,938
Subtotal NJRES		22,965
NJR Energy:		
Financial derivatives	Operating revenues	(1,745)
Total NJRES and NJR Energy unrealized and realized gains		\$21,220

(1) Since the provisions of ASC 815-10-50 did not become effective for NJR until January 1, 2009, there is no comparative data for the three months ended December 31, 2008.

Not included in the table above, are losses associated with NJNG's financial derivatives that totaled \$7.9 million for the three months ended December 31, 2009. These derivatives are part of its regulated risk management activities that serve to mitigate BGSS costs passed on to its customers. As these transactions are entered into pursuant to and recoverable through regulatory riders, any changes in the value of NJNG's financial derivatives are deferred in regulatory assets or liabilities in accordance with ASC 980 and there is no impact to earnings.

As of December 31, 2009 and September 30, 2009, NJNG, NJRES and NJR Energy had the following outstanding long (short) derivatives:

		Volume (Bcf)	
		December 31, 2009	September 30, 2009
NJNG	Futures	20.3	21.4
	Swaps	(10.0)	(14.5)
	Options	2.9	8.0
NJRES	Futures	(23.5)	(19.8)
	Swaps	3.8	(23.2)
	Options	4.6	4.0
NJR Energy	Physical	55.1	58.6
	Swaps	1.9	2.6

Generally, exchange-traded futures contracts require posted collateral, referred to as margin, usually in the form of cash. The amount of margin required is comprised of a fixed initial amount based on the contract and a variable amount based on market price movements from the initial trade price. The Company maintains broker margin for NJNG and NJRES. The balances are as follows:

(Thousands)	Balance Sheet Location	December 31, 2009	September 30, 2009
NJNG broker margin deposit	Broker margin – Current assets	\$10,226	\$16,458
NJRES broker margin deposit	Broker margin – Current assets	\$ 1,528	\$ 9,792

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Wholesale Credit Risk

NJNG, NJRES and NJR Energy are exposed to credit risk as a result of their wholesale marketing activities. NJR monitors and manages the credit risk of its wholesale marketing operations through credit policies and procedures that management believes reduce overall credit risk. These policies include a review and evaluation of current and prospective counterparties' financial statements and/or credit ratings, daily monitoring of counterparties' credit limits and exposure, daily communication with traders regarding credit status and the use of credit mitigation measures, such as collateral requirements and netting agreements. Examples of collateral include letters of credit and cash received for either prepayment or margin deposit. Collateral may be requested due to NJR's election not to extend credit or because exposure exceeds defined thresholds. Most of NJR's wholesale marketing contracts contain standard netting provisions. These contracts include those governed by the International Swaps and Derivatives Association (ISDA) and the North American Energy Standards Board (NAESB). The netting provisions refer to payment netting, whereby receivables and payables with the same counterparty are offset and the resulting net amount is paid to the party to which it is due.

As a result of the inherent volatility in the prices of natural gas commodities and derivatives, the market value of contractual positions with individual counterparties could exceed established credit limits or collateral provided by those counterparties. If a counterparty failed to perform the obligations under its contract (for example, failed to deliver or pay for natural gas), then the Company could sustain a loss.

The following is a summary of gross credit exposures grouped by investment and noninvestment grade counterparties, as of December 31, 2009. Internally-rated exposure applies to counterparties that are not rated by Standard & Poor's (S&P) or Moody's Investors Service, Inc. (Moody's). In these cases, the company's or guarantor's financial statements are reviewed, and similar methodologies and ratios used by S&P and/or Moody's are applied to arrive at a substitute rating. Gross credit exposure is defined as the unrealized fair value of physical and financial derivative commodity contracts plus any outstanding receivable for the value of natural gas delivered for which payment has not yet been received. The amounts presented below have not been reduced by any collateral received or netting and exclude accounts receivable for retail natural gas sales and services.

<i>(Thousands)</i>	Gross Credit Exposure
Investment grade	\$194,779
Noninvestment grade	9,725
Internally rated investment grade	29,665
Internally rated noninvestment grade	7,930
Total	\$242,099

Conversely, certain of NJNG's, NJRES' and NJR Energy's derivative instruments are tied to agreements containing provisions that would require cash collateral payments from the Company if certain events occur. These provisions vary based upon the terms in individual counterparty agreements and can result in cash payments if NJNG's credit rating were to fall below its current level. NJNG's credit rating, with respect to S&P's, reflects the overall corporate credit profile. Specifically, most, but not all, of these additional payments will be triggered if NJNG's debt is downgraded by the major credit agencies, regardless of investment grade status. As well, some of these agreements include threshold amounts that would result in additional collateral payments if the values of derivative liabilities were to exceed the maximum values provided for in relevant counterparty agreements. Other provisions include payment features that are not specifically tied to ratings, but are based on certain financial metrics.

Collateral amounts associated with any of these conditions, are determined based on a sliding scale and are contingent upon the degree to which the Company's credit rating and/or financial metrics deteriorate, and the extent to which liability amounts exceed applicable threshold limits. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a liability position on December 31, 2009 and September 30, 2009 is \$8.3 million and \$22.3 million, respectively, for which the Company had not posted any collateral. If all the thresholds related to the credit-risk-related contingent features underlying these agreements had been invoked on December 31, 2009 or September 30, 2009, the Company would not have been required to post any additional collateral to its counterparties. These amounts differ from the respective net derivative liabilities reflected in the Unaudited Condensed Consolidated Balance Sheets because the credit agreements also include clauses, commonly known as "Rights of Offset," that would permit the Company to offset its derivative assets against its derivative liabilities for determining additional collateral to be posted.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. FAIR VALUE

Fair Value of Assets and Liabilities

The fair value of cash and temporary investments, accounts receivable, accounts payable, commercial paper and borrowings under revolving credit facilities are estimated to equal their carrying amounts due to the short maturity of those instruments. The estimated fair value of long-term debt, excluding current maturities, is based on quoted market prices for similar issues and is as follows:

<i>(Thousands)</i>	December 31, 2009	September 30, 2009
Carrying value	\$465,600	\$462,000
Fair market value	\$480,000	\$477,900

NJR applies the fair value measurement provisions of ASC 820 to its financial assets and liabilities, as appropriate, which include financial derivatives and physical commodity contracts qualifying as derivatives, available for sale securities and other financial assets and liabilities. In addition, ASC 820 prescribes the use of a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based on the source of the data used to develop the price inputs. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to inputs that are based on unobservable market data and include the following:

- Level 1 Unadjusted quoted prices for identical assets or liabilities in active markets; NJR's Level 1 assets and liabilities include exchange traded financial derivative contracts, listed equities, and money market funds.
- Level 2 Significant price data, other than Level 1 quotes, that is observed either directly or indirectly; NJR's Level 2 assets and liabilities include over-the-counter physical forward commodity contracts and swap contracts or derivatives that are initially valued using observable quotes and are subsequently adjusted to include time value, credit risk or estimated transport pricing components. These additional adjustments are not considered to be significant to the ultimate recognized values.
- Level 3 Inputs derived from a significant amount of unobservable market data; these include NJR's best estimate of fair value and are derived primarily through the use of internal valuation methodologies. Certain of NJR's physical commodity contracts that are to be delivered to inactively traded points on a pipeline are included in this category.

NJNG's, NJRES' and NJR Energy's financial derivatives portfolios consist mainly of futures, options and swaps. NJR primarily uses the market approach and its policy is to use actively quoted market prices when available. The principal market for its derivative transactions is the natural gas wholesale market, therefore, the primary source for its price inputs is the New York Mercantile (NYMEX) exchange. NJRES also uses Natural Gas Exchange (NGX) for Canadian delivery points and Platts and NYMEX ClearPort for certain over-the-counter physical forward commodity contracts. However, NJRES also engages in transactions that result in transporting natural gas to delivery points for which there is no actively quoted market price. In these cases, NJRES' policy is to use the best information available to determine fair value based on internal pricing models, which include estimates extrapolated from broker quotes or pricing services.

NJR Energy uses NYMEX settlement prices to value its long-dated swap contracts. NJR also has available for sale securities and other financial assets that include listed equities, mutual funds and money market funds for which there are active exchange quotes available.

When NJR determines fair values, measurements are adjusted, as needed, for credit risk associated with its counterparties, as well as its own credit risk. NJR determines these adjustments by using historical default probabilities that correspond to the applicable Standard and Poor's issuer ratings, while also taking into consideration collateral and netting arrangements that serve to mitigate risk.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Assets and liabilities measured at fair value on a recurring basis are summarized as follows:

(Thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
As of December 31, 2009:				
Assets:				
Physical forward commodity contracts	\$ —	\$21,637	\$—	\$ 21,637
Financial derivative contracts	32,424	60,991	—	93,415
Available for sale securities ⁽¹⁾	8,514	—	—	8,514
Other assets	1,856	—	—	1,856
Total assets at fair value	\$42,794	\$82,628	\$—	\$125,422
Liabilities:				
Physical forward commodity contracts	\$ —	\$9,536	\$—	\$9,536
Financial derivative contracts	17,748	36,313	—	54,061
Other liabilities	1,493	—	—	1,493
Total liabilities at fair value	\$19,241	\$45,849	\$—	\$65,090
As of September 30, 2009:				
Assets:				
Physical forward commodity contracts	\$ —	\$26,552	\$—	\$ 26,552
Financial derivative contracts	81,215	32,839	—	114,054
Available for sale securities ⁽¹⁾	7,872	—	—	7,872
Other assets	1,467	—	—	1,467
Total assets at fair value	\$90,554	\$59,391	\$—	\$149,945
Liabilities:				
Physical forward commodity contracts	\$ —	\$10,258	\$—	\$ 10,258
Financial derivative contracts	68,443	22,402	—	90,845
Other liabilities	1,467	—	—	1,467
Total liabilities at fair value	\$69,910	\$32,660	\$—	\$102,570

(1) Included in Investments in equity investees in the Unaudited Condensed Consolidated Balance Sheets.

There were no Level 3 measurements during the three months ended December 31, 2009. A reconciliation of the beginning and ending balances of NJRES' derivatives measured at fair value based on significant unobservable inputs as of December 31, 2008 is as follows:

(Thousands)	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
Balance at October 1, 2008	\$937
Total gains realized and unrealized	241
Purchases, sales, issuances and settlements, net	(572)
Net transfers in and/or out of Level 3	(483)
Balance at December 31, 2008	\$ 123
Net unrealized gains included in net loss relating to derivatives still held	\$ 123

5. INVESTMENTS IN EQUITY INVESTEEES

NJR's Investments in equity investees include the following investments:

(Thousands)	December 31, 2009	September 30, 2009
Steckman Ridge	\$135,741	\$131,555
Iroquois	22,120	21,081
Other	8,514	7,872
Total	\$166,375	\$160,508

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NJR uses the equity method of accounting for its investments in Steckman Ridge and Iroquois.

NJR's investment in Steckman Ridge increased \$4.2 million during the three months ended December 31, 2009, including cash investments of \$4.3 million and equity in earnings of \$2.9 million, less cash distributions received of \$3 million. Steckman Ridge became commercially operational during the third quarter of fiscal 2009 with approximately two-thirds of eventual capacity available for customer injections.

NJR's investment in Iroquois increased as a result of equity in earnings of \$1.1 million during the first three months ended December 31, 2009.

NJRES and NJNG have entered into transportation, storage and park and loan agreements with Iroquois and Steckman Ridge. See *Note 15. Related Party Transactions* for more information on these intercompany transactions.

Other consists of an investment in equity securities of a publicly traded energy company and is accounted for as available for sale securities, with any change in the value of such investment recorded in accumulated other comprehensive income, a component of common stock equity. Unrealized gains associated with these equity securities were approximately \$378,000, net of tax of \$(264,000) and \$545,000, net of tax of \$(380,000) for the three months ended December 31, 2009 and 2008, respectively.

6. EARNINGS PER SHARE

The following table sets forth the calculation of the Company's basic and diluted earnings per share:

<i>(Thousands, except per share amounts)</i>	Three Months Ended December 31,	
	2009	2008
Net income, as reported	\$51,902	\$28,272
Basic earnings per share		
Weighted average shares of common stock outstanding—basic	41,615	42,170
Basic earnings per common share	\$1.25	\$0.67
Diluted earnings per share		
Weighted average shares of common stock outstanding—basic	41,615	42,170
Incremental shares ⁽¹⁾	386	325
Weighted average shares of common stock outstanding—diluted	42,001	42,495
Diluted earnings per common share ⁽²⁾	\$1.24	\$0.67

(1) Incremental shares consist of stock options, stock awards and performance units.

(2) There were no anti-dilutive shares excluded from the calculation of diluted earnings per share for the three months ended December 2009 and 2008.

7. DEBT

NJR

On March 15, 2009, NJR repaid its \$25 million, 3.75 percent, Unsecured Senior notes at maturity.

NJR has a \$325 million unsecured committed credit facility expiring in December 2012. As of December 31, 2009, NJR had \$200.8 million in borrowings outstanding under the facility.

As of December 31, 2009, NJR has one letter of credit outstanding, totaling \$4 million, on behalf of NJRES, which was used for margin requirements for natural gas transactions and will expire on June 30, 2010. NJR also has a \$675,000 letter of credit outstanding on behalf of CR&R, which will expire on December 3, 2010. The letter of credit is in place to support development activities. These letters of credit reduce the amount available under NJR's committed credit facility by the same amount. NJR does not anticipate that these letters of credit will be drawn upon by the counterparties, and they will be renewed as necessary.

NJNG

On November 1, 2008, NJNG repaid its \$30 million, 6.27 percent, Series X First Mortgage bonds at maturity.

NJNG's agreement for standby letters of credit of up to \$50 million expired on December 15, 2009 and was not renewed.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NJNG's \$250 million committed credit facility expired in December 2009 and was replaced with a new \$200 million 3-year revolving unsecured committed credit facility on December 11, 2009. The credit facility is used to support NJNG's commercial paper program and provides for the issuance of letters of credit. As of December 31, 2009, NJNG had no outstanding borrowings under the credit facility.

In August 2009, NJNG filed a petition with the BPU, requesting authorization over a three-year period to issue debt, renew its expiring credit facility, enter into interest rate hedging transactions and increase the size of its meter leasing program should the necessity arise. On December 1, 2009, NJNG received approval to renew its expiring credit facility, with an allowed duration of up to three years. The other three requests have authorization from the BPU through September 30, 2011.

NJNG received \$4.9 million and \$6.3 million in December 2009 and 2008, respectively, in connection with the sale-leaseback of its natural gas meters. This sale-leaseback program is expected to be continued on an annual basis.

Neither NJNG's assets nor the results of its operations are obligated or pledged to support the NJR credit facility.

NJRES

NJRES had a 3-year, \$30 million committed credit facility that expired in October 2009 and was not renewed.

A summary of NJR's and NJNG's long-term debt, committed credit facilities, which require annual commitment fees, and NJRES' committed facility that does not require a commitment fee, are as follows:

<i>(Thousands)</i>	December 31, 2009	September 30, 2009
NJR		
Long - term debt	\$ 50,000	\$ 50,000
Bank credit facilities ⁽¹⁾	\$325,000	\$325,000
Amount outstanding at end of period		
Notes payable to banks	\$200,800	\$143,400
Weighted average interest rate at end of period		
Notes payable to banks	0.53%	0.57%
NJNG		
Long - term debt ⁽²⁾	\$349,000	\$349,000
Bank credit facilities ⁽¹⁾	\$200,000	\$250,000
Amount outstanding at end of period		
Commercial paper	\$ —	\$ —
Weighted average interest rate at end of period		
Commercial paper	—%	—%
NJRES		
Bank credit facilities ⁽³⁾	\$ —	\$30,000
Amount outstanding at end of period		
Notes payable to banks	\$ —	\$ —
Weighted average interest rate at end of period		
Notes payable to banks	—%	—%

⁽¹⁾ Company is subject to commitment fees on outstanding and unused amounts.

⁽²⁾ Long-term debt excludes lease obligations of \$65.7 million and \$62.2 million at December 31, 2009 and September 30, 2009, respectively.

⁽³⁾ Facility expired in October 2009 and was not renewed.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. CAPITALIZED FINANCING COSTS AND DEFERRED INTEREST

The Company's capitalized financing costs totaled \$535,000 and \$1.1 million for the three months ended December 31, 2009 and 2008, respectively with average interest rates of 6.5 percent and 4.8 percent, respectively. Included in the Unaudited Condensed Consolidated Balance Sheets are capitalized amounts associated with the debt and equity components of NJNG's Allowance for funds used during construction, (AFUDC), which are recorded in utility plant, as well as capitalized interest recorded in investments in equity investees. Corresponding amounts recognized in interest expense and other income, as appropriate, in the Unaudited Condensed Consolidated Statements of Income are as follows:

(Thousands)	Three Months Ended December 31,	
	2009	2008
AFUDC – Utility plant	\$535	\$258
Weighted average rate	6.49%	4.00%
Capitalized interest – Investments in equity investees	\$ —	\$843
Weighted average interest rates	—%	5.50%

NJNG's base rates include the ability for NJNG to recover an incremental cost of equity associated with its AFUDC during periods when its short-term debt balances are lower than its construction work in progress (CWIP). During the three months ended December 31, 2009, due to a reduction in NJNG's commercial paper borrowings relative to its CWIP, NJNG's capitalized costs included \$384,000 related to the equity portion of AFUDC. Interest capitalized in utility plant for the three months ended December 31, 2008, only included the debt component of AFUDC.

Also included above is \$843,000 of capitalized interest recognized during fiscal 2009 related to NJR's acquisition, development and construction of the Steckman Ridge natural gas storage facility, which became operational during the third quarter of fiscal 2009 (see *Note 5. Investments in Equity Investees*).

Pursuant to a BPU order, NJNG is permitted to recover carrying costs on uncollected balances related to SBC program costs, which include NJCEP, RA and USF expenditures (see *Note 2. Regulation*). Accordingly, other income included \$470,000 and \$563,000 of interest related to these SBC program costs for the three months ended December 31, 2009 and 2008, respectively.

9. STOCK-BASED COMPENSATION

On November 18, 2009, the Company granted 29,865 performance shares, which are market condition awards and 24,312 performance shares, which are subject to meeting certain performance milestones. Both performance share grants vest on September 30, 2012 subject to the certain conditions. Also, on November 18, 2009 the Company granted 24,312 restricted shares which vest in three equal installments on October 15, 2010, and on each of the two subsequent anniversaries of that date. As of December 31, 2009, 2,249,289 and 94,762 shares remain available for future issuance to employees and directors, respectively.

During the first three months of fiscal 2010, included in operation and maintenance expense is \$630,000 related to stock based compensation. There is approximately \$3.4 million of deferred compensation expense related to unvested shares, options and performance units that are expected to be recognized over the next three years.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

10. EMPLOYEE BENEFIT PLANS

Pension and Other Postemployment Benefit Plans (OPEB)

The components of the net periodic cost for pension benefits, including NJR's Pension Equalization Plan, and OPEB costs (principally health care and life insurance) for employees and covered dependents were as follows:

(Thousands)	Pension		OPEB	
	Three Months Ended		Three Months Ended	
	December 31,		December 31,	
	2009	2008	2009	2008
Service cost	\$ 992	\$ 678	\$ 704	\$ 584
Interest cost	2,049	1,937	1,204	1,006
Expected return on plan assets	(2,577)	(2,188)	(485)	(647)
Recognized actuarial loss	681	139	570	319
Prior service cost amortization	14	14	19	20
Transition obligation amortization	—	—	89	89
Net periodic cost	\$1,159	\$ 580	\$2,101	\$1,371

The Company does not expect to be required to make additional contributions to fund the pension plans over the next three fiscal years based on current actuarial assumptions; however, funding requirements are uncertain and can depend significantly on changes in actuarial assumptions, returns on plan assets and changes in the demographics of eligible employees and covered dependents. In addition, as in the past, the Company may elect to make contributions in excess of the minimum required amount to the plans. NJR made a discretionary contribution of \$4.4 million to the pension plans on October 1, 2009. It is anticipated that the annual funding level to the OPEB plans will range from \$6.1 million to \$6.4 million over the next three years. Additional contributions may vary based on market conditions and various assumptions.

11. ASSET RETIREMENT OBLIGATIONS (ARO)

NJR recognizes AROs related to the costs associated with cutting and capping its main and service gas distribution pipelines of NJNG, which is required by New Jersey law when taking such gas distribution pipelines out of service.

The following is an analysis of the change in the ARO liability for the three month period ended December 31, 2009:

(Thousands)	
Balance at October 1, 2009	\$25,097
Accretion	391
Additions	—
Retirements	(38)
Balance at December 31, 2009	\$25,450

Accretion amounts are not reflected as an expense on NJR's Unaudited Condensed Consolidated Statements of Income, but rather are deferred as a regulatory asset and netted against NJNG's regulatory liabilities, for presentation purposes, on the Unaudited Condensed Consolidated Balance Sheet.

12. INCOME TAXES

The Company's federal income tax returns through fiscal 2006 have either been reviewed by the Internal Revenue Service (IRS), or the related statute of limitations has expired and all matters have been settled. The IRS has not yet begun to examine returns subsequent to fiscal 2006. Currently the Company has no reason to believe that there will be any new additions to the reserve related to uncertain tax positions.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13. COMMITMENTS AND CONTINGENT LIABILITIES

Cash Commitments

NJNG has entered into long-term contracts, expiring at various dates through 2024, for the supply, storage and delivery of natural gas. These contracts include current annual fixed charges of approximately \$98.6 million at current contract rates and volumes, which are recoverable through the BGSS.

For the purpose of securing adequate storage and pipeline capacity, NJRES enters into storage and pipeline capacity contracts, which require the payment of certain demand charges by NJRES, in order to maintain the ability to access such natural gas storage or pipeline capacity, during a fixed time period, which generally range from one to five years. Demand charges are based on established rates as regulated by the FERC. These demand charges represent commitments to pay storage providers or pipeline companies for the right to store and transport natural gas utilizing their respective assets.

Commitments as of December 31, 2009, for natural gas purchases and future demand fees, for the next five fiscal year periods, are as follows:

<i>(Thousands)</i>	2010	2011	2012	2013	2014	Thereafter
NJRES:						
Natural gas purchases	\$389,751	\$134,340	\$118,213	\$ 10,013	\$ —	\$ —
Pipeline demand fees	28,868	20,940	13,443	8,619	4,435	9,709
Storage demand fees	31,470	22,785	12,306	11,653	7,636	24,009
Sub-total NJRES	\$450,089	\$178,065	\$143,962	\$ 30,285	\$12,071	\$ 33,718
NJNG:						
Natural gas purchases	\$101,295	\$1,727	\$ —	\$ —	\$ —	\$ —
Pipeline demand fees	16,454	18,435	13,349	10,456	5,561	1,173
Storage demand fees ⁽¹⁾	56,342	80,477	74,450	74,654	70,034	256,506
Sub-total NJNG	\$174,091	\$100,639	\$ 87,799	\$ 85,110	\$75,595	\$257,679
Total	\$624,180	\$278,704	\$231,761	\$115,395	\$87,666	\$291,397

⁽¹⁾ In January 2010, NJNG entered into a 10-year agreement for storage capacity with Steckman Ridge. The demand fees noted above do not include fees of approximately \$9.3 million that will be payable annually to Steckman Ridge.

Costs for storage and pipeline demand fees, included as a component of gas purchases on the Unaudited Condensed Consolidated Statements of Income, are as follows:

<i>(Thousands)</i>	Three Months Ended December 31,	
	2009	2008
NJRES	\$29.3	\$28.9
NJNG	23.2	20.5
Total	\$52.5	\$49.4

NJNG's capital expenditures are estimated at \$106.6 million for fiscal 2010, of which approximately \$15.5 million has been committed, and \$79.0 million for fiscal 2011, and consist primarily of its construction program to support customer growth, maintenance of its distribution systems and replacement needed under pipeline safety regulations. Fiscal 2010 and 2011 include an estimated \$44.2 and \$20.6 million, respectively, related to AIP construction costs.

The Company's future minimum lease payments under various operating leases are less than \$2.8 million annually for the next five years and \$1.5 million in the aggregate for all years thereafter.

Guarantees

As of December 31, 2009, there were NJR guarantees covering approximately \$322 million of natural gas purchases and demand fee commitments of NJRES and NJNG not yet reflected in accounts payable on the Unaudited Condensed Consolidated Balance Sheet.

The Company enters into agreements to lease vehicles, generally over five-year terms, which qualify as operating leases. These agreements contain provisions that could require the Company to make additional cash payments at the end of the term for a portion of the residual value of the vehicles. As of December 31, 2009, the present value of the liability recognized on the Unaudited Condensed Consolidated Balance Sheets is \$409,000. In the event performance under the guarantee is required, the Company's maximum future payment would be \$683,000.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Legal Proceedings

Manufactured Gas Plant Remediation

NJNG is responsible for the remedial cleanup of five Manufactured Gas Plant (MGP) sites, dating back to gas operations in the late 1800s and early 1900s, which contain contaminated residues from former gas manufacturing operations. NJNG is currently involved in administrative proceedings with the New Jersey Department of Environmental Protection (NJDEP), as well as participating in various studies and investigations by outside consultants to determine the nature and extent of any such contaminated residues and to develop appropriate programs of remedial action, where warranted, under Administrative Consent Orders or Memoranda of Agreement with the NJDEP.

NJNG may, subject to BPU approval, recover its remediation expenditures, including carrying costs, over rolling 7-year periods pursuant to the RA approved by the BPU. On January 27, 2009, NJNG filed an application regarding its SBC including MGP remediation expenditures incurred through September 30, 2008 resulting in an expected annual recovery of \$20.7 million. As of December 31, 2009, \$81.5 million of previously incurred remediation costs, net of recoveries from customers and insurance proceeds, are included in regulatory assets on the Unaudited Condensed Consolidated Balance Sheet.

In September 2009, NJNG updated an environmental review of the MGP sites, including a review of potential liability for investigation and remedial action. NJNG estimated at the time of the review that total future expenditures to remediate and monitor the five MGP sites for which it is responsible will range from approximately \$146.7 million to \$244.3 million. NJNG's estimate of these liabilities is based upon known facts, existing technology and enacted laws and regulations in place when the review was completed. However, NJNG expects actual costs to differ from these estimates. Where it is probable that costs will be incurred, but the information is sufficient only to establish a range of possible liability, and no point within the range is more likely than any other, it is NJNG's policy to accrue the lower end of the range. Accordingly, NJNG has recorded an MGP remediation liability and a corresponding regulatory asset of \$146.7 million on the Unaudited Condensed Consolidated Balance Sheet. The actual costs to be incurred by NJNG are dependent upon several factors, including final determination of remedial action, changing technologies and governmental regulations, the ultimate ability of other responsible parties to pay and any insurance recoveries.

NJNG is presently investigating the potential settlement of alleged Natural Resource Damage claims that might be brought by the NJDEP concerning the five MGP sites. NJDEP has not made any specific demands for compensation for alleged injury to groundwater or other natural resources. NJNG's evaluation of these potential claims is in the early stages, and it is not yet possible to quantify the amount of compensation, if any that NJDEP might seek to recover. NJNG anticipates any costs associated with this matter would be recoverable through the RA.

NJNG will continue to seek recovery of MGP-related costs through the RA. If any future regulatory position indicates that the recovery of such costs is not probable, the related cost would be charged to income in the period of such determination. However, because recovery of such costs is subject to BPU approval, there can be no assurance as to the ultimate recovery through the RA or the impact on the Company's results of operations, financial position or cash flows, which could be material.

General

The Company is party to various other claims, legal actions and complaints arising in the ordinary course of business. In the Company's opinion, the ultimate disposition of these matters will not have a material adverse effect on its financial condition, results of operations or cash flows.

14. BUSINESS SEGMENT AND OTHER OPERATIONS DATA

As stated on *Note 1. General*, NJR established Midstream Assets as a new reportable segment to reflect the way it currently views and manages its investments in Iroquois, a natural gas pipeline operating with regulated rates, and Steckman Ridge, a storage facility that operates under market-based rates. Consequently, the results of operations, assets and other financial information for Iroquois and Steckman Ridge, previously included in Retail and Other operations, are now reported as components of the Midstream Assets segment. As required, prior year information for both Midstream Assets and Retail and Other operations has been restated below to be consistent with current year presentation.

NJR organizes its businesses based on its products and services as well as regulatory environment. As a result, the Company chooses to manage the businesses through the following reportable segments and other operations: the Natural Gas Distribution segment consists of regulated energy and off-system, capacity and storage management operations; the Energy Services segment consists of unregulated wholesale energy operations; as noted above, the Midstream Asset segment consists of NJR's investments in natural gas transportation and storage facilities; the Retail and Other operations consist of appliance and installation services, commercial real estate development, investments and other corporate activities.

New Jersey Resources Corporation
Part I

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Information related to the Company's various business segments and other operations, excluding capital expenditures at NJNG of \$11.4 million and at Retail and Other of \$17,000, and investments in equity method investees of \$157.9 million at Midstream Assets, is detailed below.

	Three Months Ended December 31,	
<i>(Thousands)</i>	2009	2008
Operating revenues		
Natural Gas Distribution	\$258,475	\$ 340,908
Energy Services	347,477	463,094
Midstream Assets	—	—
Segment subtotal	605,952	804,002
Retail and Other	6,044	(2,654)
Eliminations	(2,450)	(44)
Total	\$609,546	\$801,304
Depreciation and amortization		
Natural Gas Distribution	\$7,660	\$7,161
Energy Services	50	51
Midstream Assets	1	—
Segment subtotal	7,711	7,212
Retail and Other	158	149
Total	\$7,869	\$7,361
Interest income ⁽¹⁾		
Natural Gas Distribution	\$474	\$658
Energy Services	2	127
Midstream Assets	220	—
Segment subtotal	696	785
Retail and Other	—	6
Eliminations	(217)	(110)
Total	\$479	\$681
Interest expense, net of capitalized interest		
Natural Gas Distribution	\$4,251	\$6,460
Energy Services	262	86
Midstream Assets	830	31
Segment subtotal	5,343	6,577
Retail and Other	74	80
Eliminations	—	(110)
Total	\$5,417	\$6,547
Income tax provision		
Natural Gas Distribution	\$14,444	\$ 13,336
Energy Services	17,285	6,832
Midstream Assets	(348)	(37)
Segment subtotal	31,381	20,131
Retail and Other	(772)	(4,282)
Eliminations	320	(45)
Total	\$30,929	\$15,804
Equity in earnings of affiliates, net of taxes		
Natural Gas Distribution	\$ —	\$ —
Energy Services	—	—
Midstream Assets (net of taxes of \$1.6 million and \$354,000, respectively)	2,335	538
Segment subtotal	2,335	538
Retail and Other	—	—
Eliminations	(591)	(24)
Total	\$1,744	\$514

(1) Included in Other income in the Unaudited Condensed Consolidated Statement of Income.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Thousands)	Three Months Ended December 31,	
	2009	2008
Net financial earnings		
Natural Gas Distribution	\$23,502	\$ 23,074
Energy Services	2,494	9,383
Midstream Assets	1,876	454
Segment subtotal	27,872	32,911
Retail and Other	(459)	(433)
Total	\$27,413	\$32,478

The chief operating decision maker of the Company is the Chief Executive Officer (CEO). The CEO uses net financial earnings as a measure of profit or loss in measuring the results of the Company's segments and operations. A reconciliation of consolidated net financial earnings to consolidated net income, for the three months ended December 31, 2009 and 2008, respectively, is as follows:

(Thousands)	Three Months Ended December 31,	
	2009	2008
Consolidated net financial earnings	\$27,413	\$32,478
Less:		
Unrealized (gain) loss from derivative instruments and related transactions, net of taxes ⁽¹⁾	(4,105)	6,812
Effects of economic hedging related to natural gas inventory and certain demand fees, net of taxes	(20,384)	(2,606)
Consolidated net income	\$51,902	\$28,272

⁽¹⁾ Excludes unrealized (gain) of \$158,000 related to an intercompany transaction between NJNG and NJRES that has been eliminated in consolidation.

The company uses derivative instruments as economic hedges of purchases and sales of physical gas inventory. For GAAP purposes, these derivatives are recorded at fair value and related changes in fair value are included in reported earnings. Revenues and cost of gas related to physical gas flow is recognized as the gas is delivered to customers. Consequently, there is a mismatch in the timing of earnings recognition between the economic hedges and physical gas flows. Timing differences occur in two ways:

- Unrealized gains and losses on derivatives are recognized in reported earnings in periods prior to physical gas inventory flows; and
- Unrealized gains and losses of prior periods are reclassified as realized gains and losses when derivatives are settled in the same period as physical gas inventory movements occur.

Net financial earnings is a measure of the earnings based on eliminating these timing differences, to effectively match the earnings effects of the economic hedges with the physical sale of gas. Consequently, to reconcile between GAAP and net financial earnings, current period unrealized gains and losses on the derivatives are excluded from net financial earnings as a reconciling item. Additionally, realized derivative gains and losses are also included in current period net income, however net financial earnings include only realized gains and losses related to natural gas sold out of inventory, effectively matching the full earnings effects of the derivatives with realized margins on physical gas flows.

The Company's assets for the various business segments and business operations are detailed below:

(Thousands)	December 31, 2009	September 30, 2009
Assets at end of period:		
Natural Gas Distribution	\$1,762,195	\$1,797,165
Energy Services	463,668	327,532
Midstream Assets	158,775	153,609
Segment Subtotal	2,384,638	2,278,306
Retail and Other	69,741	69,411
Intercompany assets ⁽¹⁾	(22,750)	(26,687)
Total	\$2,431,629	\$2,321,030

⁽¹⁾ Consists of transactions between subsidiaries that are eliminated and reclassified in consolidation

NJRES' assets increased 41.6 percent from September 30, 2009 to December 31, 2009, due primarily to higher receivables resulting from increases in commodity prices and higher inventory values resulting from increases in weighted average cost of gas in storage coupled with an increase in volumes.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

15. RELATED PARTY TRANSACTIONS

During fiscal 2009, NJRES entered into park and loan agreements and firm storage contracts with Steckman Ridge, an affiliated FERC regulated natural gas storage facility, for up to 2 Bcf of natural gas storage with various terms ranging from April 2009 to March 2010. NJRES will incur demand fees, at market rates, payable to Steckman Ridge aggregating approximately \$5.8 million annually.

In December 2009, NJNG and NJRES entered into an asset management agreement that begins in January 2010 and ends in March 2013. Under the terms of this agreement, NJNG will release certain transportation and storage contracts to NJRES for the entire term of the agreement. NJNG also will sell approximately 1 Bcf of natural gas in storage at cost to NJRES. In return, NJNG will receive capacity release payments and will also have the option to purchase index priced gas at certain delivery locations to maintain operational reliability.

In January 2010, NJNG entered into a 10-year agreement beginning April 1, 2010 through March 31, 2020, for 3 Bcf of firm storage capacity with Steckman Ridge. Under the terms of the agreement, NJNG will incur demand fees, at market rates, of approximately \$9.3 million annually. These fees are recoverable through NJNG's BGSS mechanism.

As of December 31, 2009, NJRES had total fees payable to Steckman Ridge in the amount of \$910,000. Demand fees expensed as a component of gas purchases in the Unaudited Condensed Consolidated Statements of Income during the three months ended December 31, 2009 were \$1.7 million. There were no intercompany transactions with Steckman Ridge during the three months ended December 31, 2008.

16. OTHER

At December 31, 2009, there were 41,632,804 shares of common stock outstanding and the book value per share was \$17.36.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Overview

New Jersey Resources Corporation (NJR or the Company) is an energy services holding company providing retail natural gas service in New Jersey and wholesale natural gas and related energy services to customers in states from the Gulf Coast and Mid-Continent regions to the New England region, the West Coast and Canada through its two principal subsidiaries, New Jersey Natural Gas (NJNG) and NJR Energy Services (NJRES).

Comprising the Natural Gas Distribution segment, NJNG is a natural gas utility that provides regulated retail natural gas service in central and northern New Jersey and also participates in the off-system sales and capacity release markets. NJNG is regulated by the New Jersey Board of Public Utilities (BPU).

NJRES comprises the Energy Services segment. NJRES maintains and transacts around a portfolio of physical assets consisting of natural gas storage and transportation contracts. In addition, NJRES provides wholesale energy services to non-affiliated utility and energy companies.

Effective October 1, 2009, NJR established Midstream Assets as a reportable segment to reflect the way it currently views and manages growth opportunities associated with natural gas transportation and storage facilities. Specifically, the Midstream Asset segment includes NJR Energy Holdings Corporation (NJREH), which primarily invests in energy-related ventures through its subsidiaries, NJNR Pipeline Company (Pipeline), which holds the Company's 5.53 percent ownership interest in Iroquois Gas and Transmission System, L.P. (Iroquois) and NJR Steckman Ridge Storage Company, which holds the Company's 50 percent combined interest in Steckman Ridge GP, LLC and Steckman Ridge, LP (collectively, Steckman Ridge), a natural gas storage facility that was jointly developed and is being marketed with a partner in Pennsylvania. The results of operations, assets and other financial information for Iroquois and Steckman Ridge, previously included in Retail and Other operations, are now reported as components of the Midstream Assets segment. As a result, prior year information for both Midstream Assets and Retail and Other operations has been restated to be consistent with current year presentation,

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

The retail and other business operations (Retail and Other) includes; NJR Energy Corporation (NJR Energy), a company that invests in energy-related ventures, NJR Clean Energy Ventures, a company that will invest in clean energy projects, NJR Home Services (NJRHS), which provides service, sales and installation of appliances; NJR Plumbing Services (NJRPS), which provides plumbing repair and installation services, Commercial Realty and Resources (CR&R), which holds and develops commercial real estate; and NJR Service Corporation (NJR Service), which provides support services to the various NJR businesses.

Assets by business segment and operations are as follows:

(Thousands)	December 31, 2009		September 30, 2009	
Assets:				
Natural Gas Distribution	\$1,762,195	72%	\$1,797,165	77%
Energy Services	463,668	19	327,532	14
Midstream Assets	158,775	7	153,609	7
Retail and Other	69,741	3	69,411	3
Intercompany assets ⁽¹⁾	(22,750)	(1)	(26,687)	(1)
Total	\$2,431,629	100%	\$2,321,030	100%

⁽¹⁾ Consists of transactions between subsidiaries that are eliminated and reclassified in consolidation

Net income (loss) by business segment and operations are as follows:

(Thousands)	Three Months Ended December 31, 2009		2008	
Net income (loss)				
Natural Gas Distribution	\$23,502	45%	\$23,074	82%
Energy Services	27,644	53	10,882	38
Midstream Assets	1,876	4	454	2
Retail and Other	(962)	(2)	(6,138)	(22)
Intercompany net income ⁽¹⁾	(158)	—	—	—
Total	\$51,902	100%	\$28,272	100%

⁽¹⁾ Consists of transactions between subsidiaries that are eliminated and reclassified in consolidation

Included in net income are unrealized gains (losses) in the Energy Services segment of \$4.8 million and \$(1.1) million, after taxes, for the three months ended December 31, 2009 and 2008, respectively. Also included in net income are realized gains of \$20.4 million and \$2.6 million, after taxes, for the three months ended December 31, 2009 and 2008, respectively, which are related to financial derivative instruments that have settled and are designed to economically hedge natural gas that is still in inventory.

NJR Energy records unrealized losses and gains with respect to the change in fair value of the financial natural gas swaps that are used to economically hedge a long-term natural gas sale contract. Included in net income in Retail and Other are unrealized (losses) of \$(503,000) and \$(5.7) million, after taxes, for the three months ended December 31, 2009 and 2008, respectively.

NJRES and NJR Energy account for their financial derivative instruments used to economically hedge the forecasted purchase, sale and transportation of natural gas at fair value. In addition, all physical commodity contracts at NJRES are accounted for at fair value on the Unaudited Condensed Consolidated Balance Sheets, with changes in fair value included as a component of operating revenue and gas purchases, as appropriate, on the Unaudited Condensed Consolidated Statements of Income. All physical commodity contracts at NJNG and NJR Energy are accounted for under accrual accounting. Accordingly, gains (losses) are recognized in earnings when the contract settles and the natural gas is delivered.

Unrealized losses and gains at NJRES and NJR Energy are the result of changes in the fair value of derivative instruments. The change in fair value of these derivative instruments at NJRES and NJR Energy over periods of time can result in substantial volatility in reported net income. When a financial instrument settles, the result is the realization of these gains or losses. NJRES utilizes certain financial instruments to economically hedge natural gas inventory placed into storage that will be sold at a later date, all of which were contemplated as part of an entire forecasted transaction. Volatility in earnings also occurs as a result of timing differences between the settlement of the financial derivative and the sale of the corresponding natural gas that was hedged with the financial instrument. When the financial instrument settles and the natural gas is placed in inventory, the realized gains (losses) associated with the financial instrument are recognized in earnings. However, the gains (losses) associated with the economically hedged natural gas are not recognized in earnings until the natural gas inventory is sold.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Natural Gas Distribution Segment

Natural Gas Distribution operations have been managed with the goal of growing profitably and providing safe and reliable service through several key initiatives including:

- Earning a reasonable rate of return on the investments in its natural gas distribution system, as well as recovery of all prudently incurred costs in order to provide safe and reliable service throughout NJNG's service territory;
- Working with the BPU and the Department of the Public Advocate, Division of Rate Counsel (Rate Counsel) on the implementation and continuing review and recently approved extension of the Conservation Incentive Program (CIP). The CIP allows NJNG to promote conservation programs to its customers while maintaining protection of its utility gross margin against potential losses associated with reduced customer usage. CIP usage differences are calculated annually and are recovered one year following the end of the CIP usage year;
- Managing the new customer growth rate which is expected to be approximately 1.2 percent annually over the next two years. In fiscal 2010 and 2011, NJNG currently expects to add, in total, approximately 12,000 to 14,000 new customers. The Company believes that this stable growth would increase utility gross margin under its base rates as provided by approximately \$3.4 million annually, as calculated under NJNG's CIP tariff;
- Opportunity to generate earnings from various BPU-authorized gross margin-sharing incentive programs; and
- Managing the volatility of wholesale natural gas prices through a hedging program designed to keep customers' Basic Gas Supply Service (BGSS) rates as stable as possible.

In October 2008, the BPU unanimously approved and made effective certain changes in the design of NJNG's base rates. As a result, NJNG received a revenue increase in its base rates of \$32.5 million, which is inclusive of an approximate \$13 million impact of a change to the CIP baseline usage rate. Other changes included an allowed rate of return of 7.76 percent that includes a return on equity component of 10.3 percent and a reduction to NJNG's depreciation expense component.

The CIP allows NJNG to recover utility gross margin variations related to both weather and customer usage. Recovery of such margin variations is subject to additional conditions including an earnings test, which includes a return on equity component of 10.3 percent, and an evaluation of BGSS-related savings achieved. An annual review of the CIP must be filed in June of each year, coincident with NJNG's annual BGSS filing.

In October 2008, the BPU provisionally approved recovery of an additional \$6.8 million of accrued margin for the CIP, resulting in a total recovery of \$22.4 million, which included amounts accrued and estimated through September 30, 2008. In June 2009, the BPU issued their final order approving NJNG's recovery of \$6.8 million of CIP rates for fiscal 2008. In addition, NJNG filed its annual BGSS and CIP filing for recoverable CIP amounts for fiscal 2009, requesting approval to modify its CIP recovery rates effective October 1, 2009, resulting in total annual recovery requested for fiscal 2009 of \$6.9 million, representing amounts accrued and estimated through September 30, 2009. In September 2009, the BPU provisionally approved the rates. As of December 31, 2009, NJNG has \$8 million related to CIP accrued to be recovered in regulatory assets in the Unaudited Condensed Consolidated Balance Sheets.

In April, 2009, NJNG filed a letter with the BPU requesting a 1-year extension to its CIP through October 1, 2010. As a result of no action by the BPU as of October 1, 2009, the CIP remained in effect for an additional year. Subsequently, in December 2009, NJNG submitted a petition requesting approval from the BPU for an extension of its CIP mechanism, as currently structured, through September 30, 2013. On January 20, 2010, the BPU approved the extension of the CIP through September 30, 2013.

NJNG occasionally adjusts its periodic BGSS rates for its residential and small commercial customers to reflect increases or decreases in the cost of natural gas sold to customers. In addition, to manage the cost of natural gas to customers during periods when the commodity cost declines in comparison to the established BGSS rate, NJNG will issue credits or refunds to its customers. During the second quarter of fiscal 2009, NJNG provided approximately \$45 million of rate credits to BGSS residential and small commercial customers and during the first quarter of fiscal 2010 NJNG provided refunds of approximately \$37.4 million. On January 19, 2010, NJNG notified the BPU that bill credits in the amount of \$37.5 million will be provided to residential and small commercial sales customers, based on individual customer usage, in February 2010 and March 2010.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

In conducting NJNG's business, management focuses on factors it believes may have significant influence on its future financial results. NJNG's policy is to work with all stakeholders, including customers, regulators and policymakers, to achieve favorable results. These factors include the rate of NJNG's customer growth in its service territory, which can be influenced by general economic conditions as well as political and regulatory policies that may impact the new housing market. A portion of NJNG's customer growth comes from the conversion market, which is influenced by the delivered cost of natural gas compared with competing fuels, interest rates and other economic conditions.

As a regulated company, NJNG is required to recognize the impact of regulatory decisions on its financial statements. As a result, significant costs are deferred and treated as regulatory assets, pending BPU decisions regarding their ultimate recovery from customers. The most significant costs incurred that are subject to this accounting treatment include manufactured gas plant (MGP) remediation costs and wholesale natural gas costs (recovered through BGSS). Actual remediation costs may vary from management's estimates due to the developing nature of remediation requirements, regulatory decisions by the New Jersey Department of Environmental Protection (NJDEP) and related litigation. If there are changes in the regulatory position on the recovery of these costs, such costs would be charged to income in the period of such determination.

In April 2009, the BPU approved NJNG's Accelerated Infrastructure Program (AIP) permitting NJNG to commence construction on 14 infrastructure projects. NJNG will make a filing for the recovery of infrastructure program investment costs in June 2010 to be effective October 1, 2010. The filing will allow the recovery of costs of the AIP construction activities for the period ending August 31, 2010, including the recovery of NJNG's overall weighted cost of capital on these investments.

In July 2009, the BPU approved NJNG's Energy Efficiency (EE) Program allowing approximately \$21.1 million, if fully subscribed, to support three EE Programs. A Tariff Rider Mechanism was approved by the BPU related to the recovery of the EE Program costs, effective August 1, 2009, and includes the recovery of NJNG's overall weighted cost of capital on these investments.

Due to the capital-intensive nature of NJNG's operations and the seasonal nature of its working capital requirements, significant changes in interest rates can also impact NJNG's results.

Energy Services Segment

NJRES provides unregulated wholesale energy services and engages in the business of optimizing natural gas storage and transportation assets. The rights to these assets are contractually acquired in anticipation of delivering natural gas or performing asset management activities for customers or in conjunction with identifying arbitrage opportunities that exist in the marketplace. These arbitrage opportunities occur as a result of price differences between market locations and/or time horizons. These activities are conducted in the areas in which we have expertise and include states from the Gulf Coast and Mid-continent regions to the Appalachian and Northeast regions, the West Coast and Canada.

More specifically, NJRES activities consist of the following elements which provide for growth, while focusing on maintaining a low-risk operating and counterparty credit profile:

- Identifying and benefiting from variations in pricing of natural gas transportation and storage assets due to location or timing differences of natural gas prices to generate gross margin;
- Providing natural gas portfolio management services to nonaffiliated utilities and electric generation facilities;
- Leveraging transactions for the delivery of natural gas to customers by aggregating the natural gas commodity costs and transportation costs in order to minimize the total cost required to provide and deliver natural gas to NJRES' customers by identifying the lowest cost alternative with the natural gas supply, transportation availability and markets to which NJRES is able to access through its business footprint and contractual asset portfolio; and
- Managing economic hedging programs that are designed to mitigate adverse market price fluctuations in natural gas transportation and storage commitments.

NJRES views "financial margin" as a financial measurement metric. NJRES' financial margin, which is a non-GAAP financial measure, represents revenues earned from the sale of natural gas less costs of natural gas sold, transportation and storage, and excludes any accounting impact from the change in fair value of derivative instruments designed to hedge the economic impact of its transactions that have not been settled, which represent unrealized gains and losses, and the effects of economic hedging on the value of our natural gas in storage. NJRES uses financial margin to gauge operating results against established benchmarks and earnings targets as it eliminates the impact of volatility in GAAP earnings that can occur prior to settlement of the physical commodity portion of the transactions or as a result of conditions in the markets and therefore is more representative of the overall expected economic result.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

NJRES focuses on creating value from underutilized natural gas assets, which are typically amassed through contractual rights to natural gas transportation and storage capacity. NJRES has developed a portfolio of natural gas storage and transportation capacity in states in the Northeast, Gulf Coast, Mid-continent, Appalachian, and West Coast regions of the United States and Canada. These assets become more valuable when prices change between these areas and across time periods. NJRES is able to capture financial margin by locking in the differential between purchasing natural gas at a low future price and, in a related transaction, selling that natural gas at a higher future price, all within the constraints of its risk management policies. In addition, NJRES seeks to optimize these assets on a daily basis as market conditions change by evaluating all the natural gas supplies, transportation and opportunities to which it has access. This enables NJRES to capture geographic pricing differences across these various regions as delivered natural gas prices change as a result of market conditions. NJRES focuses on earning a financial margin on a single original transaction and then utilizing that transaction and the changes in prices across the regions or across time periods, as the basis to further improve the initial result.

NJRES transacts with a variety of counterparties including local distribution companies, industrial companies, electric generators, retail aggregators and other wholesale marketing companies. The physical sales commitments to these counterparties allow NJRES to leverage its transportation and storage capacity. These physical sale commitments are managed in an aggregate fashion, and, as a result, give NJRES the ability to extract more value from its portfolio of natural gas storage and pipeline transportation capacity. NJRES' portfolio management customers include nonaffiliated utilities and electric generation plants. Services provided by NJRES include optimization of underutilized natural gas assets and basic gas supply functions.

In conducting its business, NJRES mitigates risk by following formal risk management guidelines, including transaction limits, approval processes, segregation of duties, and formal contract and credit review and approval procedures. NJRES continuously monitors and seeks to reduce the risk associated with its credit exposures with its various counterparties. The Risk Management Committee (RMC) of NJR oversees compliance with these established guidelines.

Midstream Assets Segment

NJR utilizes a subsidiary, NJR Energy Holdings Corporation, to develop its investments in natural gas "midstream" assets, such as natural gas transportation and storage facilities. NJR believes that acquiring, owning and developing these midstream assets, which operate under a tariff structure that has either a regulated or market-based rate, can provide a growth opportunity for the Company. To that end, NJR has ownership interests in Iroquois, a natural gas pipeline operating with regulated rates and Steckman Ridge, a storage facility that operates under market-based rates, and is actively pursuing other potential opportunities that meet its investment and development criteria.

Steckman Ridge became commercially operational during fiscal 2009 and customers began to inject natural gas inventory in preparation for the initial winter withdrawal season. An additional drilling program will be reviewed in the third quarter of fiscal 2010.

As of December 31, 2009, NJR had invested \$135.7 million in Steckman Ridge and \$22.1 million in Iroquois, including capitalized costs.

Retail and Other Operations

The financial results of Retail and Other consist primarily of the operating results of NJRHS, which provides service, sales and installation of appliances to approximately 144,000 customers and is focused on growing its installation business and expanding its service contract customer base, CR&R, which seeks additional opportunities to enhance the value of its undeveloped land and investments made by NJR Energy, an investor in other energy-related ventures through its operating subsidiaries. Also included within Retail and Other operations are organizational expenses incurred at NJR.

Critical Accounting Policies

A summary of NJR's critical accounting policies is included in *Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations* of its Annual Report on Form 10-K for the period ended September 30, 2009. NJR's critical accounting policies have not changed from those reported in the 2009 Annual Report on Form 10-K.

Recently Issued Accounting Standards

Refer to *Note 1. General*, for discussion of recently issued accounting standards.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Results of Operations

Consolidated

Net income for the three-month period ended December 31, 2009, increased by 83.6 percent to \$51.9 million, compared with \$28.3 million for the same period last fiscal year. Basic earnings per share (EPS) increased 86.6 percent to \$1.25 compared with \$0.67 for the same period last fiscal year, and diluted EPS increased 85.1 percent to \$1.24 compared with \$0.67 for the same period last fiscal year. The increase in net income during the three months ended December 31, 2009, was primarily due to the favorable impact of the value of derivative contracts at NJRES, as a result of a continuing decline in average natural gas prices.

The Company's operating revenues and gas purchases are as follows:

	Three Months Ended December 31,		
<i>(Thousands)</i>	2009	2008	% Change
Operating revenues	\$609,546	\$801,304	(23.9)%
Gas purchases	\$449,393	\$671,090	(33.0)%

Operating revenues decreased \$191.8 million and gas purchases decreased \$221.7 million in the three months ended December 31, 2009, compared with the same period of the prior fiscal year due primarily to:

- a decrease in operating revenues of \$115.6 million and gas purchases of \$143.2 million at NJRES stemming from lower average sales and gas purchase prices, which correlate to the decrease in NYMEX prices of 40 percent from an average of \$6.94 for the three months ending December 31, 2008 to \$4.17 for the three months ending December 31, 2009;
- a decrease in operating revenues of \$82.4 million and gas purchases of \$75.2 million at NJNG as a result of a decrease in Firm sales and a customer refund in the first quarter of fiscal 2010 that did not occur in the same period in the prior year; partially offset by
- an increase in operating revenues of \$8.7 million at Retail and Other due primarily to lower unrealized losses at NJR Energy, as a result of the settlement of certain natural gas swap contracts, which allowed for a decline in exposure to shifts in market pricing during the three months ended December 31, 2009. NJR Energy had open swap contracts representing 1.9 Bcf's and 4.5 Bcf's as of December 31, 2009 and 2008, respectively.

Natural Gas Distribution Segment

NJNG is a local natural gas distribution company that provides regulated retail energy services to approximately 489,000 residential and commercial customers in central and northern New Jersey and participates in the off-system sales and capacity release markets.

NJNG's business is seasonal by nature, as weather conditions directly influence the volume of natural gas delivered. Specifically, customer demand substantially increases during the winter months when natural gas is used for heating purposes. As a result, NJNG receives most of its gas distribution revenues during the first and second fiscal quarters and is subject to variations in earnings and working capital during the year.

The Electric Discount and Energy Competition Act (EDECA) provides the framework for New Jersey's retail energy markets, which are open to competition from other electric and natural gas suppliers. Currently, NJNG's residential markets are open to competition. Under an existing order from the BPU, BGSS can be provided by suppliers other than the state's natural gas utilities. Its rates are segregated between BGSS (natural gas commodity) and delivery (i.e., transportation) components. NJNG earns no utility gross margin on the commodity portion of its natural gas sales. NJNG earns utility gross margin through the delivery of natural gas to its customers.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

NJNG's financial results for the three months ended December 31 are as follows:

(Thousands)	Three Months Ended December 31,	
	2009	2008
Utility gross margin		
Operating revenues	\$258,475	\$340,908
Less:		
Gas purchases	155,274	230,452
Energy and other taxes	14,532	21,587
Regulatory rider expense	13,712	13,561
Total utility gross margin	74,957	75,308
Operation and maintenance expense	24,878	24,950
Depreciation and amortization	7,660	7,161
Other taxes not reflected in utility gross margin	1,148	1,011
Operating income	41,271	42,186
Other income	926	684
Interest charges, net	4,251	6,460
Income tax provision	14,444	13,336
Net income	\$ 23,502	\$ 23,074

The following table summarizes utility gross margin and throughput in billion cubic feet (Bcf) of natural gas by type:

(\$ in thousands)	Three Months Ended December 31,			
	2009		2008	
	Gross Margin	Bcf	Gross Margin	Bcf
Residential	\$49,950	12.4	\$49,687	13.3
Commercial, industrial & other	12,991	2.6	13,381	3.2
Transportation	9,494	3.3	8,432	3.0
Total utility firm gross margin	72,435	18.3	71,500	19.5
Incentive programs	2,438	22.1	3,724	12.2
Interruptible	84	0.8	84	0.9
Total utility gross margin/throughput	\$74,957	41.2	\$75,308	32.6

Utility Gross Margin

NJNG's utility gross margin is a non-GAAP financial measure defined as natural gas revenues less natural gas purchases, sales tax, a Transitional Energy Facilities Assessment (TEFA) and regulatory rider expenses, and may not be comparable to the definition of gross margin used by others in the natural gas distribution business and other industries. Utility gross margin is comprised of the following three major categories:

- Utility firm gross margin, which is derived from residential and commercial customers who receive natural gas service from NJNG through either sales or transportation tariffs;
- Incentive programs, where margins generated or savings achieved from BPU-approved Off-system Sales, Capacity Release, Financial Risk Management (defined in Incentive Programs) or Storage Incentive programs are shared between customers and NJNG; and
- Utility gross margin from interruptible customers who have the ability to switch to alternative fuels.

Management believes that utility gross margin provides a more meaningful basis than revenue for evaluating utility operations since natural gas costs, sales tax, TEFA and regulatory rider expenses are included in operating revenue and passed through to customers and, therefore, have no effect on utility gross margin.

Natural gas costs are charged to operating expenses on the basis of therm sales at the prices in NJNG's BGSS tariff approved by the BPU. The BGSS tariff rate includes projected natural gas costs, net of supplier refunds, the impact of hedging activities and credits from non-firm sales and transportation activities. Any underrecoveries or overrecoveries from the projected amounts are deferred and reflected in the BGSS tariff rate in subsequent years.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

TEFA, which is included in energy and other taxes in the Unaudited Condensed Consolidated Statements of Income, is calculated on a per-therm basis and excludes sales to cogeneration facilities, other utilities and off-system sales. TEFA represents a regulatory allowed assessment imposed on all energy providers in the state of New Jersey, as TEFA has replaced the previously used utility gross receipts tax formula.

Regulatory rider expenses consist of recovery of state-mandated programs, the remediation adjustment (RA) and energy efficiency costs. These expenses are offset by corresponding revenues and are calculated on a per-therm basis.

NJNG's operating revenues decreased by \$82.4 million, or 24.2 percent, and gas purchases decreased by \$75.2 million, or 32.6 percent, for the three months ended December 31, 2009, respectively, compared with same period in the prior fiscal year as a result of:

- a decrease in operating revenues and gas purchases related to firm sales in the amount of \$43.8 million and \$40.8 million, respectively, as a result of a decrease in the average periodic BGSS rate for residential and small commercial customers of \$0.275 per therm, a decrease of \$0.261 per therm in the average monthly BGSS rate for large commercial customers, offset by an increase in riders of \$.004 per therm; and
- a decrease in operating revenues and gas purchases related to a BGSS customer refund in the first quarter of fiscal 2010 that did not occur in the first quarter of fiscal 2009 in the amount of \$37.4 million and \$34.5 million, respectively. The customer refund was inclusive of a sales tax refund of \$2.9 million and was the result of reductions in cost to acquire wholesale natural gas, as compared to the established rate included in NJNG's BGSS tariff;
- a decrease in operating revenues and gas purchases related to firm sales in the amount of \$21.1 million and \$15.9 million, respectively, due to lower therm usage primarily due to customer conservation and weather being 7.3 percent warmer than the same period of the prior fiscal year, partially offset by an increase in operating revenue of \$3.9 million, as a result of higher accruals relating to the CIP during the three months ended December 31, 2009; partially offset by
- an increase in operating revenues and gas purchases related to off-system sales in the amount of \$14.9 million and \$13.9 million, respectively, as a result of 92.5 percent higher volumes due primarily to opportunities in the wholesale energy market.

Sales tax and TEFA, which are presented as both components of operating revenues and operating expenses in the Unaudited Condensed Consolidated Statements of Income, totaled \$14.5 million and \$21.6 million for the three months ended December 31, 2009 and 2008, respectively. The decrease of \$7.1 million is due primarily to a decrease of \$105.8 million in operating revenue from firm sales for the three months ended December 31, 2009.

Regulatory rider expenses are calculated on a per-therm basis and totaled \$13.7 million and \$13.6 million for the three months ended December 31, 2009 and 2008, respectively. The increase is due primarily to an additional EE rider of 0.0119 per therm that went into effect August 2009 offset by a decrease in the USF rider of 0.008 per therm that went into effect as of October 1, 2009.

Utility Firm Gross Margin

Utility firm gross margin is earned from residential and commercial customers who receive natural gas service from NJNG through either sales or transportation tariffs.

As a result of NJNG's implementation of the CIP, utility gross margin is no longer linked to customer usage. The CIP eliminates the disincentive to promote conservation and energy efficiency and facilitates normalizing NJNG's utility gross margin recoveries for variances not only in weather but also in other factors affecting usage, including customer conservation. Recovery of utility gross margin for the non-weather variance through the CIP is limited to the amount of certain gas supply cost savings achieved and is subject to an earnings test, which contains a return on equity component of 10.3 percent.

NJNG's total utility gross margin is not negatively affected by customers who use its transportation service and purchase natural gas from another supplier because its tariff is designed so that no profit is earned on the commodity portion of sales to firm customers. All customers who purchase natural gas from another supplier continue to use NJNG for transportation service.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Utility firm gross margin from residential service sales increased to \$50 million for the three months ended December 31, 2009, as compared with \$49.7 million for the three months ended December 31, 2008. NJNG delivered 12.4 Bcf for its firm customers in the three months ended December 31, 2009, compared with 13.3 Bcf for the same period ended December 31, 2008. The effect of the decrease in Bcf on utility firm gross margin was mitigated by the CIP mechanism.

Utility firm gross margin from transportation service increased to \$9.5 million for the three months ended December 31, 2009, as compared to \$8.4 million for the three months ended December 31, 2008. NJNG transported 3.3 Bcf for its firm customers in the three months ended December 31, 2009, compared with 3.0 Bcf for the same period ended December 31, 2008. The increase was due primarily to the increase in customers.

The weather for the three months ended December 31, 2009 was 5.3 percent warmer-than-normal, based on a 20-year average, which resulted in an accrual of utility gross margin under the weather component of the CIP of \$2.3 million, compared with 1.8 percent colder-than-normal weather for the same period last fiscal year, which resulted in a negative adjustment of utility gross margin of \$(216,000). Under the provisions of the CIP, accruals related to the weather portion are dependent on the occurrence of degree days and the magnitude of the variance in relation to a normal degree day.

Customer usage was lower than the established benchmark during the first quarter of fiscal 2010, which resulted in an accrual of utility gross margin under the CIP of \$2.1 million compared with \$1.0 million in the first quarter of fiscal 2009. The change in the weather and non-weather components of the CIP include the effect of adjustments, normal degree days, consumption factors and benchmarks related to the baseline use per customer.

NJNG had 15,687 and 12,053 residential customers and 6,893 and 5,214 commercial customers using its transportation service at December 31, 2009 and 2008, respectively. The increase in transportation customers for the three month period ended December 31, 2009, was due primarily to an increase in marketing activity by third party natural gas providers in NJNG's distribution territory.

NJNG added 1,438 and 1,763 new customers during the three months ended December 31, 2009 and 2008, respectively. In addition, NJNG converted 58 and 162 existing customers to natural gas heat and other services during the same periods for fiscal 2009 and 2008, respectively. The decline in customer growth is driven by a slower new construction market and weak economic conditions. This customer growth represents an estimated annual increase of approximately 0.16 Bcf in sales to firm customers, assuming normal weather and usage, which would contribute approximately \$684,000 to utility gross margin.

Incentive Programs

To reduce the overall cost of its natural gas supply commitments, NJNG has entered into contracts to sell natural gas to wholesale customers outside its franchise territory when natural gas is not needed for firm system requirements. These off-system sales enable NJNG to reduce its overall costs applicable to BGSS customers. NJNG also participates in the capacity release market on the interstate pipeline network when the capacity is not needed for its firm system requirements. NJNG retains 15 percent of the utility gross margin from these sales, with 85 percent credited to firm customers through the BGSS.

The Financial Risk Management (FRM) program is designed to provide price stability to NJNG's natural gas supply portfolio. The FRM program includes an incentive mechanism designed to encourage the use of financial instruments to economically hedge NJNG's natural gas costs. Gross margin is generated by entering into financial option positions that have a strike price below a published quarterly benchmark, minus premiums and associated fees. NJNG retains 15 percent of the utility gross margin, with 85 percent credited to firm customers through the BGSS.

The Storage Incentive program shares gains and losses on an 80 percent and 20 percent basis between customers and NJNG, respectively. This program measures the difference between the actual cost of natural gas injected into storage and a benchmark established with the purchase of a portfolio of futures contracts applicable to the April-through-October natural gas injection season.

On October 3, 2008, the BPU approved the Rate Order, which extends the incentive programs through October 31, 2011, and provides changes to certain volume and cost limitations surrounding these incentive programs (see *Note 2. Regulation*).

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Sales under NJNG's incentive programs totaled 22.1 Bcf and generated \$2.4 million of utility gross margin for the three months ended December 31, 2009, compared with 12.2 Bcf and \$3.7 million of utility gross margin during the same period last fiscal year. Utility gross margin from incentive programs comprised 3.3 percent of total utility gross margin for the three months ended December 31, 2009 and 4.9 percent of total utility gross margin for the same period in fiscal 2009, respectively. The decrease in utility gross margin was due primarily to a decrease of \$1.4 million in the FRM program due primarily to lack of market opportunities, a decrease of \$918,000 related to the storage incentive program due to timing of physical injections and associated hedging gains, partially offset by an increase of \$908,000 in off-system sales due primarily to opportunities in the wholesale energy market, which increased volumes 92.5 percent.

Interruptible Revenues

As of December 31, 2009, NJNG serves 45 customers through interruptible transportation and sales services. Interruptible customers are those customers whose service can be temporarily halted as they have the ability to utilize an alternate fuel source. Although therms transported and sold to interruptible customers represented 0.8 Bcf, or 1.9 percent, of total throughput for the three months ended December 31, 2009, and 0.9 Bcf, or 2.8 percent, of the total throughput during the same period in the prior fiscal year, they accounted for less than 1 percent of the total utility gross margin in each year.

Operation and Maintenance Expense

Operation and maintenance expense remained relatively flat, during the three months ended December 31, 2009, as compared with the same period in the last fiscal year, with offsetting variances in the following:

- increased pension and OPEB costs in the amount of \$915,000 primarily as a result of the impact of a decline in the returns on plan assets and the decline in the discount rate used to measure plan liabilities;
- higher pipeline integrity costs of \$154,000; offset by
- a decrease in bad debt expense of \$617,000 due primarily to lower reserve requirements during fiscal 2010 as a result of BGSS customer credits; and
- decreased labor of \$388,000 due primarily to lower short-term incentive costs.

Operating Income

Operating income decreased \$915,000, or 2.2 percent, for the three months ended December 31, 2009, as compared with the same period in the last fiscal year, due primarily to:

- a decrease in total utility gross margin of \$351,000, as discussed above;
- an increase in depreciation expense of \$499,000, as a result of greater utility plant being placed into service; and
- an increase in other taxes.

Interest Expense

Interest expense decreased \$2.2 million for the three months ended December 31, 2009 compared with the same period in the last fiscal year, due primarily to:

- a decrease of \$1.5 million associated with long-term debt due to lower interest rates on variable rate debt bonds and the redemption of a \$30 million bond in November 2008; and
- a decrease of \$729,000 associated with short-term debt due primarily to lower average interest rates and balances related to NJNG's commercial paper program.

Net Income

Net income remained relatively flat during the three months ended December 31, 2009, due primarily to lower interest expense of \$2.2 million, as discussed above, partially offset by a decrease in operating income of approximately \$915,000, as discussed above, and higher income tax expense of \$1.1 million, due primarily to a combination of higher accrued expense associated with higher pre-tax income in the current fiscal year and the reversal of accrued interest during the three months ended December 31, 2008, as a result of the settlement of a tax audit.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Energy Services Segment

NJRES is a non-regulated natural gas marketer principally engaged in the optimization of natural gas storage and transportation assets. Through the use of its contracts for natural gas storage and pipeline capacity, NJRES is able to take advantage of pricing differences between geographic locations, commonly referred to as "locational or basis spreads," and pricing differences across time horizons, commonly referred to as "time spreads." To capture these price differences, NJRES enters into contracts for the future delivery and sales of physical natural gas and simultaneously enters into financial derivative contracts to establish an initial financial margin for each of its forecasted physical commodity transactions. The financial derivative contracts serve to protect the cash flows of the transaction from volatility in commodity prices and can include futures, options, and swap contracts, which are all predominantly actively quoted on the NYMEX.

Typically, periods of greater price volatility provide NJRES with additional opportunities to generate financial margin by managing its financial hedge transactions with the intent of further improving the respective time or locational spreads on a forward basis.

The strategies used in capturing the value associated with these price differences include, but are not limited to the following:

- **Storage:** NJRES attempts to take advantages of differences in market prices occurring over different time periods (time spreads) as follows:
- * NJRES can purchase gas to inject into storage and concurrently lock in gross margin with a contract to sell the natural gas at a higher price at a future date;
 - * NJRES can purchase a future contract with an early delivery date at a lower price and simultaneously sell another future contract with a later delivery date having a higher price; and
 - * NJRES can "borrow" gas from a pipeline or storage operator and repay that gas at a later date, and earn a margin by selling the gas at a later date at a higher price or by receiving a fee.
- **Transportation (Basis):** Similarly, NJRES benefits from pricing differences between various receipt and delivery points along a natural gas pipeline as follows:
- * NJRES can utilize its pipeline capacity by purchasing natural gas at a lower price location and transporting to a higher value location. NJRES can enter into a basis swap contract, a financial commodity derivative based on the price of natural gas at two different locations, when it will lead to positive cash flows and financial margin for NJRES.

Because NJRES has physical storage and transportation capacity contracts it is able to take advantage of the continuous daily changes in supply and demand in the market areas in which it operates. By utilizing those contracts to assist natural gas marketers, local distribution companies, industrial companies, electric generators and retail aggregators in managing their gas supply needs, NJRES has opportunities to deliver the gas from storage, purchase flowing gas, or move the gas along a more economically advantageous transportation route than originally planned thereby improving the initial financial margin. The combination of strategically positioned natural gas storage and transportation assets and physical purchase and sales contracts provides NJRES with a significant amount of arbitrage opportunities that are typically more prevalent during periods of high daily price volatility.

Predominantly all of NJRES' physical purchases and sales of natural gas result in the physical delivery of natural gas. These physical commodity contracts are recorded at fair value in the Unaudited Condensed Consolidated Balance Sheets with any changes in fair value related to its forward physical sale and purchase contracts recognized as a component of operating revenues and gas purchases, respectively, in the Unaudited Condensed Consolidated Statements of Income.

The changes in fair value of NJRES' financial derivative instruments, which are financial futures, swaps and option contracts, are also recognized in the Unaudited Condensed Consolidated Statements of Income, as a component of gas purchases.

NJRES' financial and physical contracts will result, over time, in earning a gross margin on the entire transaction. For financial reporting purposes under GAAP, the change in fair value associated with derivative instruments used to economically hedge these transactions are recorded as a component of gas purchases in the Unaudited Condensed Consolidated Statements of Income during the duration of the financial instrument or commodity contract. These changes in fair value are referred to as unrealized gains and losses. In other instances, certain financial contracts designed to economically fix or hedge the price of natural gas that is purchased and placed into storage, to be sold at a later date, settle and result in realized gains, which are also recorded as a component of gas purchases in the Unaudited Condensed Consolidated Statements of Income.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

These unrealized gains or losses from the change in fair value of unsettled financial instruments and physical commodity contracts, or realized gains or losses related to financial instruments that economically hedge natural gas inventory that has not been sold as part of a planned transaction, cause large variations in the reported gross margin and earnings of NJRES. NJRES will continue to earn the gross margin established at inception of the transaction over the duration of the forecasted transaction and may be able to capitalize on events in the marketplace that enable it to increase the initial margin; however, gross margin or earnings during periods prior to the delivery of the natural gas will not reflect the underlying economic result.

NJRES recognizes its demand charges, which represent the right to use natural gas pipeline and storage capacity assets of a third-party, over the term of the related natural gas pipeline or storage contract. The term of these contracts vary from less than one year to ten years.

Operating Results

NJRES' financial results are summarized as follows:

<i>(Thousands)</i>	2009	Three Months Ended December 31, 2008
Operating revenues	\$347,477	\$463,094
Gas purchases	297,457	440,677
Gross margin	50,020	22,417
Operation and maintenance expense	4,233	4,360
Depreciation and amortization	50	51
Other taxes	547	329
Operating income	45,190	17,677
Other income	1	123
Interest expense, net	262	86
Income tax provision	17,285	6,832
Net income	\$ 27,644	\$ 10,882

NJRES records its financial derivative instruments using fair market values. The mark-to-market changes on these financial instruments are reflected as a component of gas purchases in the Unaudited Condensed Consolidated Statements of Income.

As of December 31, 2009, NJRES' portfolio of financial derivative instruments was comprised of:

- 34.1 Bcf of net short futures contracts and fixed swap positions; and
- 14.4 Bcf of net long basis swap positions.

As of December 31, 2008, NJRES' portfolio of financial derivative instruments was comprised of:

- 22.4 Bcf of net short futures contracts and fixed swap positions; and
- 50.8 Bcf of net short basis swap positions.

Gross Margin

Gross margin for the three months ended December 31, 2009, increased by \$27.6 million, as compared with the same period in the last fiscal year, due primarily to higher realized margin associated with physical sales of natural gas and higher unrealized gains during the first fiscal quarter of 2010.

During the three months ended December 31, 2009, gross margin was higher by approximately \$12.7 million as compared to the three months ended December 31, 2008, due primarily to higher margins on physical sales of natural gas, largely as a result of rising market prices for natural gas prices in the three months ended December 31, 2009 as compared to the cost of our inventory sold, the cost of which lags the market. During the first quarter of fiscal 2010, the average margin per dekatherm (dth) of gas sold, excluding the results of economic hedging, was approximately 14 cents. This compares to an average margin of 7 cents per dth for the prior period. This increase in margin was partially offset by lower sales volumes during the three months ended December 31, 2009.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

In addition to the amounts discussed above, NJRES had unrealized gains (losses) of \$7.7 million and \$(1.8) million during the three months ended December 31, 2009 and 2008, respectively, relating to physical and financial contracts that have not yet settled and serve to lock in a sale price on physical gas that will be sold in the future. These unrealized amounts represent the change in price of natural gas from the original hedge price as compared to the market price of natural gas at each reporting date. When NJRES sells the purchased gas, the associated financial hedges will be settled and any previously recognized unrealized amounts related to these transactions will be realized.

Offsetting the higher margin that resulted from the higher net gains discussed above, was a decrease in storage spreads during the three months ended December 31, 2009, as described further in the discussion of financial margin in the Non-GAAP measures section.

Non-GAAP measures

Additionally, management of the Company uses non-GAAP measures, noted as "financial margin" and "net financial earnings", when evaluating the operating results of NJRES. Since NJRES economically hedges its natural gas purchases and sales with derivative instruments, management uses these measures to compare NJRES' results against established benchmarks and earnings targets as it eliminates the impact of volatility to GAAP earnings associated with the derivative instruments. Volatility can occur as a result of timing differences surrounding the recognition of certain gains and losses. These timing differences can impact GAAP earnings in two ways:

- Unrealized gains and losses on derivatives are recognized in reported earnings in periods prior to physical gas inventory flows; and
- Unrealized gains and losses of prior periods are reclassified as realized gains and losses when derivatives are settled in the same period as physical gas inventory movements occur.

Net financial earnings is a measure of the earnings based on eliminating these timing differences, to effectively match the earnings effects of the economic hedges with the physical sale of gas. Consequently, to reconcile from GAAP to both financial margin and net financial earnings, current period unrealized gains and losses on the derivatives are excluded as a reconciling item. Additionally, the effects of economic hedging on the value of our natural gas in storage also included in current period net loss, however financial margin and net financial earnings include only realized gains and losses related to natural gas sold out of inventory, effectively matching the full earnings effects of the derivatives with realized margins on physical gas flows.

Management views financial margin and net financial earnings as more representative of the overall expected economic result. To the extent that there are unanticipated changes in the markets or to the effectiveness of the economic hedges, NJRES' non-GAAP results can be different than was originally planned at the beginning of the transaction.

The following table is a computation of financial margin of NJRES for the three months ended December 31:

<i>(Thousands)</i>	Three Months Ended December 31,	
	2009	2008
Operating revenues	\$347,477	\$463,094
Less: Gas purchases	297,457	440,677
Add:		
Unrealized (gain) loss on derivative instruments and related transactions	(7,742)	1,816
Effects of economic hedging related to natural gas inventory	(33,113)	(4,274)
Financial margin	\$ 9,165	\$ 19,959

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

A reconciliation of Operating income, the closest GAAP financial measurement, to the Financial margin of NJRES is as follows:

(Thousands)	Three Months Ended December 31,	
	2009	2008
Operating income	\$45,190	\$17,677
Add:		
Operation and maintenance expense	4,233	4,360
Depreciation and amortization	50	51
Other taxes	547	329
Subtotal – Gross margin	50,020	22,417
Add:		
Unrealized (gain) loss on derivative instruments and related transactions	(7,742)	1,816
Effects of economic hedging related to natural gas inventory	(33,113)	(4,274)
Financial margin	\$ 9,165	\$19,959

A reconciliation of NJRES' Net income to Net financial earnings is as follows:

(Thousands)	Three Months Ended December 31,	
	2009	2008
Net income	\$27,644	\$10,882
Add:		
Unrealized (gain) loss on derivative instruments and related transactions, net of taxes	(4,766)	1,107
Effects of economic hedging related to natural gas inventory, net of taxes	(20,384)	(2,606)
Net financial earnings	\$ 2,494	\$ 9,383

Financial margin for the three months ended December 31, 2009 and 2008 was \$9.2 million and \$20 million, respectively. The decrease of \$10.8 million is due to a combination of factors including:

- A decrease in opportunities to optimize transportation assets because of the lack of volatility in the marketplace caused by a decrease in the demand for natural gas in the first quarter of 2010 as compared with the prior year. The decrease in demand is attributed to lower industrial consumption as a result of the economy and the mild weather in November and early December.
- A decrease overall in basis spreads, which lowered the overall value of the transportation portfolio.
- A change in the pricing of certain natural gas sales contracts from a single fixed price for the November through March period to a distinct flat price for each month. The result of which is a sales price that more closely resembles the price of natural gas for that month at time of trade execution. These pricing changes have no overall impact on the margin on the transactions, but do impact the timing of margin recognition and cash flows.

Operation and Maintenance Expense

Operation and maintenance expense decreased \$127,000, or 2.9 percent, during the three months ended December 31, 2009, as compared with the same period in fiscal 2009, due primarily to a decrease in general and administrative costs during the three months ended December 31, 2009.

Future results are subject to NJRES' ability to maintain and expand its wholesale marketing activities and are contingent upon many other factors, including an adequate number of appropriate counterparties, volatility in the natural gas market, availability of storage arbitrage opportunities, sufficient liquidity in the energy trading market and continued access to the capital markets.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Midstream Assets Segment

The consolidated financial results of Midstream Assets are summarized as follows:

(Thousands)	Three Months Ended December 31,	
	2009	2008
Operation and maintenance expense	\$ 195	\$105
Interest expense	\$ 830	\$ 31
Equity in earnings of affiliates ⁽¹⁾	\$3,960	\$892
Net income	\$1,876	\$454

(1) Excludes taxes of \$413,000 and \$354,000 for Iroquois for the three months ended December 31, 2009 and 2008, respectively and \$1.2 million for Steckman Ridge for the three months ended December 31, 2009.

Operation and maintenance expenses for the three months ended December 31, 2009, increased \$90,000, as compared to the same period in fiscal 2009 due primarily to the allocation of shared service costs of \$105,000 to Steckman Ridge this fiscal year.

Interest expenses for the three months ended December 31, 2009, increased \$800,000, as compared to the same period in fiscal 2009, due primarily to interest no longer being capitalized on Steckman Ridge since it became operational during the third quarter of fiscal 2009.

Equity in earnings from Iroquois is driven by the underlying performance of natural gas transportation through its existing pipeline, which is based on FERC regulated tariffs. Equity in earnings from Steckman Ridge is driven by storage revenues, which are based on market rates. The \$3.1 million increase in equity in earnings during the three months ended December 31, 2009 is due primarily to a contribution of \$2.9 million from Steckman Ridge, which began generating storage revenues when it became commercially operational during the third quarter of fiscal 2009. Equity in earnings in Iroquois increased \$147,000 from \$892,000 during the three months ended December 31, 2008 to \$1 million during the three months ended December 31, 2009.

Net income for the three months ended December 31, 2009, increased \$1.4 million compared with the same period in fiscal 2009, due primarily to an increase in equity in earnings related to operating results at Steckman Ridge, as noted above.

Retail and Other Operations

The unaudited consolidated financial results of Retail and Other are summarized as follows:

(Thousands)	Three Months Ended December 31,	
	2009	2008
Operating revenues	\$6,044	\$(2,654)
Operation and maintenance expense	\$7,036	\$ 7,045
Net (loss)	\$ (962)	\$(6,138)

Retail and Other includes NJR Energy, which has economically hedged a long-term fixed-price contract to sell gas to a counterparty. Unrealized gains or losses at NJR Energy, recorded in operating revenues, are the result of the changes in values associated with financial derivative instruments designed to economically hedge the long-term fixed-price contracts.

Operating revenues increased \$8.7 million, or 327.7 percent for the three months ended December 31, 2009, to \$6 million as compared with \$(2.7) million for the three months ended December 31, 2008 due primarily to lower unrealized losses at NJR Energy of \$(854,000), during the three months ended December 31, 2009, as compared with \$(9.7) million for the three months ended December 31, 2008. The positive change in values at NJR Energy was offset by a decrease in installation revenues at NJRHS.

Operation and maintenance expenses for the three months ended December 31, 2009, remained relatively flat as compared with the three months ended December 31, 2008 in all of the related companies.

Net loss for the three months ended December 31, 2009 decreased \$5.2 million compared with the same period in the prior fiscal year, due primarily to the decreased operating loss at NJR Energy partially offset by higher income tax expense as a result of the decreased operating loss.

Additionally, management of the Company uses the non-GAAP measure "net financial earnings", when viewing the results of NJR Energy to monitor the operational results without the impact of unsettled derivative instruments.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

A reconciliation of net (loss) to net financial (loss), a non-GAAP measure, is as follows:

(Thousands)	Three Months Ended December 31,	
	2009	2008
Net (loss)	\$(962)	\$(6,138)
Add:		
Unrealized loss on derivative instruments, net of taxes	503	5,705
Net financial (loss)	\$(459)	\$ (433)

Net financial loss for the three months ended December 31, 2009, remained consistent with the same period in the prior fiscal year.

Liquidity and Capital Resources

NJR's objective is to maintain a consolidated capital structure that reflects the different characteristics of each business segment and provides adequate financial flexibility for accessing capital markets as required.

NJR's consolidated capital structure was as follows:

	December 31, 2009	September 30, 2009
Common stock equity	52%	53%
Long-term debt	32	35
Short-term debt	16	12
Total	100%	100%

Common stock equity

NJR satisfies its external common equity requirements, if any, through issuances of its common stock, including the proceeds from stock issuances under its Automatic Dividend Reinvestment Plan (DRP) and proceeds from the exercise of options issued under the Company's long-term incentive program. The DRP allows NJR, at its option, to use shares purchased on the open market, treasury shares or newly issued shares.

The Company has a share repurchase program that provides for the repurchase of up to 6.75 million shares. As of December 31, 2009, the Company repurchased approximately 6.5 million of those shares and had the ability to repurchase approximately 249,000 additional shares under the approved program. On January 27, 2010, the Board of Directors authorized an increase in the number of shares of NJR common stock authorized for repurchase under NJR's Share Repurchase Plan by 2 million shares to a total of 8.75 million shares.

Debt

NJR and its unregulated subsidiaries rely on cash flows generated from operating activities and utilization of committed credit facilities to provide liquidity to meet working capital and external debt-financing requirements.

As of December 31, 2009, NJR and NJNG had committed credit facilities of \$525 million with approximately \$314.5 million available under these facilities (see *Note 7. Debt*).

NJR believes that as of December 31, 2009, NJR and NJNG were, and currently are, in compliance with all debt covenants.

NJR believes that existing borrowing availability and cash flow from operations will be sufficient to satisfy it and its subsidiaries' working capital, capital expenditure and dividend requirements for the foreseeable future. NJR, NJNG and NJRES currently anticipate that its financing requirements for the next twelve months will be met through the issuance of short-term debt, meter sale lease-backs and proceeds from the Company's DRP. While U.S. credit markets continue to improve compared to last year, the impact of the credit crisis is still being felt across the economy. A return to the constrictive credit availability seen last year could possibly affect management's ability to borrow.

NJR

In March 2009, NJR repaid its \$25 million, 3.75 percent, Unsecured Senior notes at maturity.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

NJR has a \$325 million, five-year, revolving, unsecured credit facility expiring December 2012, which permits the borrowing of revolving loans and swing loans, as well as the issuance of letters of credit. Swing loans are loans made available on a same-day basis for an aggregate principal amount of up to \$50 million and repayable in full within a maximum of seven days of borrowing. It also permits an increase to the facility, from time to time, with the existing or new lenders, in a minimum of \$5 million increments up to a maximum \$100 million at the lending banks' discretion. Borrowings under the facility are conditional upon compliance with a maximum leverage ratio, as defined in the new credit facility, of not more than 0.65 to 1.00 at any time. In addition, certain of NJR's non-regulated subsidiaries have guaranteed to the lenders all of NJR's obligations under the new credit facility. Depending on borrowing levels and credit ratings, NJR's interest rate can either be, at its discretion, the London inter-bank offered rate ("LIBOR") or the Federal Funds Open Rate plus an applicable spread and facility fee. As of December 31, 2009, NJR's effective rate was 0.53 percent on outstanding borrowings of \$200.8 million under this credit facility.

As of December 31, 2009, NJR had a \$4 million letter of credit outstanding on behalf of NJRES, which is used for margin requirements for natural gas transactions and will expire on June 30, 2010. NJR also has a \$675,000 letter of credit outstanding on behalf of CR&R, which will expire on December 3, 2010, which is in place to support development activities. NJR does not anticipate that these letters of credit will be drawn upon by the counterparties, and they will be renewed as necessary.

NJR uses its short term borrowings primarily to finance its share repurchases, to satisfy NJRES' short term liquidity needs and to finance, on an initial basis, unregulated investments. NJRES' use of high-injection, high-withdrawal storage facilities and anticipated pipeline park-and-loan arrangements, combined with related economic hedging activities in the volatile wholesale natural gas market, create significant short-term cash requirements.

NJNG

NJNG satisfies its debt needs by issuing short- and long-term debt based upon its own financial profile. The seasonal nature of NJNG's operations creates large short-term cash requirements, primarily to finance natural gas purchases and customer accounts receivable. NJNG obtains working capital for these requirements, and for the temporary financing of construction and MGP remediation expenditures and energy tax payments, through the issuance of commercial paper and short-term bank loans.

In November 2008, upon maturity, NJNG redeemed its \$30 million, 6.27 percent, Series X First Mortgage bonds.

In October 2007, NJNG entered into an agreement for standby letters of credit that could have been drawn upon through December 15, 2009, for up to \$50 million. Upon expiration, the agreement was not renewed.

To support the issuance of commercial paper, NJNG had a \$250 million committed credit facility with several banks, with a 5-year term, that expired on December 16, 2009. On December 11, 2009, NJNG entered into a new 3-year, \$200 million unsecured committed credit facility expiring December 2012, which replaced the one that expired and permits the borrowing of revolving loans and swing loans, as well as the issuance of letters of credit. It also permits an increase to the facility, from time to time, with the existing or new lenders, in a minimum of \$10 million increments up to a maximum of \$50 million at the lending banks' discretion. Depending on borrowing levels and credit ratings, NJNG's interest rate can either be, at its discretion, based upon Prime Rate, the Federal Funds Open Rate or the Euro-Rate, in each case, plus an applicable spread and facility fee. In addition, borrowings under NJNG's credit facility are conditioned upon compliance with a maximum leverage ratio, as defined in the credit facility, of not more than 0.65 to 1.00 at any time and a minimum interest coverage ratio, as defined in the credit facility, of less than 2.50 to 1.00. NJNG had no borrowings supported by the credit facility as of December 31, 2009.

NJNG is obligated with respect to loan agreements securing six series of variable rate bonds totaling approximately \$97 million of variable-rate debt backed by securities issued by the New Jersey Economic Development Authority (EDA). The EDA bonds are commonly referred to as auction rate securities (ARS) and have an interest rate reset every 7 or 35 days, depending upon the applicable series. On those dates, an auction is held for the purposes of determining the interest rate of the securities. The interest rate associated with the NJNG variable-rate debt is based on the rates on the EDA ARS. For the three months ended December 31, 2009, all of the auctions surrounding the EDA ARS have failed, resulting in those bonds bearing interest at their maximum rates, defined as the lesser of (i) 175 percent of 30-day LIBOR or (ii) 10 to 12 percent per annum, as applicable to such series of ARS.

While the failure of the ARS auctions does not signify or constitute a default by NJNG, the EDA ARS does impact NJNG's borrowing costs of the variable-rate debt. As of December 31, 2009, the 30-day LIBOR rate was 0.23 percent. As such, NJNG currently has a weighted average interest rate of 0.41 percent as of December 31, 2009, compared with a weighted average interest rate of 0.44 percent as of September 30, 2009.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

There can be no assurance that the EDA ARS will have enough market liquidity to avoid failed auctions in the future, which could potentially have an adverse impact on NJNG's borrowing costs if LIBOR rates increase. NJR reviews alternative methods for refinancing the ARS at NJNG on a continuing basis, however, it cannot assure that alternative sources of financing can be implemented in a timely manner.

Neither NJNG nor its assets are obligated or pledged to support the NJR or NJRES facilities.

NJRES

NJRES had a 3-year, \$30 million committed credit facility with a multinational financial institution that expired in October 2009. Borrowings under this facility were guaranteed by NJR. Upon expiration, the credit facility was not renewed.

Contractual Obligations

The following table is a summary of NJR, NJNG and NJRES contractual cash obligations and financial commitments and their applicable payment due dates as of December 31, 2009:

(Thousands)	Total	Up to 1 Year	2-3 Years	4-5 Years	After 5 Years
Long-term debt ⁽¹⁾	\$ 557,774	\$ 36,629	\$ 31,195	\$ 88,810	\$401,140
Capital lease obligations ⁽¹⁾	86,702	10,781	23,446	16,677	35,798
Operating leases ⁽¹⁾	9,746	2,819	3,753	1,719	1,455
Short-term debt	200,800	200,800	—	—	—
New Jersey Clean Energy Program ⁽¹⁾	38,673	10,955	24,668	3,050	—
Construction obligations	3,556	3,556	—	—	—
Accelerated Infrastructure Program (AIP)	64,770	44,214	20,556	—	—
Remediation expenditures ⁽²⁾	146,700	17,360	27,000	10,330	92,010
Natural gas supply purchase obligations—NJNG	103,022	103,022	—	—	—
Demand fee commitments—NJNG ⁽³⁾	677,891	98,619	182,435	150,041	246,796
Natural gas supply purchase obligations—NJRES	652,317	439,300	213,017	—	—
Demand fee commitments—NJRES	195,873	76,220	59,414	28,633	31,606
Total contractual cash obligations	\$2,737,824	\$1,044,275	\$585,484	\$299,260	\$808,805

⁽¹⁾ These obligations include an interest component, as defined under the related governing agreements or in accordance with the applicable tax statute.

⁽²⁾ Expenditures are estimated.

⁽³⁾ In January, 2010, NJNG entered into a 10-year agreement for storage capacity with Steckman Ridge. The demand fees noted above do not include fees of approximately \$9.3 million that will be payable annually to Steckman Ridge.

The Company has no minimum pension funding requirements, however, funding requirements are uncertain and can depend significantly on changes in actuarial assumptions, returns on plan assets and changes in demographic factors. In fiscal 2009, NJR made discretionary contributions of \$25.6 million to the Pension plan. These contributions brought the plan to the Transition Target Funding level under the Pension Protection Act. An additional contribution of \$4.4 million was made on October 1, 2009. This amount is expected to cover the additional cost of benefits accruing during fiscal 2010. There are no Federal requirements to pre-fund OPEB benefits. However, the Company is required to fund certain amounts due to regulatory agreements with the BPU. In 2004, the Company elected to pre-fund most of the annual required contributions expected for the subsequent five fiscal years. The Company contributed approximately \$1.9 million in fiscal 2009 to its OPEB plan and expects future funding to range from \$6.1 million to \$6.4 million annually over the next three years in accordance with BPU requirements. Actual contributions may be higher or lower based on market conditions and various assumptions.

As of December 31, 2009, there were NJR guarantees covering approximately \$322 million of natural gas purchases and demand fee commitments of NJRES and NJNG, included in natural gas supply purchase obligations above, not yet reflected in accounts payable on the Unaudited Condensed Consolidated Balance Sheet.

The Company is obligated to fund up to \$132.5 million associated with the construction and development of Steckman Ridge. As of December 31, 2009, NJR has invested approximately \$123.8 million in Steckman Ridge. Steckman Ridge may seek non-recourse project financing for a portion of the facility once construction activities are completed, therefore potentially reducing the aggregate recourse amount funded by NJR. There can be no assurances that Steckman Ridge will eventually secure such non-recourse project financing.

Total capital expenditures for fiscal 2010 are estimated at \$106.6 million, including an estimate of \$44.2 million related to the AIP construction costs.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Off-Balance-Sheet Arrangements

The Company does not have any off-balance-sheet financing arrangements.

Cash Flow

Operating Activities

As presented in the Unaudited Condensed Consolidated Statements of Cash Flows, cash flow used in operating activities totaled \$52.2 million for the three months ended December 31, 2009, compared with cash flow used in operations of \$36.9 million for the same period in fiscal 2009. NJR employs the indirect method when preparing its Unaudited Condensed Consolidated Statement of Cash Flows. Net income is adjusted for any non-cash items, such as depreciation, accruals and certain amortization amounts that impact earnings during the period. In addition, operating cash flows are primarily affected by variations in working capital, which can be impacted by the following:

- seasonality of NJR's business;
- fluctuations in wholesale natural gas prices;
- timing of storage injections and withdrawals;
- management of the deferral and recovery of gas costs;
- changes in contractual assets utilized to optimize margins related to natural gas transactions; and
- timing of the collections of receivables and payments of current liabilities.

Net income increased \$23.6 million during the three months ended December 31, 2009, as compared with the same period in the prior fiscal year, due primarily to higher realized gains associated with natural gas in inventory at NJRES, as well as higher unrealized gains associated with decreases in the values of financial derivative instruments at NJRES. Changes in working capital that offset the increase in net income and were the primary contributors to the increase in cash used in operating activities are as follows:

- higher natural gas inventory cost at NJRES during the three months ended December 31, 2009, relative to the prior fiscal year. NJRES average cost of gas during the three months ended December 31, 2009 increased approximately 33 percent from \$3.08 to \$5.52 as compared with a 28 percent reduction in average cost of gas during the comparable period in fiscal 2009 from \$8.31 to \$6.96. The increase in the change in gas inventory pricing over the periods was coupled with an increase in natural gas injections during the current period;
- a decrease in NJNG's gas costs recovered during the three months ended December 31, 2009 due primarily to a refund of \$37.4 million during the current fiscal quarter to NJNG's customers; offset by
- reduced margin requirements of \$67 million due primarily to change in NYMEX prices compared with the fixed price on hedges related to NJNG's storage incentive program.

NJNG's MGP expenditures are currently expected to total \$18.6 million in fiscal 2010 (see *Note 13. Commitments and Contingent Liabilities*).

Investing Activities

Cash flow used in investing activities totaled \$15.7 million for the three months ended December 31, 2009, compared with \$36.6 million in the same period in fiscal 2009. The decrease in cash used was due primarily to lower amounts of cash invested in Steckman Ridge, as it became commercially operational during the third quarter of fiscal 2009 and construction on the facility has subsided, in addition to lower utility plant expenditures at NJNG due primarily to slower customer growth as well as expenditures during fiscal 2009 associated with a meter reading project that did not recur in the first quarter of fiscal 2010. These were offset by lower amounts of cash generated as a result of a final drawdown of \$4.2 million from NJNG's restricted cash construction fund during fiscal 2009 that did not recur in the three months ended December 31, 2009.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

In April 2009, Steckman Ridge received authorization to place certain injection related facilities into commercial operation and customers began to inject natural gas inventory in preparation for the initial withdrawal season. An additional drilling program will be reviewed in the third quarter of fiscal 2010. As of December 31, 2009, NJR has invested \$123.8 million in Steckman Ridge. This amount excludes capitalized interest and other direct costs. Total project costs related to the development of the storage facility are currently estimated at approximately \$265 million, of which NJR is obligated to fund 50 percent or approximately \$132.5 million. Steckman Ridge may seek non-recourse financing upon full completion of the construction and development of its facilities, thereby potentially reducing the final expected recourse obligation of NJR. There can be no assurances that such non-recourse project financing will be secured or available for Steckman Ridge.

NJNG's capital expenditures result primarily from the need for services, mains and meters to support its continued customer growth, mandated pipeline safety rulemaking and general system improvements. NJNG's capital expenditures are expected to increase in fiscal 2010 when compared with the capital spending in fiscal 2009, due primarily to accelerated spending related to the AIP projects, which are estimated at \$44.2 million. As of December 31, 2009, capital expenditures for AIP totaled \$7.0 million.

Retail and Other capital expenditures each year have been made primarily in connection with investments made to preserve the value of real estate holdings. At December 31, 2009, CR&R owned 83 acres of undeveloped land and a 56,400-square-foot building on 5 acres of land.

NJRES does not currently anticipate any significant capital expenditures in fiscal 2010.

Financing Activities

Cash flow from financing activities totaled \$42.1 million for the three months ended December 31, 2009, compared with \$56.9 million for the same period in the prior fiscal year due primarily to additional share repurchases and dividend payments during the current fiscal quarter offset by lower proceeds from stock issuances and NJNG's meter sale-leaseback program. NJNG received \$4.9 million and \$6.3 million in December 2009 and 2008, respectively, related to the meter program, which is expected to be continued on an annual basis.

NJNG provides funding for certain of its infrastructure projects through tax exempt, variable-rate debt, which has been issued to back six series of auction rate securities (ARS) through the Economic Development Authority of New Jersey (EDA), and are based on the borrowing costs of the ARS. During periods of reduced liquidity for ARS, NJNG's rate on its variable rate debt could default to a maximum rate of the lesser of (i) 175 percent of the 30-day LIBOR or (ii) 10 to 12 percent, as applicable to a particular series of ARS. Although its average weighted interest rate has decreased to a rate of 0.41 percent as of December 31, 2009, NJNG continues to review alternatives that would eliminate or mitigate the inherent interest rate risk associated with its variable rate debt.

Credit Ratings

The table below summarizes NJNG's current credit ratings issued by two rating entities, Standard and Poor's (S&P) and Moody's Investors Service, Inc. (Moody's):

	Standard and Poor's	Moody's
Corporate Rating	A	N/A
Commercial Paper	A-1	P-1
Senior Secured	A+	Aa3
Ratings Outlook	Stable	Stable

NJNG's S&P and Moody's ratings are investment-grade ratings. S&P and Moody's give NJNG's commercial paper the highest rating within the Commercial Paper investment-grade category. NJR is not a rated entity. On April 30, 2009, S&P affirmed its ratings and changed its outlook from negative to stable. On December 22, 2009, Moody's affirmed NJNG's Aa3 secured long-term debt rating and short-term P-1 rating and changed its outlook from negative to stable.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

NJNG is not party to any lending agreements that would accelerate the maturity date of any obligation caused by a failure to maintain any specific credit rating. If such ratings are downgraded below investment grade, borrowing costs could increase, as will the costs of maintaining certain contractual relationships and for future financing. Even if ratings are downgraded without falling below investment grade, NJR and NJNG may still face increased borrowing costs under their respective credit facilities. A rating set forth above is not a recommendation to buy, sell or hold the Company's or NJNG's securities and may be subject to revision or withdrawal at any time. Each rating set forth above should be evaluated independently of any other rating.

The timing and mix of any external financings will target a common equity ratio that is consistent with maintaining the Company's current short- and long-term credit ratings.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Financial Risk Management

Commodity Market Risks

Natural gas is a nationally traded commodity, and its prices are determined effectively by the New York Mercantile Exchange (NYMEX) and over-the-counter markets. The prices on the NYMEX and over-the-counter markets generally reflect the notional balance of natural gas supply and demand, but are also influenced significantly from time to time by other events.

The regulated and unregulated natural gas businesses of the Company and its subsidiaries are subject to market risk due to fluctuations in the price of natural gas. To economically hedge against such fluctuations, the Company and its subsidiaries have entered into futures contracts, options agreements and swap agreements. To manage these derivative instruments, the Company has well-defined risk management policies and procedures that include daily monitoring of volumetric limits and monetary guidelines. The Company's natural gas businesses are conducted through three of its operating subsidiaries. First, NJNG is a regulated utility that uses futures, options and swaps to economically hedge against price fluctuations, and its recovery of natural gas costs is governed by the BPU. Second, NJRES uses futures, options, swaps and physical contracts to economically hedge purchases and sales of natural gas. Finally, NJR Energy has entered into two swap transactions related to an 18-year fixed-price contract, expiring in October 2010, to sell remaining volumes of approximately 2.0 Bcf of natural gas (Gas Sales Contract) to an energy marketing company.

The following table reflects the changes in the fair market value of financial derivatives related to natural gas purchases and sales from September 30, 2009 to December 31, 2009:

<i>(Thousands)</i>	Balance September 30, 2009	Increase (Decrease) in Fair Market Value	Less Amounts Settled	Balance December 31, 2009
NJNG	\$(8,073)	\$(7,274)	\$(9,584)	\$(5,763)
NJRES	27,926	22,390	7,700	42,616
NJR Energy	3,355	(1,745)	(891)	2,501
Total	\$23,208	\$13,371	\$(2,775)	\$39,354

There were no changes in methods of valuations during the three months ended December 31, 2009.

The following is a summary of fair market value of financial derivatives related to natural gas purchases and sales at December 31, 2009, by method of valuation and by maturity for each fiscal year period:

<i>(Thousands)</i>	2011	2012	2013-2015	After 2015	Total Fair Value
Price based on NYMEX	\$15,963	\$(1,280)	\$ (7)	—	\$14,676
Price based on other external data	26,904	(2,704)	478	—	24,678
Total	\$42,867	\$(3,984)	\$471	—	\$39,354

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (Continued)

The following is a summary of financial derivatives by type as of December 31, 2009:

		Volume (Bcf)	Price per Mmbtu	Amounts included in Derivatives (Thousands)
NJNG	Futures	20.3	\$5.28 - \$6.35	\$(1,861)
	Swaps	(10.0)	\$4.62 - \$6.98	(4,370)
	Options	2.9	\$0.68 - \$0.68	468
NJRES	Futures	(23.5)	\$4.22 - \$10.35	15,961
	Swaps	3.8	\$4.00 - \$12.45	26,548
	Options	4.6	\$0.01 - \$0.04	107
NJR Energy	Swaps	1.9	\$3.55 - \$4.41	2,501
Total				\$39,354

The following table reflects the changes in the fair market value of physical commodity contracts from September 30, 2009 to December 31, 2009:

<i>(Thousands)</i>	Balance September 30, 2009	Increase (Decrease) in Fair Market Value	Less Amounts Settled	Balance December 31, 2009
NJRES	\$16,295	\$(4,187)	\$7	\$12,101

The Company uses a value-at-risk (VaR) model to assess the market risk of its net futures, options and swap positions. VaR represents the potential loss in value of NJRES' trading portfolio due to adverse market movements over a defined time horizon (NJRES utilizes holding periods of 1 day and 10 days) with a specified confidence level (NJRES utilizes either a 95 percent or 99 percent confidence level). As an example, utilizing a 1 day holding period with a 95 percent confidence level would indicate that there is a 5 percent chance that the liquidation value of the NJRES portfolio would fall below the expected trading value by an amount at least as large as the calculated VaR.

The VaR at December 31, 2009, using the variance-covariance method with a 95 percent confidence level and a 1-day holding period, was \$559,000. The VaR with a 99 percent confidence level and a 10-day holding period was \$2.5 million. The calculated VaR represents an estimate of the potential change in the value of the net positions. These estimates may not be indicative of actual results because actual market fluctuations may differ from forecasted fluctuations.

Wholesale Credit Risk

NJNG, NJRES and NJR Energy engage in wholesale marketing activities. NJR monitors and manages the credit risk of its wholesale marketing operations through credit policies and procedures that management believes reduce overall credit risk. These policies include a review and evaluation of prospective counterparties' financial statements and/or credit ratings, daily monitoring of counterparties' credit limits, daily communication with traders regarding credit status and the use of credit mitigation measures, such as minimum margin requirements, collateral requirements and netting agreements. Examples of collateral include letters of credit and cash received for either prepayment or margin deposit.

The Company's Risk Management Committee (RMC) continuously monitors NJR's credit risk management policies and procedures. The RMC is comprised of individuals from NJR-affiliated companies that meet twice a month and, among other things, evaluates the effectiveness of existing credit policies and procedures, reviews material transactions and discusses emerging issues.

The following is a summary of gross and net credit exposures, grouped by investment and noninvestment grade counterparties, as of December 31, 2009. Gross credit exposure is defined as the unrealized fair value of derivative and energy trading contracts plus any outstanding receivable for the value of natural gas delivered for which payment has not yet been received. Net credit exposure is defined as gross credit exposure reduced by collateral received from counterparties and/or payables, where netting agreements exist. The amounts presented below exclude accounts receivable for retail natural gas sales and services.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (Continued)

Unregulated counterparty credit exposure as of December 31, 2009, is as follows:

<i>(Thousands)</i>	Gross Credit Exposure	Net Credit Exposure
Investment grade	\$152,960	\$100,623
Noninvestment grade	9,345	—
Internally rated investment grade	28,671	8,528
Internally rated noninvestment grade	6,521	—
Total	\$197,497	\$109,151

NJNG's counterparty credit exposure as of December 31, 2009, is as follows:

<i>(Thousands)</i>	Gross Credit Exposure	Net Credit Exposure
Investment grade	\$41,819	\$31,897
Noninvestment grade	380	—
Internally rated investment grade	994	106
Internally rated noninvestment grade	1,409	244
Total	\$44,602	\$32,247

Due to the inherent volatility in the prices of natural gas commodities and derivatives, the market value of contractual positions with individual counterparties could exceed established credit limits or collateral provided by those counterparties. If a counterparty failed to perform the obligations under its contract (for example, failed to deliver or pay for natural gas), then the Company could sustain a loss. This loss would comprise the loss on natural gas delivered but not paid for and/or the cost of replacing natural gas not delivered at a price higher than the price in the original contract. Any such loss could have a material impact on the Company's financial condition, results of operations or cash flows.

Interest Rate Risk—Long-Term Debt

As of December 31, 2009, NJNG is obligated with respect to loan agreements securing six series of auction-rate bonds totaling approximately \$97 million of variable-rate debt backed by securities issued by the Economic Development Authority (EDA). The EDA bonds are ARS and have an interest rate reset every 7 or 35 days, depending upon the applicable series, when an auction is held for the purposes of determining the interest rate pricing of the securities. The interest rate associated with the NJNG variable-rate debt is based on the rates the EDA receives from its ARS. As of December 31, 2009, all of the auctions surrounding the EDA ARS have failed, resulting in the securities bearing interest at their maximum rates, as defined in the ARS, as the lesser of (i) 175 percent of 30-day LIBOR or (ii) 10 to 12 percent per annum, as applicable to such series of ARS. While the failure of the ARS auctions has no default impact on NJNG's variable-rate debt, it does impact its borrowing costs of the variable-rate debt. As such, NJNG currently has a weighted average interest rate of 0.41 percent as of December 31, 2009. There can be no assurance that the EDA ARS will have enough market liquidity to avoid failed auctions in the future, which could potentially have an adverse impact on NJNG's borrowing costs if LIBOR rates increase. NJR is reviewing alternative methods for refinancing the ARS at NJNG on a continuing basis, however, it cannot assure that alternative sources of financing can be implemented in a timely manner.

At December 31, 2009, the Company (excluding NJNG) had no variable-rate long-term debt.

Effects of Inflation

Although inflation rates have been relatively low to moderate in recent years, any change in price levels has an effect on operating results due to the capital-intensive and regulated nature of the Company's utility subsidiary. The Company attempts to minimize the effects of inflation through cost control, productivity improvements and regulatory actions where appropriate.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Under the supervision and with the participation of the Company's management, including the principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) (the Exchange Act), as of the end of the period covered by this report. Based on this evaluation, the Company's principal executive officer and principal financial officer concluded that, as of end of the period covered by this report, the Company's disclosure controls and procedures are effective, to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

NJR continually reviews its disclosure controls and procedures and makes changes, as necessary, to ensure the quality of its financial reporting. There have been no changes in internal control over financial reporting that occurred during the first quarter of 2010 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

ITEM 1. LEGAL PROCEEDINGS

Information regarding reportable legal proceedings is contained in Part I, "Item 3. Legal Proceedings" in NJR's Annual Report on Form 10-K for the year ended September 30, 2009, and is set forth in *Part I, Item 1, Note 13. Commitment and Contingent Liabilities—Legal Proceedings* in the Unaudited Condensed Consolidated Financial Statements. No legal proceedings became reportable during the quarter December 31, 2009, and there have been no material developments during such quarter regarding any previously reported legal proceedings, which have not been previously disclosed.

ITEM 1A. RISK FACTORS

While NJR attempts to identify, manage and mitigate risks and uncertainties associated with its business to the extent practical, under the circumstances, some level of risk and uncertainty will always be present. Part I, Item 1A, "Risk Factors," of NJR's 2009 Annual Report on Form 10-K includes a detailed discussion of NJR's risk factors. These risks and uncertainties have the potential to materially affect NJR's financial condition and results of operations. There have not been any material changes from the risk factors as previously disclosed by NJR in the 2009 Annual Report on Form 10-K.

ITEM 2. UNREGISTERED SALE OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table sets forth NJR's repurchase activity for the quarter ended December 31, 2009:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet be Purchased Under the Plans or Programs ⁽¹⁾
10/01/09 – 10/31/09	50,800	\$35.54	50,800	273,971
11/01/09 – 11/30/09	25,300	\$34.95	25,300	248,671
12/01/09 – 12/31/09	—	—	—	248,671
Total	76,100	\$35.34	76,100	248,671

⁽¹⁾ On January 27, 2010, the Board of Directors authorized an increase the number of shares of NJR common stock authorized for repurchase under NJR's Share Repurchase Plan by 2 million shares to a total of 8.8 million shares.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) An annual meeting of shareholders was held on January 27, 2010.

(b) The shareholders voted upon the following matters at the January 27, 2010 annual shareholders meeting:

(i) The election of four directors to the Board of Directors for terms expiring in 2013. The results of the voting were as follows:

DIRECTORS UNTIL 2013	FOR	WITHHELD
Lawrence R. Codey	26,196,859	2,564,680
Laurence M. Downes	28,043,986	717,554
Robert B. Evans	28,373,017	388,522
Alfred C. Koeppe	26,277,109	2,484,430

In addition to the directors elected at the annual meeting, the terms of the following members of NJR's Board of Directors continued after the meeting:

Nina Aversano
Donald L. Correll
M. William Howard, Jr.
Jane M. Kenny
J. Terry Strange
David A. Trice
George R. Zoffinger

(ii) Approval of the action of the Audit Committee in retaining Deloitte & Touche LLP as NJR's independent registered public accounting firm. The results of the voting were as follows:

FOR	AGAINST	ABSTAIN
34,793,104	393,406	123,027

There were 6,547,998 broker non-votes in the election of directors.

New Jersey Resources Corporation
Part II

ITEM 6. EXHIBITS

- | | |
|------|---|
| 10.3 | New Jersey Natural Gas Company Plan for Retirement Allowances for Non-Represented Employees (Amended and Restated Effective January 1, 2010)* |
| 31.1 | Certification of the Chief Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act |
| 31.2 | Certification of the Chief Financial Officer pursuant to section 302 of the Sarbanes-Oxley Act |
| 32.1 | Certification of the Chief Executive Officer pursuant to section 906 of the Sarbanes-Oxley Act** |
| 32.2 | Certification of the Chief Financial Officer pursuant to section 906 of the Sarbanes-Oxley Act** |

* Filed herewith.

**This certificate accompanies this report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by NJR for purposes of Section 18 or any other provision of the Securities Exchange Act of 1934, as amended.

New Jersey Resources Corporation
Part II

SIGNATURES

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

NEW JERSEY RESOURCES CORPORATION

(Registrant)

Date: February 3, 2010

By: /s/ Glenn C. Lockwood

Glenn C. Lockwood
Senior Vice President and
Chief Financial Officer

NEW JERSEY NATURAL GAS COMPANY

Plan For Retirement Allowances For

Non-Represented Employees

**Amended and Restated Effective January 1, 2010
(Including Amendments Through January 27, 2010)**

TABLE OF CONTENTS

	<u>Page</u>
PREAMBLE	1
SECTION 1.DEFINITIONS	2
SECTION 2.PARTICIPATION	7
2.1 ELIGIBILITY REQUIREMENTS	7
2.2 CONTINUATION OF PARTICIPATION	7
2.3 CONTRIBUTORY PARTICIPATION REQUIREMENTS	7
2.4 TRANSFER TO NON-COVERED STATUS	7
2.5 REEMPLOYMENT ON OR AFTER OCTOBER 1, 2009	7
2.6 TRANSFERS ON OR AFTER OCTOBER 1, 2009	7
SECTION 3.RETIREMENT DATE	8
3.1 NORMAL RETIREMENT DATE	8
3.2 EARLY RETIREMENT DATE	8
3.3 DISABILITY RETIREMENT DATE	8
3.4 POSTPONED RETIREMENT DATE	8
3.5 REEMPLOYMENT OF A PARTICIPANT CURRENTLY IN RECEIPT OF A RETIREMENT ALLOWANCE	8
SECTION 4.AMOUNT OF RETIREMENT ALLOWANCE	10
4.1 NORMAL RETIREMENT ALLOWANCE	10
4.2 BASIC ALLOWANCE	10
4.3 ADDITIONAL ALLOWANCE	10
4.4 MAXIMUM BENEFIT	10
4.5 EARLY RETIREMENT ALLOWANCE	11
4.6 DISABILITY RETIREMENT ALLOWANCE	12
4.7 POSTPONED RETIREMENT ALLOWANCE	12
4.8 SPECIAL PROVISION FOR PARTICIPANTS WHO WERE HIRED BEFORE DECEMBER 8, 1974	13
4.9 NON-DUPLICATION OF BENEFITS	13
4.10 INCREASED BENEFITS FOR RETIREES	13
4.11 SECTION 401(A)(17) EMPLOYEES	13
4.12 DELAYED COMMENCEMENT OF RETIREMENT ALLOWANCE	14
SECTION 5.CONTRIBUTIONS	15
5.1 EMPLOYEE CONTRIBUTIONS	15
5.2 WITHDRAWAL OF EMPLOYEE CONTRIBUTIONS	15
5.3 COMPANY CONTRIBUTIONS	15
5.4 ADMINISTRATION EXPENSE	15
5.5 FORFEITURES	15
5.6 REFUND OF EMPLOYER CONTRIBUTIONS	15
SECTION 6.IN EVENT OF DEATH	16
6.1 PRIOR TO RETIREMENT	16
6.2 AFTER RETIREMENT	16
6.3 DESIGNATION OF BENEFICIARY	16

TABLE OF CONTENTS
(continued)

	<u>Page</u>
SECTION 7.IN EVENT OF TERMINATION OF EMPLOYMENT	17
7.1 NON-VESTED PARTICIPANTS	17
7.2 VESTED PARTICIPANTS	17
7.3 REEMPLOYMENT PRIOR TO HAVING A BREAK IN SERVICE	17
7.4 REEMPLOYMENT OF A VESTED PARTICIPANT OR FORMER VESTED PARTICIPANT AFTER HAVING A BREAK IN SERVICE	17
7.5 REEMPLOYMENT OF A NON-VESTED PARTICIPANT AFTER HAVING A BREAK IN SERVICE	18
7.6 REEMPLOYMENT OF A NON-PARTICIPANT AFTER HAVING A BREAK IN SERVICE	18
7.7 REEMPLOYMENT AND REPAYMENT OF ADDITIONAL ALLOWANCE ACCOUNT	18
7.8 AMENDMENT OF VESTING SCHEDULE	18
SECTION 8. FORMS OF RETIREMENT ALLOWANCE	19
8.1 NORMAL FORM OF PAYMENT	19
8.2 OPTIONAL FORMS OF PAYMENT	19
8.3 ELECTION OF OPTIONAL FORMS OF PAYMENT	21
8.4 COMMENCEMENT OF PAYMENTS	22
8.5 DISTRIBUTION LIMITATION	22
8.6 DIRECT ROLLOVER OF CERTAIN DISTRIBUTIONS	23
SECTION 9.ADMINISTRATION OF THE PLAN	24
9.1 PLAN ADMINISTRATOR	24
9.2 BOARD OF DIRECTORS	24
9.3 APPOINTMENT OF THE BENEFIT ADMINISTRATION COMMITTEE	24
9.4 COMMITTEE MEETINGS, PROCEDURES AND APPOINTMENT OF AGENTS	24
9.5 ALLOCATION AND DELEGATION OF RESPONSIBILITIES	24
9.6 RECORDS OF PROCEEDINGS	25
9.7 COMPENSATION, EXPENSES	25
9.8 INFORMATION SUPPLIED BY THE COMPANY	25
9.9 LIABILITY AND INDEMNIFICATION	25
9.10 CLAIMS FOR BENEFITS	25
SECTION 10.MANAGEMENT OF THE FUNDS	26
10.1 RETIREMENT ALLOWANCE FUND	26
10.2 TRUSTEE	26
10.3 INVESTMENT MANAGER	26
10.4 DISBURSEMENT OF FUNDS	26
10.5 CONTRIBUTOR'S ADDITIONAL ALLOWANCE ACCOUNT	26
SECTION 11.AMENDMENT	27
11.1 RIGHT TO AMEND	27
11.2 SPECIAL PROVISION FOR AMENDMENT OF SECTION 16.3(A)	27
SECTION 12.SUSPENSION AND DISCONTINUANCE	28
12.1 SUSPENSION OF CONTRIBUTIONS	28
12.2 DISCONTINUANCE	28
12.3 MERGER, CONSOLIDATION OR TRANSFER	28

TABLE OF CONTENTS
(continued)

	<u>Page</u>
SECTION 13.MISCELLANEOUS	29
13.1 UNIFORM ADMINISTRATION	29
13.2 PAYMENT DUE AN INCOMPETENT	29
13.3 IDENTITY OF PAYEE	29
13.4 NON-ALIENATION OF BENEFITS	29
13.5 SOURCE OF PAYMENTS	29
13.6 PLAN NOT A CONTRACT OF EMPLOYMENT	29
13.7 PAYMENT OF RETIREMENT ALLOWANCE:	29
13.8 ADOPTION OF PLAN BY AFFILIATE	30
13.9 LIMITATIONS BASED ON THE FUNDED STATUS OF THE PLAN	30
13.10 LIMITATIONS ON UNPREDICTABLE CONTINGENT EVENT BENEFITS	30
SECTION 14.PRE-TERMINATION RESTRICTIONS	31
14.1 RESTRICTION ON BENEFITS	31
SECTION 15.TOP-HEAVY PROVISIONS	32
SECTION 16.RETIREE MEDICAL ACCOUNT	33
16.1 CONSTRUCTION	33
16.2 ESTABLISHMENT OF ACCOUNT:	33
16.3 DEFINITIONS	33
16.4 COMPANY CONTRIBUTION	33
16.5 INVESTMENT OF CONTRIBUTIONS	34
16.6 KEY EMPLOYEES	34
16.7 FORFEITURES	34
16.8 IMPOSSIBILITY OF DIVERSION	34
16.9 AMENDMENT	34
16.10 TERMINATION	34
16.11 REVERSION OF ASSETS UPON TERMINATION	34

PREAMBLE

Effective June 1, 1955 New Jersey Natural Gas Company established the Plan for Retirement Allowances for its employees. The Plan was subsequently amended from time to time thereafter. Effective October 1, 1968 the Plan was amended to create two separate plans covering represented and non-represented employees of the Company. This plan for non-represented employees was named the Plan for Retirement Allowances for Non-Represented Employees (the "Plan"). The Plan was further amended effective October 1, 1977, January 1, 1981, October 1, 1984, December 8, 1986, October 1, 1987 and October 1, 1988.

Effective October 1, 1989 the Plan was amended and restated. As so amended, the Plan applied to persons in the employment of the Company who were or become Participants on or after October 1, 1989. Former Employees whose service terminated prior to October 1, 1989 whether as a result of retirement, death or any other form of termination of employment and those entitled to benefits under the Plan with respect to such former Employees were entitled to benefits under the Plan only to the extent, if any, provided under the Plan as in effect before October 1, 1989, except as provided in Section 4.10 (Increased Benefits for Retirees) or as otherwise required by applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations thereunder.

The Plan was further amended January 1, 1993.

Effective October 1, 1993 the Plan was amended and restated. Former Employees whose service terminated prior to October 1, 1993 whether as a result of retirement, death or any other form of termination of employment and those entitled to benefits under the Plan with respect to such former Employees shall be entitled to benefits under the Plan only to the extent, if any, provided under the Plan as in effect before October 1, 1993 except as provided in Section 4.10 (Increased Benefits for Retirees) or as otherwise required by applicable provisions of the Code or regulations thereunder. The Plan was further amended effective December 8, 1995.

Effective October 1, 1997, the Plan was amended and restated to incorporate prior amendments and to conform with the applicable provisions of the Uniformed Services Employment and Reemployment Rights Act of 1994, the Retirement Protection Act of 1994, the Small Business Job Protection Act of 1996, the Taxpayer Relief Act of 1997, and the Community Renewal Tax Relief Act of 2000, and Internal Revenue Service regulations as of the dates the provisions of these Acts and regulations are effective with respect to the Plan. Prior amendments which have a different effective date are described in the Plan document. Former Employees whose service terminated prior to October 1, 1997 whether as a result of retirement, death, or any other form of termination of employment and those entitled to benefits under the Plan with respect to such former Employees shall be entitled to benefits under the Plan only to the extent, if any, provided under the Plan as in effect before October 1, 1997, except as otherwise provided by applicable provisions of the Code or regulations thereunder.

Effective October 1, 2005, the Plan was amended and restated as set forth herein to incorporate prior amendments and to conform with the Economic Growth and Tax Relief Reconciliation Act of 2001 and Internal Revenue Service regulations as of the dates the provisions of this Act and regulations are effective with respect to the Plan.

Effective January 1, 2008, the Plan was amended to add a joint and 75% survivor annuity optional form of payment to conform with the requirements of the Pension Protection Act of 2006. The Plan was further amended effective March 11, 2009 to (1) delegate to the Benefits Administration Committee the authority to amend the Plan at any time provided that such changes do not significantly increase the cost to the Company and do not materially impact Participants, and (2) expand the notice and consent period for payment of optional forms of retirement allowances as permitted under the Pension Protection Act of 2006. Effective for Limitation Years beginning on or after January 1, 2008, the Plan was amended to conform with the regulations issued under Section 415 of the Code.

Effective October 1, 2009, the Plan was amended to freeze the Plan by excluding from participation any new Employees and certain rehired Employees who are hired or rehired on or after that date.

Effective January 1, 2010, the Plan is amended and restated to incorporate amendments adopted since the prior restatement dated October 1, 2005, and to conform with the applicable provisions of the Pension Protection Act of 2006 (and the Internal Revenue Service regulations thereunder) and the Heroes Earnings Assistance and Relief Tax Act of 2008, as of the dates the provisions of such Acts and regulations are effective with respect to the Plan.

SECTION 1. DEFINITIONS

The following words and phrases, as used herein, shall have the following meanings, unless a different meaning is plainly required by the context:

1.1 “Accrued Retirement Allowance” means the amount of Retirement Allowance determined in accordance with Section 4.1 (Normal Retirement Allowance) as of the determination date.

1.2 “Actuarial Equivalent” means, except as otherwise provided in the Plan, an amount of equal value when computed on the basis of the Unisex Pension-1984 Table with a four year age setback and an interest rate of 5% per annum compounded annually.

However, for purposes of Option F under Section 8.2 (Optional Forms of Payment), and provided their use results in a larger lump sum value, the five percent (5%) above shall be replaced by the interest rates published by the Pension Benefit Guaranty Corporation (“PBGC”) for plans which terminate in the month of October of the Plan Year in which the lump sum payment is made. Notwithstanding the prior sentence, effective for Annuity Starting Dates on and after October 1, 2000, in no event shall the lump sum value for purposes of Section 8.2 be less than the amount determined by using the IRS Mortality Table and the IRS Interest Rate.

For purposes of Option C under Section 8.2 (Optional Forms of Payment), an amount of equal value when computed on the basis of:

(a) with respect to Participants, a 65% male and 35% female blend of the UP-94 Mortality Table projected to 2002 with Scale AA and an interest rate of 6%; and

(b) with respect to Beneficiaries, a 65% female and 35% male blend of the UP-94 Mortality Table projected to 2002 with Scale AA and an interest rate of 6%.

1.3 “Actuary” means an individual who is an enrolled actuary under the provisions of the Employee Retirement Income Security Act of 1974, or a firm of actuaries which has on its staff such an actuary, as appointed by the Company.

1.4 “Additional Allowance” means the annual amount of Retirement Allowance payable to a Participant as a result of his or her having made Contributions to the Plan.

1.5 “Additional Allowance Account” means the sum of the amounts contributed by a Contributor accumulated with Interest less the sum of any Additional Allowance payments made up to such date to or on behalf of such Contributor.

1.6 “Affiliate” means an Employer and any corporation which is a member of a controlled group of corporations (as defined in Section 414(b) of the Code) which includes an Employer; any trade or business (whether or not incorporated which is under common control (as defined in Section 414(c) of the Code) with an Employer; any organization (whether or not incorporated) which is a member of an affiliated service group (as defined in Section 414(m) of the Code) which includes an Employer; and any other entity required to be aggregated with an Employer pursuant to regulations under Section 414(o) of the Code). For purposes under the Plan of determining whether or not a person is an Employee and the periods of employment of such person, each such other company shall be included as an “Affiliate” only for such period or periods during which such other company is a member of the controlled group, under common control, an affiliated service group, or otherwise required to be aggregated.

1.7 “Annuity Starting Date” means, unless the Plan expressly provides otherwise, the first day of the first period for which an amount is due as an annuity or any other form. If a Participant who remains in service after his or her Normal Retirement Date elects different commencement dates for his or her Basic Allowance and Additional Allowance, he or she shall have different Annuity Starting Dates with respect to such allowances.

1.8 “Basic Allowance” means the annual amount of Retirement Allowance payable to a Participant without regard to his or her having made Contributions to the Plan.

1.9 “Beneficiary” means the person or persons designated by a Participant in accordance with the provisions of Section 6.3 (Designation of Beneficiary) to receive benefits under the Plan, other than as a life annuity, as a result of the death of the Participant.

1.10 “Board of Directors” means the Board of Directors of the Company.

1.11 “Break in Service” means a period which constitutes a break in an Employee’s Service, as provided in Section 1.48(a).

1.12 “Code” means the Internal Revenue Code of 1986, as amended from time to time.

1.13 “Committee” means the Benefit Administration Committee (known as the Pension Administration Committee prior to January 1, 1995) appointed in accordance with Section 9 (Administration of the Plan). Prior to January 1, 2000, certain responsibilities of the Committee were delegated to an entity known as the Retirement Board.

1.14 “Company” means New Jersey Natural Gas Company or any successor thereto by merger, purchase or otherwise.

1.15 “Compensation” means the base wage or salary or amounts in lieu of base wage or salary, paid in cash or its equivalent, of an Employee. Commissions shall be included in Compensation for the period for which they are earned, rather than the period for which they are paid. Compensation shall also include any “Deferred Contributions” made pursuant to a salary reduction election under the New Jersey Resources Corporation Employees’ Retirement Savings Plan and pre-tax contributions under a “cafeteria plan” (as defined under Section 125 of the Code and its applicable regulations) or under a “qualified transportation fringe” (as defined under Section 132(f) of the Code and its applicable regulations) and remuneration for accrued vacation time. Compensation shall not include overtime pay, bonuses, reimbursement for expenses, company contributions to the payment of premiums on Employee’s insurance policies or any other special payments over and above base wage or salary and commissions. While an Employee is not actively working on account of a disability and is not receiving his or her regular earnings, his or her base rate of

wage or salary in effect immediately prior to his or her disability shall be deemed to be his or her Compensation during the period of such disability.

If a Participant's Credited Service includes any period under Section 1.20(f), the Participant's Compensation shall be determined as if he or she were an Employee during such period of Credited Service.

With respect to Plan Years beginning after December 31, 1988 and before January 1, 1994, in no event will Compensation exceed \$200,000, as adjusted from time to time by the Secretary of the Treasury in accordance with Section 415(d) of the Code and with respect to Plan Years beginning after December 31, 1993, in no event will Compensation exceed \$150,000, as adjusted from time to time by the Secretary of the Treasury in accordance with Section 401(a)(17) of the Code. For any Plan Year commencing on or after January 1, 2002, annual Compensation taken into account for any purpose under the Plan shall not exceed \$200,000, as adjusted from time to time by the Secretary of the Treasury in accordance with Section 401(a)(17) of the Code. For purposes of determining benefit accruals in Plan Years beginning after December 31, 2001, annual Compensation for Plan Years beginning before January 1, 2002 shall not exceed \$200,000 for Participants with at least one Hour of Service after December 31, 2001. The cost-of-living adjustment in effect for a calendar year applies to annual compensation for the determination period that begins within such calendar year. If compensation for any prior Plan Year is taken into account in determining an Employee's benefits for the current year, the compensation for such prior year is subject to the applicable annual compensation limit in effect for that prior year.

1.16 "Contingent Participant" means the person so designated by the Participant to receive life annuity survivor benefits as a result of the death of the Participant in accordance with the election of an option under Section 8.2 (Optional forms) or Section 6.1 (Prior to Retirement).

1.17 "Contributions" of a Participant means the sum of his or her contributions under the Plan which have not been withdrawn, not including Interest thereon.

1.18 "Contributor" means any Participant who has made contributions under the Plan, and who has not withdrawn all of his or her Contributions, or is otherwise entitled to a residual benefit arising from contributions previously withdrawn from the Plan.

1.19 "Covered Compensation" means, for any Participant, the amount of Final Average Compensation which does not exceed the average (without indexing) of the taxable wage bases in effect under Section 230 of the Social Security Act for each year in the 35 calendar year period ending with the last day of the calendar year in which the Participant reaches his or her Social Security Retirement Age based on the Social Security Act as in effect on the date of the Participant's termination of employment and computed as if the maximum taxable wage base for the year of his or her termination of employment continued to apply for all succeeding years. No increase in Covered Compensation shall decrease a Participant's accrued benefit under the Plan.

1.20 "Credited Service" means as follows:

(a) With respect to a Participant who was a Participant on September 30, 1976, Credited Service for service rendered through that date shall be equal to the "Creditable Service" recognized through September 30, 1976 under the terms of the Plan in effect on that date.

(b) Except as provided below, all Service on and after October 1, 1976 as an Employee shall be Credited Service under the Plan. Any period between a Severance from Service Date and a reemployment date which is counted as Service as provided in Section 1.48(a) shall not be counted as Credited Service.

(c) Credited Service shall include, to the extent required by law, any period of absence from service with an Employer due to service in the uniformed services of the United States which is counted in a Participant's Service as provided in Section 1.48(d).

(d) Credited Service shall include periods of absence on account of injury or illness, or temporary layoff on account of reduction in force, leave of absence granted to an Employee by an Employer, or periods of strike or lockout which are counted in a Participant's Service as provided in Section 1.48(e).

(e) Except as provided in paragraph (f) below, Credited Service shall not be credited for any period in which an individual is not an Employee but is in the employ of an Employer.

Effective October 1, 2009, except for the purpose of determining eligibility for an Early Retirement Date under Section 3.2, Credited Service shall not be credited for any period in which an Employee is in the employ of an Employer but is not permitted to begin or resume active participation in the Plan pursuant to Section 2.1(b).

(f) If:

(i) a Participant is also a participant in the Represented Plan; and

(ii) the last day the Participant earned Credited Service under this Plan is later than the last day the Participant earned service for purposes of benefit accrual under the Represented Plan;

then the Participant's Credited Service under this Plan shall be determined as if periods of service that would be taken into account in determining credited service under the Represented Plan were periods of service as an Employee under this Plan.

(g) Credited Service shall be counted in full years only. Six months or more shall be treated as a full year.

(h) In no event shall an Employee be deemed to have more than one year of Credited Service with respect to any 12-consecutive month period.

1.21 "Disability Retirement Date" means the first day of any month following the month in which a Participant becomes Totally and Permanently Disabled and retires in accordance with Section 3.3. Pursuant to Section 8.1(c), a Disability Retirement Date is not an Annuity Starting Date for purposes of this Plan.

1.22 "Early Retirement Date" means the first day of any month within the 10 years immediately preceding his or her Normal Retirement Date on which a Participant retires in accordance with Section 3.2 (Early Retirement Date).

1.23 “Employee” means any person who is employed by an Employer except for persons whose terms and conditions of employment are determined by an agreement between the Employer and a duly certified collective bargaining agent unless and until the Employer and such an agent agree that the Plan shall apply to such persons.

The term “Employee” shall not include (a) any Leased Employee, except as otherwise provided by law or (b) any Employee who is a nonresident alien who receives no earned income within the meaning of Section 911(d)(2) of the Code from an Employer which constitutes income from sources within the United States within the meaning of Section 861(a) of the Code. In addition, any person classified as an independent contractor, consultant or person otherwise designated as not eligible to participate in or receive benefits under the Plan by an Employer or not on the payroll of an Employer shall, during such period, be excluded from the definition of Employee, regardless of any such person’s reclassification for such period by the Internal Revenue Service for tax withholding purposes and even if such ineligible person is subsequently determined to be an “employee” for such period by any other governmental or judicial authority.

1.24 “Employer” means the Company and any Affiliate which, with the approval of the Board of Directors, adopts the Plan as provided in Section 13.8.

1.25 “Excess Compensation” means the excess, if any, of the Participant’s Final Average Compensation over his or her Covered Compensation.

1.26 “Final Average Compensation” means with respect to any Participant, the average of his or her annual Compensation during the 60 consecutive months after 1965 and preceding the date of his or her termination of employment (or during the total number of months of his or her Service preceding the date of his or her termination of employment if less than 60 consecutive completed months) affording the highest such average. Periods during which a Participant has not incurred a Break in Service but during which no Compensation is earned are included for purposes of determining Final Average Compensation.

With respect to a Participant who is rehired by an Employer on or after October 1, 2009, the Final Average Compensation of such Participant shall be frozen as of his or her previous termination of employment date unless he or she is permitted to resume active participation in the Plan pursuant to Section 2.5 or 2.6.

1.27 “Highly Compensated Employee” means, for a calendar year commencing on or after January 1, 1997, any employee of the Company or an Affiliate (whether or not eligible for participation in the Plan) who:

- (a) was a 5 percent owner (as defined in Section 416(i) of the Code) for such calendar year or the prior calendar year; or
- (b) for the preceding calendar year received Section 414(s) Compensation in excess of \$80,000 and was among the highest 20 percent of employees for the preceding calendar year when ranked by Section 414(s) Compensation paid for that year excluding, for purposes of determining the number of such employees, such employees as the Committee may determine on a consistent basis pursuant to Section 414(q) of the Code. The \$80,000 dollar amount in the preceding sentence shall be adjusted from time to time for cost of living in accordance with Section 414(q) of the Code (\$110,000 for 2010).

Notwithstanding the foregoing, employees who are nonresident aliens and who receive no earned income from the Company or an Affiliate which constitutes income from sources within the United States shall be disregarded for all purposes of this Section.

The Company’s top-paid group election as described above shall be used consistently in determining Highly Compensated Employees for determination years of all employee benefit plans of the Company and Affiliates for which Section 414(q) of the Code applies (other than a multiemployer plan) that begin with or within the same calendar year, until such election is changed by Plan amendment in accordance with IRS requirements. Notwithstanding the foregoing, the consistency provision in the preceding sentence shall not apply for the Plan Year beginning in 1997 and, for Plan Years beginning in 1998 and 1999, shall apply only with respect to all qualified retirement plans (other than a multiemployer plan) of the Company and Affiliates.

For purposes of this Section 1.27, “Section 414(s) Compensation” means W-2 compensation as described in Treasury Regulations Section 1.414(s)-1(d)(2) and 1.415(c)-2(d)(4) and shall also include all amounts not currently included in the Employee’s gross income by reason of Sections 125, 132(f), 402(e)(3), 402(h)(1)(B), 402(k) and 457(b) of the Code.

1.28 “Hours of Service” means, with respect to any applicable computation period:

- (a) each hour for which the employee is paid or entitled to payment for the performance of duties for an Employer;
- (b) each hour for which an employee is paid or entitled to payment by an Employer on account of a period during which no duties are performed, whether or not the employment relationship has terminated, due to vacation, holiday, illness, incapacity (including disability), layoff, jury duty, service in the uniformed services of the United States or leave of absence, but not more than 501 hours for any single continuous period;
- (c) each hour for which back pay, irrespective of mitigation of damages, is either awarded or agreed to by an Employer, excluding any hour credited under (a) or (b) above, which shall be credited to the computation period or periods to which the award, agreement or payment pertains, rather than to the computation period in which the award, agreement or payment is made;
- (d) each hour for which an employee would normally be credited under paragraph (a) or (b) above during a period of Parental Leave; and
- (e) each hour for which an employee would normally be credited under paragraph (a) or (b) above during a period of leave for the birth, adoption or placement of a child, to care for a Spouse or an immediate family member with a serious illness or for the employee’s own illness pursuant to the Family and Medical Leave Act of 1993 and its regulations.

No hours shall be credited on account of any period during which the employee performs no duties and receives payment solely for the purpose of complying with unemployment compensation, workers’ compensation or disability insurance laws. The Hours of Service credited shall be determined as required by Title 29 of the Code of Federal Regulations, Section 2530.200b-2(b) and (c).

1.29 “Interest” means, when used in connection with a Participant’s Contributions, the actual earnings of the Retirement Allowance Fund, excluding any capital gains or losses, credited on the basis of the average net balance for the period covered by the credit, but effective October 1, 1977 not less than 5% per annum, compounded annually. In determining the amount of Additional Allowance Account payable to a Participant or a Beneficiary, Interest shall be credited from the previous September 30 up to the last day of the month immediately preceding such payment on the basis of the rate established for the last full Plan Year. Solely for purposes of allocating accrued benefits between Company-provided benefits and those provided by employee contributions in accordance with Section 411(c) of the Internal Revenue Code, commencing October 1, 1988, total Interest will be the accumulated interest determined in accordance with the preceding provisions of this Section, but not less than 120% of the Federal midterm rate of interest under Section 1274 of the Internal Revenue Code for the first day of each Plan Year beginning on or after that date.

1.30 “Investment Manager” means an individual and/or other entity appointed in accordance with Section 10.3 (Investment Manager) who has acknowledged in writing that he or she is a fiduciary with respect to the Plan and who is:

- (a) registered as an investment adviser under the Investment Advisers Act of 1940; or
- (b) a bank, as defined in such Act; or
- (c) an insurance company qualified to manage, acquire or dispose of assets of pension plans.

1.31 “IRS Interest Rate” means the annual rate of interest on 30-year Treasury Securities as specified by the Commissioner of Internal Revenue for the third full calendar month preceding the applicable Stability Period. Effective with Annuity Starting Dates on or after October 1, 2008, IRS Interest Rate means the interest rate prescribed under Section 417(e)(3)(C) of the Code (as it reads effective on and after the first date of the 2008 Plan Year), as in effect for the third full calendar month preceding the applicable Stability Period.

1.32 “IRS Mortality Table” means the mortality table prescribed by the Secretary of the Treasury under Section 417(e)(3)(A)(ii)(I) of the Code as in effect on the first day of the applicable Stability Period. However, when determining the amount of a Retirement Allowance with an Annuity Starting Date on or after September 30, 2002 and before October 1, 2008, the IRS Mortality Table means the mortality table prescribed by Revenue Ruling 2001-62. When determining the amount of a Retirement Allowance with an Annuity Starting Date on or after October 1, 2008, the IRS Mortality Table means the mortality table prescribed under Section 417(e)(3)(B) of the Code (as it reads effective on and after the first date of the 2008 Plan Year).

1.33 “Leased Employee” means any person (other than a common law employee of an Employer) who, pursuant to an agreement between an Employer and any other person (“leasing organization”), has performed services for the Employer or any related persons determined in accordance with Section 414(n) (6) of the Code on a substantially full-time basis for a period of at least one year and such services are performed under the primary direction of or control by the Employer.

1.34 “Normal Retirement Age” means an Employee’s 65th birthday.

1.35 “Normal Retirement Date” means the first day of the month following the month in which a Participant’s Normal Retirement Age occurs.

1.36 “Parental Leave” means a period in which the employee is absent from work immediately following his or her active employment because of the employee’s pregnancy, the birth of the employee’s child, or the placement of a child with the employee in connection with the adoption of that child by the employee, for purposes of caring for that child for a period beginning immediately following that birth or placement, provided such period of absence commences on or after October 1, 1985.

1.37 “Participant” means any person who meets the requirements for participation as provided in Section 2 (Participation).

1.38 “Plan” means the Plan for Retirement Allowances for Non-Represented Employees as amended and restated as set forth herein, and as it may hereafter be further amended from time to time.

1.39 “Plan Year” means the 12-month period October 1 to September 30.

1.40 “Postponed Retirement Date” means the first day of any month following his or her Normal Retirement Date on which a Participant retires in accordance with Section 3.4 (Postponed Retirement Date).

1.41 “Represented Additional Allowance” means the vested “Additional Allowance” (as such term is defined in the Represented Plan) which would be payable to the Participant.

1.42 “Represented Basic Allowance” means the vested “Basic Allowance” (as such term is defined in the Represented Plan) which would be payable to the Participant in the form of a single life annuity commencing on his or her Normal Retirement Date or, for purposes of Section 4.7(a)(ii)(A), commencing on his or her Postponed Retirement Date, determined under the provisions of the Represented Plan on the date the Participant ceased to be a Represented Employee.

1.43 “Represented Employee” means any person who is employed by an Employer and whose terms and conditions of employment are determined by a collective bargaining agreement between an Employer and Local Union 1820 of the International Brotherhood of Electrical Workers, AFL-CIO.

1.44 “Represented Plan” means the New Jersey Natural Gas Company Plan for Retirement Allowances for Represented Employees.

1.45 “Retirement Allowance” means annual payments under the Plan as provided in Section 8.

1.46 “Retirement Allowance Fund” means all funds at any time held by the Trustee for the purposes of the Plan, as provided for in Section 10 (Management of the Funds).

1.47 “Retirement Date” shall mean Normal, Early, Disability or Postponed Retirement Date, whichever is applicable.

1.48 “Service” means as follows:

(a) Except as provided in paragraphs (b) through (h) below, Service, with respect to services rendered on and after October, 1976 shall begin on the date the Employee first completes an Hour of Service, or October 1, 1976, if later, and end on the Employee’s Severance From Service Date. If an Employee’s employment is terminated and he or she is later reemployed within one year, the period between his or her Severance From Service Date and the date of his or her reemployment shall be included in his or her Service. However, if his or her employment is terminated during a period of absence from service for reasons such as vacation, sickness, disability, layoff, or leave of absence approved by an Employer, Service shall be counted for the period from his or her Severance From Service Date to the date of his or her reemployment only if he or she is reemployed within one year of the first day of that absence. A Break in Service shall occur if an Employee is not reemployed within one year after a Severance From Service Date; provided, however, that if an Employee’s employment is terminated or if the Employee is otherwise absent from work because of Parental Leave, a Break in Service shall occur only if the Employee is not reemployed or does not return to active service within two years of his or her Severance From Service Date; and provided further, that the first year of such absence for Parental Leave, measured from his or her Severance From Service Date, shall not be considered in determining the Employee’s “period of Break in Service” for purposes of Section 7.4, 7.5 or 7.6. If the Employee has a Break in Service, any period before the Break in Service shall be excluded from his or her Service, except as provided in Section 7.4, 7.5 or 7.6.

(b) With respect to any person who was employed by the Company on September 30, 1976, Service for service rendered through that date shall be equal to “Creditable Service” recognized through September 30, 1976 under the terms of the Plan as in effect on that date.

(c) For Employees transferred from the payroll of Jersey Central Power & Light Company as of June 3, 1952, Service shall include continuous employment prior to June 3, 1952 with Jersey Central Power & Light Company or any predecessor, subsidiary, or affiliate of that company as certified to the Company by Jersey Central Power & Light Company.

(d) If an Employee shall have been absent from the service of an Employer because of service in the uniformed services of the United States and if he or she shall have returned to the service of an Employer having applied to return while his or her reemployment rights were protected by law, that absence shall not count as a Break in Service, but instead shall be counted as Service.

(e) Absence on account of injury or illness, or temporary layoff on account of reduction in force or leave of absence granted to an Employee by an Employer shall be included as Service. The Employer’s decision as to what constitutes a temporary layoff shall be final and conclusive. In no event shall a strike or lockout be considered a Break in Service or a termination of employment within the meaning of this Section.

(f) For purposes of determining eligibility for participation and vesting, each of the following periods of service shall be counted in a person’s Service to the extent that it would be recognized under paragraphs (a) through (e) above with respect to Employees:

(i) a period of service as an employee, but not an Employee, of an Employer; or

(ii) in the case of a person who is a Leased Employee before or after a period of service as an Employee, a period during which he or she has performed services for an Employer as a Leased Employee.

The Break in Service rules of Section 7.5 or 7.6 shall be applied as though all such periods of service were service as an Employee.

(g) Service shall be counted in years, months, and days.

(h) In no event shall an Employee be deemed to have more than one year of Service with respect to any 12-consecutive month period.

1.49 “Severance From Service Date” means the earlier of (a) the date an Employee quits, retires, is discharged, or dies, or (b) the last day of an approved leave of absence, or if later, the first anniversary of the date on which an Employee is first absent from service, with or without pay, for any reason such as vacation, sickness, disability, layoff, or leave of absence.

1.50 “Social Security Retirement Age” means age 65 with respect to a Participant who was born before January 1, 1938; age 66 with respect to a Participant who was born after December 31, 1937 and before January 1, 1955; and age 67 with respect to a Participant who was born after December 31, 1954.

1.51 “Spousal Consent” means the irrevocable written consent given by a Participant’s Spouse to an election made by the Participant of an optional form of payment or a designation of a specified Beneficiary or Contingent Participant as provided in Sections 6.3 and 8.3. The optional form or specified Beneficiary or Contingent Participant shall not be changed unless further Spousal Consent is given, unless the Spouse expressly waives the right to consent to any future changes. Spousal Consent shall be duly witnessed by a Plan representative or notary public and shall acknowledge the effect on the Spouse of the Participant’s election. The requirement for Spousal Consent may be waived by the Committee in the event that the Participant establishes to its satisfaction that he or she has no Spouse, that such Spouse cannot be located, or under such other circumstances as may be permitted under applicable U.S. Treasury Department regulations. Spousal Consent shall be applicable only to the particular Spouse who provides such consent.

1.52 “Spouse” means a person of the opposite sex of the Participant who is the Participant’s legal spouse as recognized under the Defense of Marriage Act of 1996.

1.53 “Stability Period” means the Plan Year in which occurs the Annuity Starting Date for the distribution.

1.54 “Totally and Permanently Disabled” means that a physical or mental condition renders a Participant disabled to the extent that he or she is eligible for and receives disability benefits under the Social Security Act. In the event that a Participant ceases to receive disability benefits under the Social Security Act, he or she shall no longer be considered to be Totally and Permanently Disabled for purposes of the Plan.

A Participant in receipt of a disability Retirement Allowance may be required to submit to evidence of his or her continued eligibility for disability benefits under the Social Security Act, at any time prior to his or her Normal Retirement Date, but not more often than semiannually, to determine whether he or she continues to be Totally and Permanently Disabled. If it is found that he or she is no longer entitled to such Social Security disability benefits, or in the event the disabled Participant refuses to submit evidence of his or her continued eligibility for such Social Security disability benefits, his or her disability Retirement Allowance shall cease.

1.55 “Trustee” means the corporate trustee and/or insurance company appointed in accordance with Section 10.2 (Trustee).

SECTION 2. PARTICIPATION

2.1 Eligibility Requirements

(a) Each person who was covered under the Plan on September 30, 2009 shall continue as a Participant. Except to the extent excluded from participation under Section 2.1(b) below, each Employee hired on or before September 30, 2009 shall become a Participant as of the first day of the month coincident with or next following the date on which he or she has both attained age 21 and has completed 1 year of Service.

(b) Participation in this Plan is frozen as of September 30, 2009. Anyone hired, rehired or transferred to employment with an Employer on or after October 1, 2009 shall not be eligible to join the Plan or accrue additional benefits under the Plan except as set forth below.

Notwithstanding the foregoing, on or after October 1, 2009:

(i) A former Employee who is rehired as an Employee may be eligible to resume active participation in the Plan if he or she meets the requirements of Section 2.5.

(ii) An employee who transfers to an Employer to assume a position as an Employee or who is transferred from an ineligible position to a position as an Employee with the same Employer, may be eligible to begin or resume active participation in the Plan if he or she meets the requirements of Section 2.6.

2.2 Continuation of Participation

Each Participant shall continue to be such after he or she ceases to be an Employee, provided he or she continues to be entitled to retirement or vested benefits in accordance with Section 3 (Retirement Date) or 7 (In Event of Termination of Employment).

2.3 Contributory Participation Requirements

Each Participant who was a Contributor on October 1, 1977 shall continue to be a Contributor unless he or she elects not to do so.

Each other Participant was eligible to become a Contributor as of the first day of the payroll period following the date he or she became a Participant but not on or after June 1, 1984.

Each Participant who elected to become a Contributor had to file with the Committee a signed membership form at least one week prior to the date as of which he or she was to become a Contributor. The membership form, furnished for this purpose, gave such information as the Committee required, and authorized the deduction of the Participant's contributions from his or her pay.

2.4 Transfer to Non-covered Status

If a Participant ceases to meet the definition of Employee as set forth in Section 1.23 (Employee) but continues in the employment of the Company or an Affiliate, his or her Service shall not be broken and he or she shall continue to be a Participant. However, his or her Accrued Retirement Allowance shall remain unchanged unless and until such time as he or she may again become an Employee. In the event of the termination of employment or retirement of such a Participant before again becoming an Employee, he or she shall be entitled to benefits hereunder only to the extent, if any, applicable under the Plan as in effect on the date as of which he or she ceased to be an Employee, unless the Plan expressly provides otherwise.

2.5 Reemployment on or after October 1, 2009

A former Employee who is rehired on or after October 1, 2009 and who was a Participant immediately prior to his or her termination of employment, may resume active participation in this Plan provided he or she is rehired no later than two years after his or her termination of employment. Such rehired Participant will also be subject to the applicable provisions of Sections 7.3, 7.4, 7.5 and 7.7.

2.6 Transfers on or after October 1, 2009

An employee who was hired before October 1, 2009 and who becomes an Employee from (a) a position as an employee of an Affiliate which has not adopted the Plan, or (b) a position as an employee of an Employer that is ineligible to participate in this Plan, may begin or resume active participation in this Plan as of such transfer date provided, however, that if the Employee is beginning participation in this Plan, such participation is also subject to the Employee meeting the eligibility requirements described in Section 2.1(a).

SECTION 3. RETIREMENT DATE

3.1 *Normal Retirement Date*

A Participant who terminates employment and retires on his or her Normal Retirement Date will be entitled to a Retirement Allowance determined in accordance with Section 4 (Amount of Retirement Allowance) payable for life in monthly installments commencing on his or her Normal Retirement Date.

3.2 *Early Retirement Date*

A Participant who has completed 20 or more years of Credited Service may terminate employment and retire on an Early Retirement Date and shall be entitled to a Retirement Allowance determined in accordance with Section 4 (Amount of Retirement Allowance), payable for life in monthly installments commencing on his or her Normal Retirement Date or, at the Participant's election, on the first day of any earlier month on or after his or her Early Retirement Date.

3.3 *Disability Retirement Date*

If a Participant who has at least 5 years of Service becomes Totally and Permanently Disabled while an Employee and before Normal Retirement Date, he or she may terminate employment and retire as of a Disability Retirement Date (provided he or she is still Totally and Permanently Disabled on that date) and shall be entitled to a Retirement Allowance determined in accordance with Section 4 (Amount of Retirement Allowance) and payable as provided in Section 4.6 (Disability Retirement Allowance) in monthly installments commencing on his or her Disability Retirement Date.

If a Participant who has at least 5 years of Service becomes entitled to disability benefits under an Employer's Long Term Disability (LTD) Plan, he or she may (a) if eligible, retire as of a Disability Retirement Date as provided in the above paragraph, or (b) be treated as if he or she were on an approved leave of absence and continue as an active Participant as long as he or she remains entitled to LTD benefits and such period of approved leave of absence shall be included in his or her Service and his or her Credited Service. Such approved leave of absence shall terminate and any additional service crediting will end as of the earlier of: (a) the Participant's death; (b) the date the Participant is no longer Totally and Permanently Disabled; or (c) the date as of which the Participant's disability benefits under an Employer's Long Term Disability (LTD) Plan end. Any Credited Service earned during such period of disability will be included in the calculation of the Participant's Retirement Allowance at his or her Annuity Starting Date determined in accordance with the provisions of Section 3.1 (Normal Retirement Date), Section 3.2 (Early Retirement Date), Section 3.4 (Postponed Retirement Date) or Section 7.2 (Vested Participants), as applicable.

3.4 *Postponed Retirement Date*

A Participant may continue in active service after reaching his or her Normal Retirement Date.

A Participant whose employment is so continued may terminate employment and retire as of a Postponed Retirement Date and shall be entitled to a Basic Allowance determined in accordance with Section 4.2 (Basic Allowance), payable for life in monthly installments commencing on his or her Postponed Retirement Date.

If the Participant has contributed toward an Additional Allowance, his or her Additional Allowance shall commence on his or her Normal Retirement Date regardless of the continuance of his or her employment in accordance with this Section 3.4, unless the Participant elects to defer the commencement of his or her Additional Allowance payments until his or her Postponed Retirement Date. Also, a Participant continuing in active service after reaching his or her Normal Retirement Date will be deemed to have suspended making Contributions unless such Participant elects otherwise.

3.5 *Reemployment of a Participant Currently in Receipt of a Retirement Allowance*

If a Participant in receipt of a Retirement Allowance is reemployed by an Employer, his or her Retirement Allowance payments shall be suspended for each month during the period of such reemployment in which he or she performs services for an Employer for at least eight days. However, Additional Allowance payments shall not be suspended after the Participant's Normal Retirement Date unless the Participant elects otherwise. Any election of an optional form of payment with respect to suspended payment shall be void. Any Service and Credited Service to which the Participant was entitled when he or she retired or terminated service shall be restored.

Subject to the provisions of Section 2.5, a Participant who is rehired as an Employee may become an active Participant as of the first day of the month following his or her reemployment provided he or she is then an Employee.

Upon the subsequent retirement of a Participant who resumed active participation in the Plan upon rehire, his or her Basic Allowance shall be based on the benefit formula then in effect and his or her Compensation and Credited Service before and after the period when he or she was not in the service of the Employer reduced by an amount of Actuarial Equivalent value to the Basic Allowance payments he or she received before the earlier of the date of his or her reemployment or his or her Normal Retirement Date. The Participant's Basic Allowance upon later retirement shall never be less than the amount of his or her previous Basic Allowance modified to elect any optional form of payment in effect on his or her later retirement.

Upon the subsequent retirement of a Participant who was not eligible to resume active participation in the Plan pursuant to Section 2.5, the provisions of the paragraph above shall apply except his or her Basic Allowance shall be based on the benefit formula in effect on the date he or she previously terminated employment (including, if applicable, the Early Retirement Allowance reduction factors in effect at such time) and his or her Final Average Compensation and Credited Service determined as of that date.

Notwithstanding the foregoing, if a Participant in receipt of a Retirement Allowance is reemployed by an Employer for a special project expected to last less than one year, his or her Retirement Allowance shall not be suspended during his or her period of reemployment, and his or her Retirement Allowance payments shall not be adjusted to take into account his or her Compensation during his or her period of reemployment.

If a Participant's Additional Allowance payments are suspended, upon his or her subsequent retirement:

- (a) if the Participant's subsequent retirement is prior to his or her Normal Retirement Date, his or her Additional Allowance shall be based on the provisions of the Plan then in effect and his or her Contributions before and after the period when he or she was not in the service of the Employer; or
- (b) if the Participant's subsequent retirement is on or after his or her Normal Retirement Date but prior to April 1 of the calendar year following the calendar year in which he or she attains age 70½, his or her Additional Allowance shall be equal to the greater of:
 - (i) the amount of Additional Allowance determined in accordance with Section 4.3 (Additional Allowance) based on Contributions at the Participant's Postponed Retirement Date; and
 - (ii) an amount of Actuarial Equivalent value to the Additional Allowance to which the Participant was receiving, determined as of the date the Participant's Additional Allowance payments are first suspended, recomputed as of the date of the Participant's subsequent retirement.

SECTION 4. AMOUNT OF RETIREMENT ALLOWANCE

4.1 Normal Retirement Allowance

(a) The Retirement Allowance to commence upon a Participant's Normal Retirement Date and payable during his or her lifetime shall comprise (i) the Basic Allowance described in Section 4.2 and (ii) in the case of a Contributor, the Additional Allowance described in Section 4.3.

(b) If a Participant who is rehired on or after October 1, 2009 and has Service restored pursuant to Sections 7.3, 7.4, 7.5 or 7.6 is not eligible to be an active Participant after rehire pursuant to Section 2.5, the Retirement Allowance shall be based on the benefit formula (Section 4.2 and Section 4.3) in effect under the Plan at the time of such Participant's last termination of employment date occurring before October 1, 2009.

4.2 Basic Allowance

(a) For retirements occurring on or after October 1, 1989 but prior to December 1, 2003, the annual amount of a Participant's Basic Allowance shall be equal to the sum of:

(i) 1.10% of the Participant's Covered Compensation; plus

(ii) 1.65% of his or her Excess Compensation;

multiplied by the number of years of his or her Credited Service not in excess of 35 years;

PLUS

(iii) 1.25% of the Participant's Final Average Compensation multiplied by the number of years of his or her Credited Service in excess of 35 years;

reduced by, solely in the case of a Participant who is also a participant in the Represented Plan and whose Credited Service under this Plan includes any period determined under Section 1.20(f), the Participant's Represented Basic Allowance.

(b) For retirements occurring on or after December 1, 2003, the annual amount of a Participant's Basic Allowance shall be equal to the sum of:

(i) 1.10% of the Participant's Covered Compensation; plus

(ii) 1.65% of his or her Excess Compensation;

multiplied by the number of years of his or her Credited Service not in excess of 28 years;

PLUS

(iii) 1.25% of the Participant's Covered Compensation; plus

(iv) 1.65% of his or her Excess Compensation;

multiplied by the number of years of his or her Credited Service in excess of 28 years;

reduced by, solely in the case of a Participant who is also a participant in the Represented Plan and whose Credited Service under this Plan includes any period determined under Section 1.20(f), the Participant's Represented Basic Allowance.

In no event shall the pension determined under this Section 4.2 be less than the pension which would have been provided under the terms of the Plan as in effect on September 30, 1989, assuming the Participant terminated his or her employment on such date. Also, any Participant who retires or terminates employment on or after October 1, 1989, other than a Participant whose Compensation exceeds the dollar limit contained in Section 414(q)(1)(B) of the Code, shall be entitled to receive a pension at least as large as that which would have been payable under the terms of the Plan as in effect on September 30, 1989 on the earlier of December 31, 1989 or the date such Participant's employment terminates. The pension determined under this Section 4.2 is also subject to the provisions of Section 4.11.

The Basic Allowance shall be increased by 20% for the first year following the Annuity Starting Date or, in the case of a disability Retirement Allowance, following the date as of which the disability Retirement Allowance commences.

4.3 Additional Allowance

The annual amount of a Contributor's Additional Allowance shall be equal to 25% of his or her Contributions.

4.4 Maximum Benefit

(a) The provisions of Section 415 of the Code are incorporated into the Plan by reference effective with the first Limitation Year beginning on or after July 1, 2007. The following provisions of this Section that reflect the increased limitations of Section 415(b) of the Code effective on and after January 1, 2002 shall apply to all Participants (with benefits limited by Section 415(b) of the Code) who had an Accrued Benefit under the Plan immediately prior to January 1, 2002 (other than an Accrued Benefit resulting from a benefit increase due solely to increases in limitations under Section 415(b)).

(b) Notwithstanding any other provision of the Plan, the annual benefit to which a Participant is entitled under the Plan shall not, in any Limitation Year, be an amount that would exceed the applicable limitations under Section 415 of the Code and regulations thereunder. If the benefit payable under the Plan would (but for this Section) exceed the limitations of Section 415 of the Code by reason of a benefit payable under another defined benefit plan aggregated with this Plan under Section 415(f) of the Code, the benefit under this Plan shall be reduced before any reductions are made under such other plan.

(c) As of January 1 of each calendar year commencing on or after January 1, 2002, the dollar limitation as determined by the Commissioner of Internal Revenue for that calendar year shall become effective as the maximum permissible dollar amount of benefit payable under the Plan during the Limitation Year coincident with that calendar year. Such dollar limitation shall apply to Participants who retire during the Limitation Year but not to Participants who retired prior to that Limitation Year.

(d) The term “remuneration” for purposes of applying the applicable limitations under Section 415 of the Code with respect to any Participant shall mean the wages, salaries and other amounts paid in respect of such Participant by the Company or any Affiliate for personal services actually rendered and including any elective amounts that are not includible in gross income of the Participant by reason of Section 125(a), 132(f)(4), 402(e)(3), 402(h)(1)(B), 402(k), or 457(b) of the Code. For Limitation Years beginning on or after July 1, 2007, for purposes of applying the maximum benefit limitations under this Section 4.4, remuneration shall also include compensation paid by the later of 2½ months after an Employee’s severance from employment with the Company and all Affiliates or the end of the Limitation Year that includes the date of the Employee’s severance from employment, if, absent a severance from employment, such payment would have been paid to the Employee while the Employee continued in employment with the Company or an Affiliate, and is regular compensation for services during the Employee’s regular working hours, compensation for services outside the Employee’s regular working hours (such as overtime or shift differential), commissions, bonuses or other similar compensation.

Effective as of January 1, 2009, in accordance with the provisions of Section 414(u)(12) of the Code and any related regulations, remuneration shall include any differential wage payments paid to an Employee or former Employee by the Company during the period such Employee is performing qualified military service.

In addition, effective for Limitation Years beginning on or after July 1, 2007, for purposes of applying the maximum benefit limitations under this Section 4.4, remuneration as defined herein shall not exceed the limitation on compensation under Section 401(a)(17) of the Code.

(e) Notwithstanding the above, the maximum Retirement Allowance payable to a Participant who has a Freeze Date enumerated below shall not be less than his or her Old Law Benefit. A Participant’s “Old Law Benefit” at any date is the maximum benefit he or she would be entitled to receive at such date, determined without regard to any changes in the terms and conditions of the Plan after December 8, 1994, without regard to any benefits that accrue under the Plan after his or her Freeze Date, and without regard to any cost of living changes that become effective after his or her Freeze Date. The Freeze Date of a Participant whose Retirement Allowance commences on or after January 1, 1995 and before January 1, 2000 shall be December 31, 1999.

(f) The Limitation Year is the calendar year.

4.5 Early Retirement Allowance

The annual amount of Retirement Allowance for a Participant retiring under Section 3.2 (Early Retirement Date) shall be either (a) or (b), as elected by the Participant:

(a) The amount of his or her Accrued Retirement Allowance; Retirement Allowance payments shall commence on the Participant’s Normal Retirement Date.

(b) For Participants whose last day of Service is before December 8, 1993, the amount determined in accordance with (a) above, reduced by 5% for each year (0.41667% per month) by which the Annuity Starting Date (which may be the first day of any month on or after the Participant’s Early Retirement Date but not later than his or her Normal Retirement Date) precedes his or her Normal Retirement Date.

For Participants whose last day of Service is on or after December 8, 1993, the percentage of the amount determined in accordance with (a) above as determined from the table below:

Last Day of Service:	October 1, 1993 through December 7, 1993		December 8, 1993 through December 31, 1998		On or After January 1, 1998	
	On or After October 1, 1993		December 8, 1993 through December 7, 1994	December 8, 1994 through December 7, 1995	On or After December 8, 1995	On or After January 1, 1998
Age at Benefit Commencement						
65	100%	100%	100%	100%	100%	100%
64	95%	100%	100%	100%	100%	100%
63	90%	90%	100%	100%	100%	100%
62	85%	85%	90%	100%	100%	100%
61	80%	80%	80%	90%	100%	100%
60	75%	75%	75%	75%	100%	100%
59	70%	70%	70%	70%	70%	70%
58	65%	65%	65%	65%	65%	65%
57	60%	60%	60%	60%	60%	60%
56	55%	55%	55%	55%	55%	55%
55	50%	50%	50%	50%	50%	50%

(c) If a Participant who is rehired on or after October 1, 2009 and has Service restored pursuant to Sections 7.3, 7.4, 7.5 or 7.6 is not eligible to be an active Participant after rehire, the reduction factors in Section 4.5(b) shall be those in effect under the Plan at the time of such Participant’s last termination of employment date occurring before October 1, 2009.

4.6 Disability Retirement Allowance

The annual amount of Disability Retirement Allowance for a Participant retiring under Section 3.3 (Disability Retirement Date) shall be determined in accordance with Section 4.1 above and shall be paid to the Participant monthly until the earlier of (a) the Participant's death; (b) the date the Participant is no longer Totally and Permanently Disabled; or (c) the Participant's Normal Retirement Date. Payment will commence in accordance with the provisions of Section 8 (Forms of Retirement Allowance) applicable to a Disability Retirement Allowance.

When a Participant is no longer eligible to receive a Disability Retirement Allowance, he or she will be entitled to retire in accordance with the provisions of Section 3.1 (Normal Retirement Date), Section 3.2 (Early Retirement Date), Section 3.4 (Postponed Retirement Date) or Section 7.2 (Vested Participants), as applicable.

A Participant who is disabled to the extent that he or she would have been considered "Totally and Permanently Disabled" under the terms of the Plan before it was amended, effective October 1, 1976, but is not Totally and Permanently Disabled for purposes of the Plan after such amendment, shall be entitled to retire and receive a Retirement Allowance determined in accordance with the Plan before it was amended effective October 1, 1976.

If the Participant dies before his or her Annuity Starting Date, any death benefits will be determined under the applicable provisions of Section 6.

4.7 Postponed Retirement Allowance

(a) (i) The Basic Allowance for a Participant retiring under Section 3.4 (Postponed Retirement Date) shall commence on his or her Postponed Retirement Date.

(ii) The annual amount of Basic Allowance for a Participant retiring under Section 3.4 (Postponed retirement date) shall equal to the greater of:

(A) the amount of Basic Allowance determined in accordance with Section 4.2 (Basic Allowance) based on Credited Service and Final Average Compensation at the Participant's Postponed Retirement Date; or

(B) the amount of Basic Allowance to which the Participant would have been entitled under Section 4.2 (Basic Allowance) if he or she had retired on his or her Normal Retirement Date increased by an amount of Actuarial Equivalent value to the monthly payments which would have been payable with respect to each month during the postponement period which is a Non-suspendible Month.

(iii) Notwithstanding subparagraphs (i) and (ii) above, in the event a Participant remains in service after the April 1 of the calendar year following the calendar year in which he or she attains age 70½, and is not required to commence payment of his or her Basic Allowance while in service under the provisions of Section 8.4(b), then his or her Basic Allowance shall be the greater of (A) the amount of Basic Allowance determined in accordance with Section 4.2 (Basic Allowance) based on Credited Service and Final Average Compensation at the Participant's Postponed Retirement Date; or (B) an amount of Actuarial Equivalent value to the Basic Allowance to which the Participant would have been entitled to under Section 4.2 (Basic Allowance) if he or she had retired on such April 1 ("said date") recomputed in accordance with regulations issued by the Secretary of the Treasury as of the first day of each subsequent Plan Year (and as of his or her actual Postponed Retirement Date) as if such date were the Participant's Postponed Retirement Date. However, in the case of a Participant who attained age 70½ prior to 1996, the preceding sentence shall be modified by replacing "such April 1" in clause (B) with "the end of the Plan Year preceding January 1, 1997" and "the first day of each subsequent Plan Year" with "the end of each subsequent Plan Year." Amounts of Actuarial Equivalent value shall be calculated using the Plan's postponed retirement actuarial equivalence factors and shall be applied on a year-by-year basis measured from the aforesaid date.

(b) (i) The Additional Allowance for a Participant who remains in service after his or her Normal Retirement Date shall commence on the Participant's Normal Retirement Date, unless the Participant elects, prior to his or her Normal Retirement Date, to defer commencement until the Participant's Postponed Retirement Date.

(ii) The annual amount of Additional Allowance for a Participant who remains in service after his or her Normal Retirement Date and who does not elect to defer commencement of his or her Additional Allowance shall be determined in accordance with Section 4.3 (Additional Allowance).

(iii) The annual amount of Additional Allowance for a Participant who remains in service after his or her Normal Retirement Date and who does elect to defer commencement of his or her Additional Allowance shall be equal to the greater of:

(A) the amount of Additional Allowance determined in accordance with Section 4.3 (Additional Allowance) based on Contributions at the Participant's Postponed Retirement Date; or

(B) an amount of Actuarial Equivalent value to the Additional Allowance to which the Participant would have been entitled under Section 4.3 (Additional Allowance) if he or she had retired on his or her Normal Retirement Date, recomputed as of the first day of each subsequent Plan Year (and as of his or her actual Postponed Retirement Date) as if each such date were the Participant's Postponed Retirement Date.

(c) In the event a Participant commences receipt of his or her Retirement Allowance while in active service under the provisions of Section 8.4(b), such commencement date shall be the Participant's Annuity Starting Date for purposes of Section 8, and the Participant shall receive a postponed Retirement Allowance commencing on such date in an amount determined as if he or she had retired on the last day of the preceding calendar year. As of each succeeding December 31 prior to the Participant's actual Postponed Retirement Date (and as of his or her actual Postponed Retirement Date), the Participant's Retirement Allowance shall be recomputed to reflect additional accruals. The Participant's recomputed Retirement Allowance shall then be paid as of the following January 1 (or, if applicable, as of his or her Postponed Retirement Date). The Participant's recomputed Retirement Allowance shall then be reduced by the Actuarial Equivalent value of the total payments of his or her postponed Retirement Allowance made with respect to monthly payments which were paid prior to each such recomputation to arrive at the Participant's postponed Retirement Allowance; provided that no such reduction shall reduce the Participant's postponed Retirement Allowance below the amount of postponed Retirement Allowance payable to the Participant prior to the recomputation of such Retirement Allowance.

4.8 *Special Provision for Participants who were Hired Before December 8, 1974*

For Employees hired before December 8, 1974, the Basic Allowance payable upon any Retirement Date will, in no event, be less in amount than the Basic Allowance to which such Employee would have been entitled had the terms of the Plan prior to December 8, 1974 continued unchanged, and for purposes of determining the Primary Insurance Amount the Social Security Benefit Table as in effect of December 8, 1974 is used.

4.9 *Non-duplication of Benefits*

In addition to the reduction for a Participant's Non-Represented Basic Allowance set forth in Section 4.2, if a Participant is entitled to receive, or upon application would be entitled to receive, any pension or retirement benefits from any other plan to which the Company or any Affiliate contributes (other than a social benefit program maintained by any governmental jurisdiction on a compulsory basis, such as the Social Security Act of the United States, or the New Jersey Resources Corporation Employees' Retirement Savings Plan) then, to the extent such benefits are based on periods of employment included as Credited Service under this Plan, the amount thereof shall be deducted from the amount of Retirement Allowance otherwise payable under this Plan with respect to such period of Credited Service.

However, if the Participant contributed toward such other benefit, the portion provided by his or her own contributions, or in case of a Participant who is entitled to receive a Non-Represented Additional Allowance, the amount of such Non-Represented Additional Allowance, shall not be so deducted. In the event that such other benefit is not paid at the same time and manner as the benefits payable under this Plan, any benefit provided under this Plan shall include such deduction made on an equitable basis as determined by the Committee.

4.10 *Increased Benefits for Retirees*

Effective January 1, 1981, Retirement Allowance payments, both Basic and Additional Allowances, but excluding the extra 20% Basic Allowance payable in the first year of retirement and any other supplemental pension which is not payable for the Participant's entire lifetime, being made to a Participant who retired before January 1, 1981 (or to his or her Beneficiary or Contingent Participant under an option elected in accordance with Section 6 (In Event of Death) or Section 8 (Forms of Retirement Allowance)) were increased by 4% for each year (including a fraction for each month) elapsed from the earlier of the Participant's Normal Retirement Date and his or her Annuity Starting Date to January 1, 1981.

Effective January 1, 1988, Retirement Allowance payments, both Basic and Additional Allowances, but excluding the extra 20% Basic Allowance payable in the first year of retirement and any other supplemental pension which is not payable for the Participant's entire lifetime, being made to a Participant who retired before January 1, 1988 (or to his or her Beneficiary or Contingent Participant under Section 6 (In Event of Death) or an option elected in accordance with Section 8 (Forms of Retirement Allowance)) shall be increased by 2% for each year (including a fraction for each month) elapsed from the later of (a) January 1, 1981 or (b) the earlier of the Participant's Normal Retirement Date and his or her Annuity Starting Date, to January 1, 1988.

Effective January 1, 1993, Retirement Allowance payments, both Basic and Additional Allowances, but excluding the extra 20% Basic Allowance payable in the first year of retirement and any other supplemental pension which is not payable for the Participant's entire lifetime, being made to a Participant who retired before January 1, 1993 (or to his or her Beneficiary or Contingent Participant under Section 6 (In Event of Death) or an option elected in accordance with Section 8 (Forms of Retirement Allowance)) shall be increased by 1.5% for each year (including a fraction for each month) elapsed from the later of (a) January 1, 1988 or (b) the Participant's Annuity Starting Date, to January 1, 1993. In addition, for those who retired during the period 1980-1987 an extra 1.5% increase will apply, and for those who retired before 1980 an extra 3.5% increase will apply.

4.11 *Section 401(a)(17) Employees*

Unless otherwise provided under the Plan, the Basic Retirement Allowance determined under Section 4.2 of each "Section 401(a)(17) Employee" (as hereinafter defined) will be the greater of the Basic Retirement Allowance determined for such Section 401(a)(17) Employee under paragraph (a) or (b) below:

(a) the Section 401(a)(17) Employee's Basic Retirement Allowance determined with respect to the benefit formula applicable for the Plan Year beginning on or after January 1, 1994, as applied to the Section 401(a)(17) Employee's total period of Credited Service; or

(b) the sum of:

(i) the Section 401(a)(17) Employee's Basic Retirement Allowance as of the last day of the last Plan Year beginning before January 1, 1994, frozen in accordance with section 1.401(a)(4)-13 of the Income Tax Regulations, and

(ii) the Section 401(a)(17) Employee's Basic Retirement Allowance determined under the benefit formula applicable for the Plan Year beginning on or after January 1, 1994, as applied to such Section 401(a)(17) Employee's period of Credited Service on or after January 1, 1994.

A "Section 401(a)(17) Employee" means an Employee whose current accrued Basic Retirement Allowance as of a date on or after the first day of the first Plan Year beginning on or after January 1, 1994, is based on Compensation for a year beginning prior to the first day of the first Plan Year beginning on or after January 1, 1994, that exceeded \$150,000.

4.12 *Delayed Commencement of Retirement Allowance*

Notwithstanding the provisions of Sections 4.1, 4.5, 4.6, 4.7, 7.1, and 7.2, effective as of October 1, 2004, in the event the Annuity Starting Date of a Participant's Retirement Allowance otherwise required to commence on the Participant's Normal Retirement Date, or Postponed Retirement Date if applicable, is delayed because the Company is unable to locate the Participant or for any other reason, the Company will commence payment as soon as practicable thereafter or, if later, as soon as practicable after the date the Participant is located. Unless the Participant elects an optional form of payment, as set forth in Section 8.2, payment shall be in the normal form as set forth in Section 8.1 applicable to the Participant on his or her Normal Retirement Date. The Retirement Allowance payable to the Participant as of his or her Annuity Starting Date shall be of Actuarial Equivalent value to the Retirement Allowance otherwise payable to the Participant on his or her Normal Retirement Date, or Postponed Retirement Date if applicable. Notwithstanding the foregoing provisions of this Section 4.12, in no event will the Retirement Allowance of a Participant be actuarially increased for any month under both this Section 4.12 and Section 4.7.

In the event a Participant whose Retirement Allowance is delayed beyond his or her Normal Retirement Date, or Postponed Retirement Date if applicable, as described above dies prior to his or her Annuity Starting Date, his or her surviving Spouse shall be entitled to receive a death benefit under the provisions of Section 6.1 computed on the basis of the Actuarial Equivalent value of the Retirement Allowance payable to the Participant on his or her Normal Retirement Date, or Postponed Retirement Date if applicable.

SECTION 5. CONTRIBUTIONS

5.1 *Employee Contributions*

Before June 1, 1984, Participants made contributions of 2% of Compensation, on an elective basis, to the Additional Allowance portion of the Plan. Effective June 1, 1984, no further contributions are to be made by any Participant.

5.2 *Withdrawal of Employee Contributions*

A Contributor who has not reached his or her Normal Retirement Date may elect to withdraw from the Additional Allowance portion of the Plan as of the first day of any month by giving 60 days advance notice to the Committee in writing. In such case he or she shall be paid his or her entire Additional Allowance Account. If a Contributor has completed at least five years (ten years before October 1, 1989) of Service or was eligible for a normal Retirement Allowance at the time of withdrawal, he or she will be entitled to the Company-provided portion, if any, of his or her Additional Allowance. For this purpose, the Company-provided portion will be determined as the amount of Additional Allowance which is not derived from the Participant's own contributions based upon the conversion, as prescribed by regulations, of the Participant's Additional Allowance Account to an annual pension payable for life.

Payment of amounts under this Section 5.2 shall be made in the form of a life annuity, or if the Participant is married, in the form of Option C under Section 8.2 with his or her Spouse as the designated Contingent Participant. However, if the Participant, and, if applicable, the Spouse reject the annuity form of payment, then the payment will be made in a lump sum. Such rejection and election shall be made according to the notice and waiver provisions of Section 8.1.

A Contributor who has previously withdrawn from the Additional Allowance portion of the Plan after completing five years (ten years before October 1, 1989) of Service or after completing the eligibility requirements for a normal Retirement Allowance will be entitled to reinstate his or her Additional Allowance Account by repaying the full amount previously withdrawn with interest at the rate of 5% per annum compounded annually from the date of withdrawal to the date of repayment.

5.3 *Company Contributions*

The Company on behalf of the Employers intends to contribute to the Retirement Allowance Fund over a period of time and from time to time such amounts as may be determined by actuarial calculations to provide the benefits payable under the Plan, other than benefits payable solely from Employee contributions. Such calculations shall be made by the Actuary.

5.4 *Administration Expense*

Effective December 8, 1995, the Plan's administrative expenses shall be paid out of Plan assets. To the extent such expenses are not paid from Plan assets, they shall be paid by an Employer.

5.5 *Forfeitures*

Any forfeiture arising under the Plan shall not be applied to increase the benefits any Participant would otherwise receive under the Plan but shall be applied to reduce the Employer contributions under the Plan.

5.6 *Refund of Employer Contributions*

All Employer contributions under the Plan are made on the condition that current tax deductions are allowed for such contributions under Section 404 of the Internal Revenue Code. Subject to the following provisions of this Section 5.6, any contribution by the Employer under the Plan which is

- (1) made by mistake of fact, or
- (2) conditioned upon the current deductibility of the contribution under Section 404 of the Internal Revenue Code, to the extent such current deduction is disallowed or is determined not to be currently deductible,

shall be returned to the Employer, upon the Employer's request, not later than one year after the date such contribution was made by mistake of fact or the current deduction is disallowed or determined not to be currently deductible, as the case may be. No amount shall be returned to the Employer under this Section unless the contribution is attributable to a good faith mistake of fact or a good faith mistake in determining the current deductibility of the contribution; and any amount returned to the Employer shall be limited to the excess of the amount contributed over the amount that would have been contributed had there not occurred a mistake of fact or mistake in determining current deductibility. Earnings attributable to the excess may not be returned, and losses attributable thereto must reduce the amount returned.

SECTION 6. IN EVENT OF DEATH

6.1 *Prior to Retirement*

If a Participant, other than a Participant who terminated employment before October 1, 1976, dies before his or her Annuity Starting Date, a monthly benefit shall be payable to the Participant's surviving Spouse provided the Participant had either completed at least five years of Service (ten years before October 1, 1989) or attained his or her Normal Retirement Age and the Participant and Spouse have been married throughout the one year period ending on the date of the Participant's death. If the Participant was not in active service on or after January 1, 1998, the benefit payable to the surviving Spouse shall commence on the first day of the month coincident with or following the later of the date on which the Participant would have attained age 55 or the date of the Participant's death. Otherwise, if the Participant dies prior to his or her Annuity Starting Date, the benefit payable to the surviving Spouse (or Contingent Participant if the Participant waives this pre-retirement survivor benefit pursuant to Section 8.1(c)) shall commence as of the first day of the month coincident with or next following the Participant's death.

Except as otherwise provided with respect to death occurring while the Participant is in receipt of a Disability Retirement Allowance, the amount of the benefit payable to the surviving Spouse shall be equal to 50% of the amount the Participant would have received if he or she had terminated employment on the date of his or her death and elected to have his or her benefit commence on his or her Normal Retirement Date or the first day of the month following his or her date of death, if later, under the normal form of payment for married Participants set forth in Section 8.1(b). However, if within the 180-day period (90-day period for Annuity Starting Dates prior to June 1, 2009) prior to his or her Annuity Starting Date a Participant has elected Option A or Option B with his or her surviving Spouse as Contingent Participant under Section 8.2, such optional form of payment shall be used for computing the Spouse's Retirement Allowance instead of the normal form of payment for married Participants set forth in Section 8.1(b).

If a Participant dies prior to his or her Annuity Starting Date and is not married, or has not been married for one year or has not either completed five years of Service or attained his or her Normal Retirement Age, the only death benefit payable under the Plan is based upon the value of the Participant's Additional Allowance Account, if any. The value of such Account will be payable in the form of an annuity for the life of the Spouse unless the Spouse elects otherwise. If there is no Spouse or the Spouse rejects the annuity form of payment or payment is to be made to a Beneficiary who is not the Spouse, such value will be payable in a lump sum. Payment to a non-Spouse will commence as of the first day of the month following the date of the Participant's death. Payment to a Spouse in the appropriate form will commence on the Participant's Normal Retirement Date unless the Spouse elects an earlier commencement date, which may be the first day of any month after the Participant's date of death and prior to his or her Normal Retirement Date.

Notwithstanding the foregoing, if a Participant eligible for a Disability Retirement Allowance elects to retire under Section 3.3 (Disability Retirement Date), elects a form of payment and, if applicable, waives the pre-retirement survivor benefit pursuant to Section 8.1(c) and dies before his or her Annuity Starting Date, a survivor Retirement Allowance will be paid to his or her Contingent Participant (who may be the Participant's Spouse) in accordance with the Participant's elections made pursuant to such Section 8.1(c).

Notwithstanding the foregoing, if a Participant dies on or after January 1, 2007 while performing "services in the uniformed services" (as defined in Chapter 43 of Title 38, United States Code) where such Participant's right to reemployment with the employer is protected by law, the surviving Spouse of such Participant shall be entitled to a Spouse's Retirement Allowance in accordance with the provisions of this Section 6.1 as though the Participant had resumed employment with the Employer on the date of death and then terminated employment with the Employer immediately thereafter.

6.2 *After Retirement*

If a Participant's death occurs after his or her Annuity Starting Date and a benefit is not payable to his or her surviving Spouse pursuant to Section 8.1(b) or to his or her Contingent Participant or Beneficiary pursuant to Section 8.2, or in the event of the death of his or her survivor who had been receiving benefits in accordance with Section 8.1(b) or Section 8.2 (Optional forms), his or her Beneficiary will be entitled to receive a lump sum payment equal to the Participant's Additional Allowance Account, if any.

6.3 *Designation of Beneficiary*

The Participant's surviving Spouse shall be the Beneficiary entitled to receive all benefits payable upon the death of the Participant under Section 6.1 or 6.2; provided, however, that if there is no surviving Spouse, or if the surviving Spouse had consented in writing to the designation of another Beneficiary (including a secondary Beneficiary, if the Participant so desires) with respect to the distribution of the Additional Allowance Account (which consent was given at least one year after the date of marriage, acknowledged the effect of such designation and was witnessed by a Plan representative or notary public), the Beneficiary entitled to receive payments after the Participant's death shall be the person or persons designated as Beneficiary by the Participant on the appropriate form completed by the Participant and filed with the Committee. Subject to the foregoing with respect to spousal consent, a Participant may change his or her Beneficiary from time to time on an appropriate form filed with the Committee without the consent of the previously designated Beneficiary; provided, however, that a Participant may elect a Beneficiary other than a Spouse only for that portion of a Plan benefit attributable to the Additional Allowance Account.

In the event that, when death benefits become payable, the Beneficiary is deceased, they shall become payable instead to the Participant's secondary Beneficiary, or if no Beneficiary has been designated or survives, then to the Participant's surviving Spouse, if any, otherwise to the Participant's estate. Payment under this Section 6.3 and Section 6.1 shall be made upon the presentation of such waivers or releases of taxing authorities as the Trustee or Committee may reasonably request.

SECTION 7. IN EVENT OF TERMINATION OF EMPLOYMENT

7.1 *Non-vested Participants*

If the employment of a Participant who is not a Contributor terminates other than by death or retirement before he or she has completed five years of Service, there are no benefits payable to him or her under the Plan.

If the employment of a Participant who is a Contributor terminates other than by death or retirement before he or she has completed five years of Service, he or she shall be entitled to his or her Additional Allowance Account. Such payment shall commence as of the Participant's Normal Retirement Date, unless the Participant elects to receive such payment within 60 days after such termination of employment. Such payment shall be made in the applicable normal form of payment under Section 8.1(a) or (b). However, if the Participant, and, if applicable, the Spouse reject the normal form of payment, then the payment will be made in a lump sum. Such election and rejection shall be made according to the notice and consent provisions of Section 8.3.

7.2 *Vested Participants*

If the employment of a Participant terminates on or after October 1, 1989 other than by death or retirement after he or she has completed five years of Service or has attained age 65, he or she shall be entitled to his or her Accrued Retirement Allowance commencing on his or her Normal Retirement Date.

In lieu of the Retirement Allowance commencing at Normal Retirement Date, the Participant, provided he or she had completed at least 20 years of Credited Service at the time of termination, may elect a reduced Retirement Allowance to commence on the first day of any month within the 10 years ending on his or her Normal Retirement Date. The amount of such reduction shall be determined pursuant to paragraph (b) of Section 4.5 (Early Retirement Allowance).

Such a Participant may irrevocably elect, with the written consent of the Participant's Spouse (if any) which is witnessed by a Plan representative or notary public, to receive a refund of his or her Additional Allowance Account within 60 days after the later of such termination or election and have the portion, if any, of the benefit provided under Section 4.3 (Additional Allowance) which is attributable to Company contributions payable in accordance with this Section 7.2.

7.3 *Reemployment Prior to Having a Break in Service*

Vested Participant or Former Vested Participant

If a (i) terminated Participant entitled to but not in receipt of a Retirement Allowance, or (ii) former Participant who received a lump settlement in lieu of a Retirement Allowance, or a former employee who was never a Participant is reemployed before incurring a Break in Service, his or her Credited Service and Service shall be determined as provided in Sections 1.20 and 1.48.

Notwithstanding the foregoing, if a Participant received a lump sum settlement in lieu of a Retirement Allowance, the Credited Service to which he or she was entitled at the time of his or her termination of service shall not be restored to him or her.

Subject to the provisions of Section 2.5, if the Participant is reemployed as an Employee, he or she may become an active Participant as of the first day of the month following his or her date of reemployment, provided he or she is then an Employee.

Non-Vested Participant

If a terminated non-vested Participant is reemployed before incurring a Break in Service, his or her Credited Service and Service shall be determined as provided in Sections 1.20 and 1.48.

Subject to the provisions of Section 2.5, if the Participant is reemployed as an Employee, he or she may become an active Participant as of the first day of the month following his or her date of reemployment, provided he or she is then an Employee.

Former Employee

If a former employee who was never a Participant is reemployed before incurring a Break in Service, his or her Credited Service and Service shall be determined as provided in Sections 1.20 and 1.48.

Subject to the provisions of Section 2.5, if the former Employee is reemployed as an Employee, he or she may become an active Participant as of the first day of the month following his or her date of reemployment or the date as of which he or she may become a Participant in accordance with Section 2.1.

7.4 *Reemployment of a Vested Participant or Former Vested Participant After Having A Break in Service*

Subject to provisions of Section 2.5, if a retired or terminated Participant entitled to but not in receipt of a Retirement Allowance, or a former Participant who received a lump sum settlement in lieu of a Retirement Allowance, is reemployed with an Employer after having had a Break in Service, the following shall apply:

(a) Upon completion of one year of Service following the Break in Service, the Service to which he or she was previously entitled shall be restored to him or her, and if reemployed as an Employee, he or she shall be restored as a Participant as of the first day of the month following his or her date of reemployment, provided he or she is then an Employee.

(b) Any Credited Service to which the Participant was entitled at the time of his or her termination of service shall be restored to him or her, except that such Credited Service shall not be restored if the Participant received a lump sum settlement by the end of the second Plan Year following the Plan Year in which his or her termination occurred.

(c) Upon later termination or retirement of a Participant whose previous Credited Service has been restored under this Section, his or her Retirement Allowance shall be based on the benefit formula then in effect and his or her Compensation and Credited Service before and after the period when he or she was not in the service of an Employer and shall be reduced, if applicable, but not below zero, by an amount of Actuarial Equivalent value to any lump sum settlement received upon his or her prior termination.

However, in no event shall the reduction provided for in the preceding sentence exceed the portion of the Participant's Retirement Allowance based on the period of Credited Service included in the calculation of the lump sum payment.

(d) Upon later termination or retirement of a Participant whose Credited Service has been restored under this Section but who was not eligible to resume active participation in this Plan at time of rehire, his or her Retirement Allowance shall be based on the benefit formula in effect on his or her previous date of termination (including, if applicable, the Early Retirement Allowance reduction factors in effect at such time) and his or her Final Average Compensation and Credited Service determined as of that date and shall be reduced, if applicable, but not below zero, by an amount of Actuarial Equivalent value to any lump sum settlement received upon his or her prior termination. However, in no event shall the reduction provided for in the preceding sentence exceed the portion of the Participant's Retirement Allowance based on the period of Credited Service included in the calculation of the lump sum payment.

7.5 *Reemployment of a Non-Vested Participant After Having a Break in Service*

Subject to the provisions of Section 2.5, if a former Participant who is not entitled to a Retirement Allowance is reemployed, either as an Employee or as an employee of an Affiliate not participating in the Plan, after having had a Break in Service, the following shall apply:

(a) Upon completion of one year of Service following the Break in Service, he or she shall again become a Participant as of the first of the month after his or her date of reemployment as an employee, provided he or she is then an employee, but only if his or her prior Service is restored under paragraph (b) below.

(b) Upon his or her restoration to participation, the Service to which he or she was previously entitled shall be restored to him or her if his or her period of Break in Service does not equal or exceed the greater of (i) five years or (ii) his or her period of Service before his or her Break in Service determined at the time of the Break in Service, excluding any Service disregarded under this Section 7.5 by reason of any earlier Break in Service. If any such former Participant was reemployed prior to October 1, 1985, or if he or she had a Break in Service on September 30, 1985 and his or her period of Break in Service as of that date would have resulted in the exclusion of his or her previously accrued Service under the Plan provisions then in effect, then clause (i) of the preceding sentence shall not be applicable, and his or her previously accrued Service shall be excluded.

(c) Any Credited Service to which the Participant was entitled at the time of his or her termination of service which is included in the Service so restored shall be restored to him or her.

(d) Upon later termination or retirement of a Participant whose previous Credited Service has been restored under this Section and who was eligible to resume active participation in the Plan on his or her date of rehire, his or her Retirement Allowance, if any, shall be based on the benefit formula then in effect (including, if applicable, the Early Retirement Allowance reduction factors in effect at such time) and his or her Compensation and Credited Service before and after the period when he or she was not an Employee.

(e) Upon later termination or retirement of a Participant whose previous Credited Service has been restored under this Section but who was not eligible to resume active participation in this Plan at time of rehire, his or her Retirement Allowance, if any, shall be based on the benefit formula in effect on his or her previous date of termination (including, if applicable, the Early Retirement Allowance reduction factors in effect at such time) and his or her Final Average Compensation and Credited Service determined as of that date.

7.6 *Reemployment of a Non-Participant After Having a Break in Service*

Subject to the provisions of Section 2.5, if an employee who was never a Participant is reemployed as an Employee of an Employer, after having had a Break in Service, upon completion of one year of Service following the Break in Service, the Service to which he or she was previously entitled under Section 1.48 shall be restored to him or her if: (a) he or she would be entitled to nonforfeitable benefits under the Plan if he or she were a Participant, or (b) his or her period of Break in Service does not equal or exceed the greater of (i) five years or (ii) his or her period of Service before his or her Break in Service, determined at the time of the Break in Service, excluding any Service disregarded under this Section by reason of any earlier Break in Service.

7.7 *Reemployment and Repayment of Additional Allowance Account*

If a Participant who has received a refund of his or her Additional Allowance Account shall be reemployed as an Employee, he or she may repay to the Retirement Allowance Fund the full amount distributed to him or her on termination with interest at the rate of 5% per annum compounded annually, from the date of distribution to the date of repayment and so reinstate his or her Additional Allowance Account.

7.8 *Amendment of Vesting Schedule*

No amendment shall be made which has the effect of reducing the nonforfeitable percentage of the Accrued Allowance of a Participant below the nonforfeitable percentage computed under the Plan as in effect on the date on which the amendment is adopted or, if later, the date on which the amendment becomes effective. Notwithstanding anything in this Section 7 to the contrary, in the event that an amendment to the Plan is adopted which would directly or indirectly affect the computation of the nonforfeitable percentage of a Participant's Accrued Retirement Allowance, each Participant who, as of the effective date of the amendment, has completed at least three years of Service shall be permitted to elect to have the nonforfeitable percentage of his or her Accrued Retirement Allowance determined without regard to such amendment; provided, however, that no such election need be provided to any Participant whose nonforfeitable percentage of his or her Accrued Retirement Allowance, as determined under the amendment, at all times will be equal to or greater than such percentage determined without regard to the amendment.

SECTION 8. FORMS OF RETIREMENT ALLOWANCE

8.1 Normal Form of Payment

(a) If the Participant was an employee on or after September 1, 1974 and is not married on his or her Annuity Starting Date, his or her Retirement Allowance shall be payable in monthly installments ending with the last monthly payment before death, unless the Participant was an employee on or after September 1, 1974 and has elected an optional form of payment as provided in Section 8.2.

(b) If the Participant was an employee on or after September 1, 1974 and is married on his or her Annuity Starting Date and if he or she has not elected an optional form of payment as provided in Section 8.2, the Retirement Allowance payable shall be in the form of Option C under Section 8.2 with his or her Spouse as the designated Contingent Participant.

(c) Disability Retirement Allowance.

(i) In the case of a Participant who is entitled to a Disability Retirement Allowance pursuant to Section 4.6 and who elects a Disability Retirement Date, his or her Disability Retirement Allowance shall be paid in the form described in paragraph (a) or (b) above, whichever is applicable at the date his or her Disability Retirement Allowance commences, unless the Participant waives the normal form and elects instead an optional form of payment with spousal consent, if applicable, which consent was given at least one year after the date of marriage. Should the Participant obtain a new Spouse after having made this election and while a Disability Retirement Allowance remains payable, such election shall become void and the provisions of paragraph (b) above shall apply unless and until the Participant makes a new election and obtains the consent of the new Spouse. This election will apply solely with respect to any death benefit payable under Section 6 due to the Participant's death occurring while he or she is receiving a Disability Retirement Allowance. The provisions of Section 4.6 relating to the continuance of Disability Retirement Allowance payments shall apply and upon the termination of the Disability Retirement Allowance, any elections made under this Section 8.1(c) with respect to the Disability Retirement Allowance shall expire.

(ii) Upon attaining his or her Annuity Starting Date, his or her Retirement Allowance shall be recalculated in accordance with paragraph (a) or (b) above, whichever is applicable at that date, or in accordance with the provisions of Section 8.2 if the Participant elects an optional form of payment.

(iii) The requirements of Section 8.3 shall apply to the election to commence a Disability Retirement Allowance and the form of payment as though the Disability Retirement Date were an Annuity Starting Date.

In the event a Participant is not entitled to any Retirement Allowance upon his or her termination of employment, he or she shall be deemed cashed-out as of the date he or she terminated service. However, if a Participant described in the preceding sentence is subsequently reemployed by an Employer or an Affiliate, the provisions of Section 7 shall apply to him or her without regard to such sentence.

8.2 Optional Forms of Payment

Any Participant may, subject to the provisions of Section 8.3, elect to convert the Retirement Allowance otherwise payable to him or her into an optional form of payment as provided in one of the options named below.

Option A:

(i) The amount of Retirement Allowance to be paid to the Participant shall be reduced, but after his or her death 100% of such reduced Retirement Allowance shall be paid for life to his or her designated Contingent Participant.

(ii) For Participants who terminated employment before December 1, 2003, the amount of reduced Retirement Allowance payable to the Participant shall be 80% of the amount otherwise payable to him or her in the normal form for unmarried Participants set forth in Section 8.1(a). Such reduced Retirement Allowance shall be further reduced (or increased) by 1% for each year by which the Participant's Contingent Participant is more than five years younger (or older) than the Participant.

(iii) For Participants who terminate employment on or after December 1, 2003, the amount of reduced Retirement Allowance payable to the Participant shall be 84% of the amount otherwise payable to him or her in the normal form for unmarried Participants set forth in Section 8.1(a). Such reduced Retirement Allowance shall be further reduced (or increased) by 0.6% for each year by which the Participant's Contingent Participant is younger (or older) than the Participant and shall also be reduced (or increased) by 0.5% for each year the Participant is older (or younger) than age 65.

(iv) In no event shall the Retirement Allowance payable under this option be greater than that payable in the normal form for unmarried Participants set forth in Section 8.1(a).

Option B:

- (i) Solely for Participants whose Annuity Starting Date is on or after January 1, 2008, the amount of Retirement Allowance to be paid to the Participant shall be reduced, but after his or her death 75% of such reduced Retirement Allowance shall be paid for life to his or her designated Contingent Participant.
- (ii) For Participants who terminated employment before December 1, 2003, the amount of reduced Retirement Allowance payable to the Participant shall be 85% of the amount otherwise payable to him or her in the normal form for unmarried Participants set forth in Section 8.1(a). Such reduced Retirement Allowance shall be further reduced (or increased) by 0.75% for each year by which the Participant's Contingent Participant is more than five years younger (or older) than the Participant.
- (iii) For Participants who terminate employment on or after December 1, 2003, the amount of reduced Retirement Allowance payable to the Participant shall be 88.0% of the amount otherwise payable to him or her in the normal form for unmarried Participants set forth in Section 8.1(a). Such reduced Retirement Allowance shall be further reduced (or increased) by 0.5% for each year by which the Participant's Contingent Participant is younger (or older) than the Participant and shall also be reduced (or increased) by 0.4% for each year the Participant is older (or younger) than age 65.
- (iv) In no event shall the Retirement Allowance payable under this option be greater than that payable in the normal form for unmarried Participants set forth in Section 8.1(a).

Option C:

- (i) The amount of Retirement Allowance to be paid to the Participant shall be reduced, but after his or her death 50% of such reduced Retirement Allowance shall be paid for life to his or her designated Contingent Participant.
- (ii) For Participants who terminated employment before December 1, 2003, the amount of reduced Retirement Allowance payable to the Participant shall be 90% of the amount otherwise payable to him or her in the normal form for unmarried Participants set forth in Section 8.1(a). Such reduced Retirement Allowance shall be further reduced (or increased) by 0.5% for each year by which the Participant's Contingent Participant is more than five years younger (or older) than the Participant.
- (iii) For Participants who terminate employment on or after December 1, 2003, the amount of reduced Retirement Allowance payable to the Participant shall be 92.5% of the amount otherwise payable to him or her in the normal form for unmarried Participants set forth in Section 8.1(a). Such reduced Retirement Allowance shall be further reduced (or increased) by 0.3% for each year by which the Participant's Contingent Participant is younger (or older) than the Participant and shall also be reduced (or increased) by 0.3% for each year the Participant is older (or younger) than age 65. However, in no event shall the Retirement Allowance payable under this option be less than the Actuarial Equivalent value of the normal form for unmarried Participants set forth in Section 8.1(a).
- (iv) In no event shall the Retirement Allowance payable under this option be greater than that payable in the normal form for unmarried Participants set forth in Section 8.1(a).

Option D:

- (i) The amount of Retirement Allowance to be paid to the Participant shall be reduced, but in the event of his or her death prior to 120 months after his or her Annuity Starting Date (or the date as of which payments commence in the case of an election of an optional form of payment prior to his or her Normal Retirement Date pursuant to Section 8.1(c)), the same reduced amount shall be paid for the remainder of such period of 120 months to his or her designated Beneficiary.
- (ii) For Participants who terminated employment before December 1, 2003, the amount of reduced Retirement Allowance payable to the Participant shall be 93% of the amount otherwise payable to him or her in the normal form for unmarried Participants set forth in Section 8.1(a) if Retirement Allowance payments are commencing on or after his or her Normal Retirement Date. If payments are commencing earlier, the 93% is increased by 0.5% for each year by which the Annuity Starting Date (or the date as of which payments commence in the case of an election of an optional form of payment prior to his or her Normal Retirement Date pursuant to Section 8.1(c)) precedes the Participant's Normal Retirement Date, subject to a maximum of 98% for retirement at or before age 55.
- (iii) For Participants who terminate employment on or after December 1, 2003, the amount of reduced Retirement Allowance payable to the Participant shall be 94.5% of the amount otherwise payable to him or her in the normal form for unmarried Participants set forth in Section 8.1(a) if Retirement Allowance payments are commencing on his or her Normal Retirement Date. If payments are commencing earlier, the 94.5% is increased by 0.5% for each year by which the Annuity Starting Date (or the date as of which payments commence in the case of an election of an optional form of payment prior to his or her Normal Retirement Date pursuant to Section 8.1(c)) precedes the Participant's Normal Retirement Date, subject to a maximum of 98% for retirement at or before age 55. For Annuity Starting Dates that occur subsequent to the Participant's Normal Retirement Date, the 94.5% is decreased by 0.5% for each year by which the Annuity Starting Date is after the Participant's Normal Retirement Date.

Option E:

The amount of Retirement Allowance payable to the Participant shall be determined under the normal form of payment for an unmarried Participant. This is an optional form of payment for married Participants.

Option F:

Solely if the monthly Retirement Allowance is less than \$25.00, a lump sum payment of Actuarial Equivalent value to the Retirement Allowance otherwise payable to the Participant.

8.3 Election of Optional Forms of Payment

(a) A married Participant's election of any optional form of payment shall only be effective if Spousal Consent to the election is received by the Committee, unless:

- (i) the option provides for monthly payments to his or her Spouse for life after the Participant's death in an amount equal to at least 50 percent but not more than 100 percent of the monthly amount payable under the option to the Participant, and
- (ii) the option is of Actuarial Equivalent value to the normal form of payment for married Participants set forth in Section 8.1(b); or
- (iii) solely in the case of Option F, the present value of the Retirement Allowance does not exceed \$3,500.

(b) The Committee shall furnish to each Participant a written explanation in nontechnical language of the terms and conditions of the Retirement Allowance payable to the Participant in the normal and optional forms described in Sections 8.1 and 8.2. Such explanation shall include a general description of the eligibility conditions for, and the material features and relative values of, the optional forms of payment under the Plan, any rights the Participant may have to defer commencement of his or her Retirement Allowance, the consequences of failing to defer, the requirement for Spousal Consent as provided in paragraph (a) above, and the right of the Participant to make, and to revoke, elections under Section 8.2.

(c) The Committee must provide the notice required by paragraph (b) no more than 180 days (90 days for Annuity Starting Dates prior to June 1, 2009) and no less than 30 days prior to the Participant's Annuity Starting Date. A Participant's Annuity Starting Date may not occur less than 30 days after receipt of the notice. An election under Section 8.2 shall be made on a form provided by the Committee and may be made during the 180-day period (90-day period for Annuity Starting Dates prior to June 1, 2009) ending on the Participant's Annuity Starting Date, but not prior to the date the Participant receives the written explanation described in paragraph (b).

(d) Notwithstanding the provisions of paragraph (c) above, a Participant may, after having received the notice, affirmatively elect to have his or her benefit commence sooner than 30 days following his or her receipt of the notice, provided all of the following requirements are met:

- (i) the Committee clearly informs the Participant that he or she has a period of at least 30 days after receiving the notice to decide when to have his or her benefits begin and, if applicable, to choose a particular optional form of payment;
- (ii) the Participant affirmatively elects a date for his or her benefits to begin and, if applicable, an optional form of payment, after receiving the notice;
- (iii) the Participant is permitted to revoke his or her election until the later of his or her Annuity Starting Date or seven days following the day he or she received the notice;
- (iv) payment does not commence less than seven days following the day after the notice is received by the Participant; and
- (v) the Participant's Annuity Starting Date is after the date the notice is provided.

(e) The following rules and requirements must be met in order for the election of an optional form of payment under Section 8.2 to be effective:

(i) The election must be in writing on such form as shall be required by the Committee, and must contain all of the following information:

(A) The date on which the option is to become effective, which date must not be before the Participant's Normal, Early or Disability Retirement Date.

(B) The name, relationship, sex and date of birth of the designated Contingent Participant accompanied by proof thereof satisfactory to the Committee in the case of Option A, B or C.

(C) The designation of a Beneficiary in accordance with Section 6.3 (Designation of Beneficiary) in the case of Option D.

(f) An election of an option under Section 8.2 may be revoked on a form provided by the Committee, and subsequent elections and revocations may be made at any time and from time to time during the election period specified in paragraph (c) or (d) above, whichever is applicable. An election of an optional form of payment shall be effective on the Participant's Annuity Starting Date or Disability Retirement Date, as the case may be, and may not be modified or revoked after his or her Annuity Starting Date or Disability Retirement Date unless otherwise provided under paragraph (d) above. However, the election of an optional form of payment with respect to a Disability Retirement Date will automatically expire when the Participant is no longer eligible for a Disability Retirement Allowance pursuant to Section 3.3. A revocation of any election shall be effective when the completed form is filed with the Committee. If a Participant who has elected an optional form of payment dies before the date the election of the option becomes effective, the election shall be revoked except as provided in Section 6.1. If the Beneficiary or Contingent Participant designated under an option dies before the date the election of the option becomes effective, the election shall be revoked. In the case of Option D under Section 8.2, if the designated Beneficiary predeceases the Participant prior to 120 months after the Annuity Starting Date (or the date as of which payments commence in the case of an election of an optional form of payment prior to his or her Normal Retirement pursuant to Section 8.1(c)), the Participant may designate a new Beneficiary.

(g) The optional form of Retirement Allowance shall apply to the total Retirement Allowance which the Participant is entitled to receive under the Plan and may not be elected to apply only to a part of his or her Retirement Allowance under the Plan; provided, however, that a Participant who remains in service after his or her Normal Retirement Date who does not elect to defer commencement of his or her Additional Allowance until his or her Postponed Retirement Date, may elect a different form of payment for his or her Basic Allowance than he or she elected for his or her Additional Allowance.

(h) Notwithstanding the foregoing provisions of this Section 8.3, in the event a Participant whose Annuity Starting Date is on or after October 1, 2004 elects an Annuity Starting Date that precedes the date he or she is provided the notice described in Section 8.3(b), (the “retroactive Annuity Starting Date”), the Participant may elect to have his or her retirement allowance commence as of such retroactive Annuity Starting Date provided the following requirements are met:

(i) the Participant’s retroactive Annuity Starting Date is on or after the date he or she terminates employment with all Employers and Affiliates;

(ii) the Participant’s benefit must satisfy the provisions of Section 415 and 417(e)(3) of the Code, both at the retroactive Annuity Starting Date and at the actual commencement date, except that if payments commence within 12 months of the retroactive Annuity Starting Date, the provisions of Section 415 of the Code need only be satisfied as of the retroactive Annuity Starting Date;

(iii) a payment equal in amount to the payments that would have been received by the Participant had his or her benefit actually commenced on his or her retroactive Annuity Starting Date, plus interest at the 30-day money market rate, as reported in the Wall Street Journal, for January 1 of the calendar year in which the retroactive Annuity Starting Date occurs, shall be paid to the Participant on his or her actual commencement date;

(iv) Spousal Consent to the retroactive Annuity Starting Date is required for such election to be effective unless:

(A) the amount of survivor benefit payable to the Spouse determined as of the retroactive Annuity Starting Date under the form elected by the Participant is no less than the amount the Spouse would have received under Option C of Section 8.2 with the Spouse as the designated Contingent Participant if the first day of the month in which payments commence were substituted for the retroactive Annuity Starting Date;

(B) the Participant’s Spouse on his or her retroactive Annuity Starting Date is not his or her Spouse on the first day of the month in which payments commence and is not treated as his or her Spouse under a qualified domestic relations order;

(C) due to an administrative error as determined by the Committee on a basis uniformly applicable to all Participants similarly situated, the Participant was not provided the written explanation as described in Section 8.3(b) on a timely basis, or

(D) the Participant is entitled to a Disability Retirement Allowance and such payments would otherwise commence after the first day of the month for which the Participant receives benefits under the Social Security Act;

(v) the Participant’s election is made within the time period prescribed by the Committee; provided, however such period may not extend beyond 180 days (90 days for Annuity Starting Dates prior to June 1, 2009) following the date the written explanation as described in Section 8.3(b) is provided to the Participant; and

(vi) distributions commence no earlier than seven days or later than 180 days (90 days for Annuity Starting Dates prior to June 1, 2009) after the date such written explanation is provided to the Participant, and the Participant’s election is made after he or she is provided such written explanation and before the date distributions commence. For purposes of determining (A) the election period described in Sections 8.3(c), (d), and (f) with respect to the timing of the notice and consent requirements and (B) the effective date of an election made pursuant to the provisions of this subparagraph (vii), the date the distribution of the benefit based on the retroactive Annuity Starting Date commences shall be substituted for the Participant’s Annuity Starting Date. A distribution shall not be deemed to violate the requirements of this subparagraph (vii) merely because, due solely to administrative delay, it commences more than 180 days (90 days for Annuity Starting Dates prior to June 1, 2009) after the date such written explanation is provided to the Participant.

8.4 Commencement of Payments

(a) Except as otherwise provided in Section 6 or this Section 8, payment of a Participant’s Retirement Allowance shall begin as soon as administratively practicable following the latest of (i) the Participant’s 65th birthday, (ii) the fifth anniversary of the date on which he or she became a Participant, or (iii) the date he or she terminates service with the Company and all Affiliates (but not more than 60 days after the close of the Plan Year in which the latest of (i), (ii) or (iii) occurs).

(b) Notwithstanding the preceding paragraph, in the case of a Participant who owns (or is considered as owning within the meaning of Section 318 of the Code) either more than 5 percent of the outstanding stock of the Company or stock possessing more than 5 percent of the total combined voting power of all stock of the Company (as defined in Section 416(i) of the Code), payment of such Participant’s Retirement Allowance shall begin not later than April 1 of the calendar year following the calendar year in which he or she attains age 70½.

(c) Notwithstanding paragraph (a) above, in the case of a Participant who is not a 5-percent owner (as provided under the preceding paragraph), payment of such Participant’s Retirement Allowance shall begin not later than April 1 of the calendar year following the later of the calendar year in which the Participant attains age 70½ and the calendar year in which his or her employment terminates in accordance with the provisions of Section 4.7(c).

8.5 Distribution Limitation

Notwithstanding any other provision of this Section 8, all distributions from this Plan shall conform to the regulations issued under Section 401(a)(9) of the Code and Regulations Section 1.401(a)(9)-2 through -9, including the incidental death benefit provisions of Section 401(a)(9)(G) of the Code. Further, such regulations shall override any Plan provision that is inconsistent with Section 401(a)(9) of the Code.

8.6 Direct Rollover of Certain Distributions

(a) Notwithstanding any provision of the Plan to the contrary that would otherwise limit a distributee's election under this Section 8, a distributee may elect, at the time and in the manner prescribed by the Committee, to have any portion of an eligible rollover distribution paid directly to an eligible retirement plan specified by the distributee in a direct rollover.

(b) The following definitions apply to the terms used in this Section:

(i) An "eligible rollover distribution" is any distribution of all or any portion of the balance to the credit of the distributee, except that an eligible rollover distribution does not include: any distribution that is one of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the distributee or the joint lives (or joint life expectancies) of the distributee and the distributee's designated beneficiary, or for a specified period of ten years or more; any distribution to the extent such distribution is required under Section 401(a)(9) of the Code; and the portion of any distribution that is not includible in gross income. Effective January 1, 2007, an eligible rollover distribution does not include after-tax amounts unless such amount is rolled over or transferred (i.e., directly rolled) to an individual retirement account described in Section 408(a) of the Code or individual retirement annuity described in Section 408(b) of the Code or, effective on or after January 1, 2008, a Roth individual retirement account described in Section 408A(b) of the Code, or transferred (i.e., directly rolled over) to a qualified defined contribution plan described in Section 401(a) of the Code; or, effective on and after January 1, 2007, to any qualified plan described in Section 401(a) of the Code or to an annuity plan described in Section 403(b) of the Code; provided any such plan agrees to separately account for such after-tax amount and earnings thereon.

(ii) An "eligible retirement plan" is any of the following types of plans that accept the distributee's eligible rollover distribution: an individual retirement account described in Section 408(a) of the Code; an individual retirement annuity described in Section 408(b) of the Code; a Roth IRA described in Section 408A of the Code (for distributions made on or after January 1, 2008); an annuity plan described in Section 403(a) of the Code; a qualified plan described in Section 401(a) of the Code; an annuity contract described in Section 403(b) of the Code; or an eligible plan under Section 457(b) of the Code which is maintained by a state, political subdivision of a state, or any agency or instrumentality of a state or political subdivision of a state and which agrees to separately account for amounts transferred into such plan from this Plan.

(iii) A "distributee" includes an Employee or former Employee and the Employee's or former Employee's surviving Spouse, Spouse or former Spouse who is the alternate payee under a qualified domestic relations order, as defined in Section 414(p) of the Code.

(iv) A "direct rollover" is a payment by the Plan to the eligible retirement plan specified by the distributee.

(c) Notwithstanding any provision of this Section to the contrary, effective as of January 1, 2010, a non-Spouse Beneficiary of a deceased Participant may elect, at the time and in the manner prescribed by the Committee, to directly roll over any portion of a distribution that would constitute an eligible rollover distribution if it were made to a Participant, surviving Spouse, or alternate payee, provided such direct rollover is made to an individual retirement account described in Section 408(a) of the Code, an individual retirement annuity described in Section 408(b) of the Code, or, effective for distributions made on or after January 1, 2008, a Roth IRA described in Section 408A of the Code (collectively, "IRA") that is established on behalf of the non-Spouse Beneficiary and that will be treated as an inherited IRA pursuant to the provisions of Sections 402(c)(11) and 408(d)(3)(C)(ii) of the Code. Any distribution to a non-Spouse Beneficiary pursuant to this subparagraph (d) shall be an "eligible rollover distribution" (under subsection (b)(i) above).

In the event that the provisions of this Section 8.6 or any part thereof cease to be required by law as a result of subsequent legislation or otherwise, this Section or any applicable part thereof shall be ineffective without the necessity of further amendments to the Plan.

SECTION 9. ADMINISTRATION OF THE PLAN

9.1 *Plan Administrator*

The Company shall be the Plan Administrator except to the extent that:

- (a) Authority to administer the Plan is delegated to the Committee with respect to Sections 1.48 (Service), 3.5 (Reemployment of a Participant Currently in Receipt of a Retirement Allowance), 4.9 (Non-duplication of Benefits), 6.1 (Prior to Retirement), 6.3 (Designation of Beneficiary), 7.3 through 7.7 (Reemployment), 8 (Forms of Retirement Allowance), 10.4 (Disbursement of Funds), 10.5 (Contributor's Additional Allowance Account), 12.2 (Discontinuance), 13 (Miscellaneous) and the remainder of this Section 9, and
- (b) Authority to hold the funds of the Plan has been delegated to the Trustee in accordance with Section 10.2 (Trustee), and
- (c) Authority to direct the investment of the Plan's funds has been delegated to the Investment Manager in accordance with Section 10.3 (Investment Manager), and
- (d) Authority to act for the Company has been reserved to the Board of Directors in accordance with Section 9.2 (Board of Directors).

9.2 *Board of Directors*

With respect to Sections 1.6 (Affiliate), 3.4 (Postponed Retirement Date), 9.3 (Appointment of the Benefit Administration Committee), 10.2 (Trustee), 10.3 (Investment Manager), 11.1 (Amendment), 12.1 (Suspension of Contributions), 12.2 (Discontinuance), and 12.3 (Merger, Consolidation or Transfer), the Company shall act only by, or pursuant to, a resolution of the Board of Directors. With respect to any other section of the Plan, the Company shall act through its appropriate officers or delegate, provided, however, that with respect to Section 11.2, the Company shall act through the Committee.

9.3 *Appointment of the Benefit Administration Committee*

The Board of Directors shall appoint a Benefit Administration Committee of not less than three members. Any member may resign, or be removed by the Board of Directors, at any time. Vacancies shall be filled by the Board of Directors.

9.4 *Committee Meetings, Procedures and Appointment of Agents*

Committee meetings may be called by the chairman or secretary of the Committee on two days' notice to each member and shall be called on the written request of two members. A majority shall constitute a quorum. All resolutions of or other actions taken by the Committee shall be approved by majority vote of the members present at a meeting or, if the Committee acts without a meeting, by the written consent of all members. The Committee shall choose from its members a chairman and a secretary and shall have the authority to appoint such other officers (who need not be members of the Committee) as it deems necessary and desirable.

The Company shall promptly notify the Trustee of the name of any individual appointed to the Committee, of any officer appointed by the Committee and of any vacancies or changes in such offices. The Committee may authorize one or more of its members or officers to execute any document or documents on behalf of the Committee, in which event the Committee shall notify the Trustee in writing of such action and of the name(s) of its member(s) or officer(s) so designated. The Trustee thereafter shall accept and rely upon any document executed by such member(s) or officer(s) as representing action by the Committee until the Committee shall file with the Trustee a written revocation of such designation.

The Committee may adopt such by-laws and regulations as it deems desirable for the conduct of its affairs. The Committee shall appoint the Actuary of the Plan and may appoint such counsel, accountants, specialists and other persons as it deems necessary or desirable in connection with its administration of the Plan. The Committee shall have the exclusive authority to interpret the Plan provisions and to exercise discretion where necessary or appropriate in the interpretation and administration of the Plan and to decide any and all matters arising thereunder or in connection with the administration of the Plan, and it shall endeavor to act, whether by general rules or by particular decisions, so as not to discriminate in favor of any person or class of persons. Such decisions, actions and records of the Committee shall be conclusive and binding upon the Company, Affiliates all persons having or claiming to have any right or interest in or under the Plan. The Committee shall be entitled to rely conclusively upon, and shall be fully protected in any action taken by it in good faith in reliance upon, any opinions or reports which shall be furnished to it by the Actuary or any such counsel, accountant or other specialist. The Committee shall endeavor to act by general rules so as not to discriminate in favor of any person. Its decisions and the records of the Committee shall be conclusive and binding upon the Employers, Participants, and all other persons having any interest under the Plan.

Any member of the Committee who is a Participant shall not vote on any question relating specifically to himself or herself.

9.5 *Allocation and Delegation of Responsibilities*

The Committee may (i) allocate certain of its fiduciary responsibilities among the members of the Committee, and/or (ii) designate persons to carry out certain of the Committee's authority, duties and responsibilities (including fiduciary responsibilities) under the Plan. In the event that any fiduciary duties and responsibilities are delegated pursuant to clause (ii) of this Section, Participants shall be notified of the identity of the persons to whom such duties and responsibilities have been delegated and the Committee shall periodically review the performance of such designees. Any such delegation may be terminated at any time by the Committee, in whole or in part.

Any authority and responsibilities so delegated shall be carried out within the framework of such rules, policies, practices and procedures as may be promulgated from time to time by the Committee.

9.6 *Records of Proceedings*

The Committee shall keep a record of all its proceedings and acts and shall keep or cause to be kept all such books of account, records or other data as may be necessary for proper administration of the Plan.

9.7 *Compensation, Expenses*

Unless otherwise determined by the Board of Directors, no member of the Committee shall receive any compensation for services rendered as a member of the Committee. Expenses properly and actually incurred by the Committee in the performance of its duties shall be reimbursed by an Employer but to the extent not so reimbursed such expenses shall be payable from the Retirement Allowance Fund. Such expenses shall include any costs or expenses incident to the functions of the Committee and its administration of the Plan, including, without limitation, fees of actuaries, counsel, accountants and other specialists.

9.8 *Information Supplied by the Company*

To enable the Committee and its designees to perform their functions, an Employer shall supply full and timely information to the Committee and such designees relating to the compensation of all Participants, their retirement, death or other cause for termination of employment, and such other pertinent facts as the Committee and such designees may require; and the Trustee shall be advised of such of the foregoing facts as may be pertinent to it.

9.9 *Liability and indemnification*

(a) Neither an Employer, any member of the Board of Directors or the Committee, nor their respective designees who are employees of an Employer, shall be liable for any loss, damage or depreciation that may arise out of or result from any act or omission of such person hereunder, except when such loss, damage or depreciation is due to such person's gross negligence, willful misconduct or breach of fiduciary duty. The foregoing provision shall not relieve any person from responsibility or liability for any responsibility, obligation or duty imposed under Part 4 of Title I of the Act.

(b) In accordance with and to the full extent permitted by applicable law, the Company may indemnify and save harmless each member of the Board of Directors and of the Committee, and their respective designees who are Employees of an Employer, against all claims, losses, damages, liabilities and expenses (including without limitation, judgments, fines, penalties, amounts paid in settlement and attorneys' fees) incurred by them and arising out of or resulting from any act or omission hereunder or in connection herewith of such member of the Board of Directors or Committee or their respective designees, except when the same is determined to be due to such person's gross negligence or willful misconduct.

9.10 *Claims for Benefits*

For purposes of the Plan, a claim for benefit is a written application for benefits filed with the Committee. In the event that the Committee determines that such claim should be denied in whole or in part, the Committee shall, in writing, notify such claimant within 90 days (180 days under special circumstances) of receipt of such claim that his or her claim has been denied, setting forth the specific reasons for denial. Such notification shall:

- (a) be written in a manner reasonably expected to be understood by such Participant or other payee;
- (b) set forth the pertinent sections of the Plan on which the denial is based;
- (c) set forth an explanation of how the claimant can obtain review of such denial and what needs to be provided; and
- (d) state that the claimant has the right to bring a civil action under Section 502(a) of ERISA.

If a claim for benefits is denied, the claimant may, within 60 days after delivery of such notice, appeal the denial by submitting a written request that the Committee reconsider the decision denying the claim. If the claimant fails to request such a review within such 60 day period, it shall be conclusively determined for all purposes of this Plan that the denial of such claim by the Committee is correct.

The Committee shall consider the information provided by the claimant, determine whether such denial of the claim was correct and notify the claimant in writing of its determination, within 60 days (120 days under special circumstances) of receipt of the appeal. The Committee's determination shall be binding and conclusive. If such determination is adverse to the claimant, the decision will provide the reasons for the denial of the appeal and state that the claimant has the right to bring a civil action under Section 502(a) of ERISA.

This claims procedure shall be administered in accordance with the Committee's rules as from time to time in effect.

SECTION 10. MANAGEMENT OF THE FUNDS

10.1 *Retirement Allowance Fund*

All assets for providing the benefits of the Plan shall be held as a trust fund for the exclusive benefit of Participants, their Contingent Participants and Beneficiaries and other persons entitled to benefits under the Plan and, prior to the satisfaction of all liabilities with respect to them, no part of the corpus or income shall be used for or diverted to any other purpose. No person shall have any interest in or right to any part of the trust fund, except to the extent provided in the Plan.

10.2 *Trustee*

All contributions to the Plan shall be paid over to a Trustee or Trustees (which may be a corporate trustee or an insurance company or both) which shall be appointed from time to time by the Board of Directors by appropriate instrument with such powers in the Trustee as to the control and disbursement of the funds as the Board of Directors shall approve and as shall be in accordance with the Plan. The Board of Directors may remove any Trustee at any time, upon reasonable notice, and upon such removal or upon the resignation of any Trustee the Board of Directors shall designate a successor Trustee.

10.3 *Investment Manager*

Pursuant to the terms of the trust instrument, the Board of Directors may appoint one or more Investment Managers (individuals and/or other entities), who may include the Trustee and who are collectively referred to herein as the Investment Manager, to direct the investment and reinvestment of part or all of the Plan's funds, and the Board of Directors may change the appointment of the Investment Manager from time to time.

10.4 *Disbursement of Funds*

The funds held by the Trustee shall be applied, in the manner determined by the Committee, to the payment of benefits to such persons as are entitled thereto in accordance with the Plan.

The Committee shall determine the manner in which the funds of the Plan shall be disbursed in accordance with the Plan, including the form of voucher or warrant to be used in authorizing disbursements and the qualification of persons authorized to approve and sign the same and any other matters incident to the disbursement of such funds. Also, the Committee shall from time to time advise the Trustee and the Investment Manager of the Plan's needs for liquidity with respect to benefit payments and disbursements.

All disbursements by the Trustee, except for the ordinary expenses of the administration of the Trust Fund, including settlement of duly authorized investment transactions for the account of the Trust Fund, shall be made upon the written instructions of the Committee.

10.5 *Contributor's Additional Allowance Account*

Employee contributions shall be accounted for by the Committee under a Contributor's Additional Allowance Account. In this account shall be recorded all contributions (wage or salary deductions) made by a Contributor for Additional Allowances. This account shall be credited annually with Interest, on the accumulated balances. All refunds of a Contributor's Additional Allowance Account which may be made prior to retirement shall be charged to this account as will any Additional Allowance payments made to or on behalf of the Contributor.

SECTION 11. AMENDMENT

11.1 *Right to Amend*

The Company, by action of the Board of Directors, shall have the right at any time, and from time to time, to amend in whole or in part, any or all of the provisions of this Plan. However, no such amendment shall reduce any benefit theretofore accrued for service prior to the date of such amendment nor authorize or permit any part of the Retirement Allowance Fund to be used for or diverted to purposes other than the exclusive benefit of the Participants or their Contingent Participants and Beneficiaries and other persons entitled to benefits under the Plan, and no such amendment which affects the rights, duties or responsibilities of the Trustee may be made without the Trustee's prior written consent. Any such amendment shall become effective upon delivery of a written instrument, incorporating the terms of such amendment, executed on behalf of the Company by its proper officers duly authorized, to the Committee and the Trustee and the endorsement of the Trustee of its written consent thereto if such consent is required.

The Benefits Administration Committee shall also have the right to amend in whole or part any or all of the provisions of the Plan, provided such amendment does not violate the preceding provisions of this Section 11.1 and does not significantly increase the cost to the Company or materially impact Participants. Such action shall be evidenced by written resolution certified in writing by the Benefits Administration Committee.

For purposes of this Section, a Plan amendment that has the effect of (a) eliminating or reducing an early retirement benefit or retirement-type subsidy, or (b) eliminating an optional form, with respect to benefits attributable to service before the amendment shall be treated as reducing a Participant's Accrued Benefit. In the case of a retirement-type subsidy, the preceding sentence shall apply only with respect to a Participant who satisfies (either before or after the amendment) the pre-amendment conditions for the subsidy. Notwithstanding the preceding, the Accrued Benefit of a Participant, early retirement benefit, retirement-type subsidy, or optional form of benefit may be reduced to the extent permitted under Section 412(c)(8) of the Code (as it read before October 1, 2008) or Section 412(d)(2) of the Code (as it reads for Plan Years beginning on and after October 1, 2008), or to the extent permitted under Sections 1.411(d)-3 and 1.411(d)-4 of the Treasury Department regulations.

11.2 *Special Provision for Amendment of Section 16.3(a)*

Notwithstanding the provisions of Section 11.1, the Committee shall have the authority, at any time and from time to time, to modify by resolution the dollar limit specified in Section 16.3(a), with respect to Plan Years commencing on or after October 1, 2005. Any resolution adopted by the Committee in accordance with this Section shall have the force and effect of an amendment to the Plan.

SECTION 12. SUSPENSION AND DISCONTINUANCE

12.1 *Suspension of Contributions*

The Board of Directors may suspend contributions in whole or in part. The suspension of the Company's contributions shall not in itself constitute a discontinuance of the Plan.

12.2 *Discontinuance*

The Board of Directors shall have the right at any time to terminate this Plan in whole or in part, by delivering to the Trustee its duly authorized instrument of termination.

Upon termination or partial termination of the Plan, the Trustee shall allocate the assets of the Retirement Allowance Fund for the benefit of each Participant, Contingent Participant and other person entitled to benefits under the Plan in the terminated group so as to provide nonforfeitable benefits to each such Participant, Contingent Participant and other person entitled to benefits under the Plan, based on their right to benefits accrued to the Plan termination date, to the extent that such accrued benefits have been funded. The allocation shall be made in a manner approved by the Internal Revenue Service in accordance with the provisions of, and regulations issued pursuant to, Section 4044 of the Employee Retirement Income Security Act of 1974.

The amounts so allocated in accordance with the above shall be applied for the benefit of each such person either by a cash payment or by the purchase of an insurance company annuity contract. However, in the event that the assets available for allocation are less than the value of insured vested benefits, the Pension Benefit Guaranty Corporation may direct how the allocated amounts are to be applied.

If any of the assets of the Retirement Allowance Fund remain after the satisfaction of all liabilities of the Plan the remaining funds shall be paid by the Trustee to the Employer.

12.3 *Merger, Consolidation or Transfer*

No merger or consolidation of this Plan with, or transfer of assets or liabilities to, any other plan will become effective until at least 30 days after the Company has filed with the Secretary of the Treasury such statement as shall be required by law. In the event of any merger or consolidation with, or transfer of assets or liabilities to, any other plan, each Participant shall be entitled to a benefit under the resulting plan, immediately after the merger, consolidation or transfer which would be (if the plan then terminated) equal to or greater than the benefit he or she would have been entitled to receive under this Plan, immediately before the merger, consolidation or transfer (if this Plan had then been terminated).

SECTION 13. MISCELLANEOUS

13.1 Uniform Administration

Whenever, in the administration of the Plan, any action is required by the Company or the Committee, including, but not by way of limitation, action with respect to eligibility or classification of Employees, contributions or benefits, such action shall be uniform in nature as applied to all persons similarly situated and no such action shall be taken which will discriminate in favor of Participants who are Highly Compensated Employees.

13.2 Payment Due an Incompetent

In the event that the Committee shall determine that any person entitled to benefit payments under this Plan is, for reasons of health, incompetency or otherwise, partially or wholly disabled from receiving and applying such benefit payments to his or her own use, endorsing checks, or executing any other appropriate document, and no guardian or committee incompetently shall have been appointed for; or in respect of, said person, then the Committee may, at its sole discretion and upon receipt of such evidence as shall be satisfactory to it that payments will be applied for the purposes intended, direct that any benefit under this Plan payable to such person shall be paid to such person or persons as the Committee shall determine. Payments made pursuant to such power shall operate as a complete discharge of the Committee, the Trustee and the Retirement Allowance Fund.

13.3 Identity of Payee

The determination of the Committee as to the identity of the proper payee of any benefit under the Plan and the amount of such benefit properly payable shall be conclusive, and payment in accordance with such determination shall constitute a complete discharge of all obligations on account of such benefit.

13.4 Non-alienation of Benefits

Except as otherwise provided by law, no benefit, interest or payment under the Plan shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, whether voluntary or involuntary, and no attempt to so anticipate, alienate, sell, transfer, assign, pledge, encumber or charge the same shall be valid nor shall any such benefit, interest or payment be in any way liable for or subject to the debts, contracts, liabilities, engagements or torts of the person entitled to such benefit, interest, or payment or subject to attachment, garnishment, levy execution or other legal or equitable process.

Notwithstanding the foregoing, the creation, assignment, or recognition of a right to any benefit payable with respect to a Participant pursuant to a “qualified domestic relations order” (as defined in Section 414(p) of the Code) shall not be treated as an assignment or alienation prohibited by this Section 13.4. A domestic relations order will not be considered as a “qualified domestic relations order” if it: (i) requires the Plan to provide a type or form of benefit not otherwise provided under the Plan, or (ii) requires the Plan to provide increased benefits (determined on the basis of actuarial value), or (iii) requires the payment of benefits to an alternate payee under another order previously determined to be a “qualified domestic relations order.” A domestic relations order shall not be treated as failing to meet the requirements of subpart (i) of the preceding sentence solely because it requires payment of benefits on or after the date on which the Participant attains earliest retirement age (as defined in Section 414(p)(4)(B) of the Code) under the Plan whether or not the Participant actually retires on that date. During any period in which the Committee is determining whether an order is a “qualified domestic relations order,” no benefits which are in dispute shall be paid hereunder, except as may be required by the Code.

Notwithstanding the foregoing, a Participant’s benefit under the Plan shall be offset or reduced by the amount the Participant is required to pay to the Plan under the circumstances set forth in Section 401(a)(13) of the Code. A Participant’s benefit under the Plan shall also be distributed as required because of the enforcement of a federal tax levy made pursuant to Section 6331 of the Code or the collection by the United States on a judgment resulting from an unpaid tax assessment.

13.5 Source of Payments

Retirement Allowances and all other benefits shall be paid or provided solely from the Retirement Allowance Fund and the Employer assumes no liability or responsibility therefor.

13.6 Plan Not a Contract of Employment

The adoption and maintenance of the Plan shall not be deemed to constitute a contract between an Employer and any Employee or Participant, or to be consideration for, or an inducement or condition of, the employment of any person. Nothing herein contained shall be deemed to give any Employee or Participant the right to be retained in the employ of an Employer or to interfere with the right of an Employer to discharge any Employee or Participant at any time.

13.7 Payment of Retirement Allowance:

Retirement Allowance payments shall commence not later than the 60th day after the close of the Plan Year in which the latest of the following events occurs:

- (a) the attainment by the Participant of age 65, or
- (b) the 5th anniversary of the year in which the Participant commenced participation in the Plan, or
- (c) the termination of the Participant’s employment with an Employer and all Affiliates, except that if the amount of the payment required to commence on the date determined under this Section 13.7 cannot be ascertained by such date, a payment retroactive to such date may be made no later than 60 days after the earliest date on which the amount of such payment can be determined under the Plan.

13.8 Adoption of Plan by Affiliate

(a) If any company is now or becomes an Affiliate, the Board of Directors may include the employees of that company in the participation of the Plan upon appropriate action by that company necessary to adopt the Plan. In that event or if any persons become Employees of an Employer as the result of merger or consolidation or as the result of acquisition of all or part of the assets or business of another company, the Board of Directors shall determine to what extent, if any, credit and benefits shall be granted for previous service with the Affiliate or other company, but subject to the continued qualification of the trust for the Plan as tax-exempt under the Code.

(b) If a company participating in the Plan pursuant to the provisions of Section 13.8(a) ceases to be an Affiliate, its participation in the Plan shall cease as of the date and its employees shall cease to be eligible Employees as defined in Section 1.24. Upon approval of the Board of Directors, an Employer participating in the Plan pursuant to the provisions of Section 13.8(a) may voluntarily cease its participation in the Plan upon appropriate action by it, and upon such action, its employees shall cease to be eligible Employees as defined in Section 1.34. In either event, the funds of the Plan held on account of Participants in the employ of that company shall continue to be held as part of the Plan, unless the Board of Directors directs the Trustee to segregate the funds held on account of the Participants in the employ of that company as a separate trust, pursuant to certification to the Trustee by the Committee (determined as if the Plan had then terminated), and continue the Plan as a separate plan for the employees of that company under which the board of directors of that company shall succeed to all the powers and duties of the Board of Directors, including the appointment of the members of the Committee.

13.9 Limitations Based on the Funded Status of the Plan

Notwithstanding any provision of the Plan to the contrary, the following provisions shall apply as required by Section 436 of the Code effective for Plan Years beginning on or after October 1, 2008, except to the extent the exception under Section 436(d)(4) of the Code applies:

(a) In the event the Plan's adjusted funding target attainment percentage for a Plan Year is less than 60 percent, benefit accruals shall cease during the period benefit accruals are restricted under the provisions of Section 436(e) of the Code.

(b) In the event the Plan's adjusted funding target attainment percentage for a Plan Year falls below the threshold defined under Section 436(d)(1) and/or (3) of the Code, the Trustee shall, as directed by the Committee, cease payment of any prohibited payment during the period specified in, and to the extent necessary to comply with the provisions of Section 436(d) of the Code.

(c) In no event shall a prohibited payment be paid during any period the Employer is a debtor in a case under Title 11, United States Code, or similar federal or state law, to the extent necessary to comply with the provisions of Section 436(d)(2) of the Code.

(d) In no event shall an amendment that has the effect of increasing liabilities of the Plan by reason of increases in benefits, establishment of new benefits, changing the rate of benefit accrual, or changing the rate at which benefits become nonforfeitable become effective during the period such amendment would violate the provisions of Section 436(c) of the Code.

(e) If an optional form of benefit that is otherwise available under the terms of the Plan is not available because of the application of Section 436(d)(1) or (2) of the Code, the Participant or Beneficiary, as applicable, shall be eligible to elect another form of benefit available under the Plan or to defer payment to a later date (to the extent permitted under applicable qualification requirements).

(f) If an optional form of benefit that is otherwise available under the terms of the Plan is not available because of the application of Section 436(d)(3) of the Code, a Participant or Beneficiary, as applicable, shall be eligible to defer his entire payment to a later date (to the extent permitted under applicable qualification requirements) or to bifurcate the benefit into unrestricted and restricted portions. If such a Participant or Beneficiary elects to bifurcate the benefit, the Participant or Beneficiary shall be eligible to elect, with respect to the unrestricted portion of the benefit, any optional form otherwise available under the Plan with respect to the Participant's or Beneficiary's entire benefit and in such a case, if the Participant or Beneficiary elects payment of the unrestricted portion of the benefit in the form of a prohibited payment, the Participant or Beneficiary shall be eligible to elect to receive payment of the restricted portion of the benefit in any optional form of benefit under the Plan that is not a prohibited payment and that would have been permitted with respect to the Participant's or Beneficiary's entire benefit.

For purposes of this Section, the terms "adjusted funding target attainment percentage," "prohibited payment," "unrestricted portion of the benefit," and "restricted portion of the benefit" shall have the meanings given under Section 436 of the Code, the regulations thereunder, and any applicable Internal Revenue Service guidance.

In the event that the provisions of this Section 13.9 or any part thereof cease to be required by law as a result of subsequent legislation or otherwise, this Section or any applicable part thereof shall be ineffective without the necessity of further amendments to the Plan.

13.10 Limitations on Unpredictable Contingent Event Benefits.

Notwithstanding any provision of the Plan to the contrary, with respect to Plan Years beginning on or after October 1, 2008, if a Participant or Beneficiary is entitled to an "unpredictable contingent event benefit" (as defined under Section 436(b) of the Code) with respect to any event occurring during any Plan Year, such unpredictable contingent event benefit shall not be provided to such Participant or Beneficiary if the Plan's adjusted funding target attainment percentage (as defined in Section 13.9) for such Plan Year is less than 60 percent or would be less than 60 percent taking into account such occurrence; provided, however, that such unpredictable contingent event benefit shall become payable if and when the Plan meets the exemption under Section 436(b)(2) of the Code.

In the event that the provisions of this Section 13.10 or any part thereof cease to be required by law as a result of subsequent legislation or otherwise, this Section or any applicable part thereof shall be ineffective without the necessity of further amendments to the Plan.

SECTION 14. PRE-TERMINATION RESTRICTIONS

14.1 *Restriction on Benefits*

(a) In the event of the termination of the Plan or other event specified in Treasury Regulation Section 1.401(a)(4)-5(b), the benefit of any Highly Compensated Employee, including any former Employee who was a highly compensated Employee when such Employee separated from service or any Employee who was a Highly Compensated Employee at any time after attaining age 55, shall in no event exceed an amount that is nondiscriminatory under Section 401(a)(4) of the Internal Revenue Code.

(b) The annual payments to an Employee described in paragraph (c) below may not exceed an amount equal to the payments that would be made on behalf of the Employee under a single life annuity that is the Actuarial Equivalent value of the sum of the Employee's Accrued Retirement Allowance and the Employee's other benefits under the Plan. Notwithstanding the foregoing the restrictions of this paragraph (b) do not apply, however, if:

(i) after payment to an Employee described in paragraph (c) below of all "benefits" described in paragraph (d) below, the value of Plan assets equals or exceeds 110 percent of the value of current liabilities, as defined in Section 412(1)(7) of the Internal Revenue Code,

(ii) the value of the benefits described in paragraph (d) below for an Employee described in paragraph (c) below is less than 1 percent of the value of current liabilities of the Plan, or

(iii) the value of the benefits described in paragraph (d) below for an Employee described in paragraph (c) below does not exceed the amount described in Section 411(a)(11)(A) of the Code.

(c) The Employees whose benefits are restricted on distribution consist of the 25 Highly Compensated Employees (including former Employees who were Highly Compensated Employees when they separated from service and Employees who were Highly Compensated Employees at any time after attaining age 55) whose compensation (under Section 414(q) of the Internal Revenue Code) was the highest in the current or any prior Plan Year.

(d) For purposes of subparagraph (b)(i) the term "benefits" includes, in addition to other benefits payable under the Plan, loans in excess of the amounts set forth in Section 72(p)(2)(A) of the Internal Revenue Code, any periodic income, any withdrawal values payable to a living Employee, and any death benefits not provided for by insurance on the Employee's life.

(e) Furthermore, this Section 14 and Treasury Regulation Section 1.401(a)(4)-5(b)(3) shall not restrict any distribution to a Participant who agrees, by an adequately secured written agreement with the Committee, to repay to the Plan and Trust any amount necessary for the distribution of assets upon Plan termination or other event to satisfy Section 401(a)(4) of the Internal Revenue Code.

(f) Notwithstanding paragraph (a) above, in the event the Plan is terminated, the restriction of this Section shall not be applicable if the benefit payable to any Employee otherwise affected by this Section 14 is limited to a benefit that is nondiscriminatory under Section 401(a)(4) of the Code.

(g) If it should subsequently be determined by statute, court decision acquiesced in by the Commissioner of Internal Revenue, or ruling by the Commissioner of Internal Revenue that the provisions of this Section 14 are no longer necessary to qualify the Plan under the Code, this Section shall be ineffective without the necessity of further amendment to the Plan.

SECTION 15. TOP-HEAVY PROVISIONS

(a) The following definitions apply to the terms used in this Section:

(i) “applicable determination date” means the last day of the preceding Plan Year;

(ii) “top-heavy ratio” means the ratio of (A) the present value of the cumulative Accrued Retirement Allowances under the Plan for key employees to (B) the present value of the cumulative Accrued Retirement Allowances under the Plan for all key employees and non-key employees; provided, however, that if an individual has not performed services for an Employer at any time during the five-year period (one-year period effective January 1, 2002) ending on the applicable determination date, any accrued benefit for such individual (and the account of such individual) shall not be taken into account; and provided further that, effective January 1, 2002, the present values of Accrued Retirement Allowances under the Plan for an employee as of the applicable determination date shall be increased by the distributions made with respect to the employee under the Plan and in a plan in the permissive aggregation group during the one-year period (five-year period in the case of a distribution made for a reason other than separation from service, death, or disability) ending on the applicable determination date and any distributions made with respect to the employee under a terminated plan which, had it not been terminated, would have been in the required aggregation group;

(iii) “applicable valuation date” means the date within the preceding Plan Year as of which annual Plan costs are or would be computed for minimum funding purposes;

(iv) “key employee” means :

(A) prior to January 1, 2002, an employee who is in a category of employees determined in accordance with the provisions of Section 416(i)(1) and (5) of the Code and any regulations thereunder, and, where applicable, on the basis of the Employee’s remuneration (defined as set forth in Section 4.4(a)) from an Employer; and

(B) on and after January 1, 2002, any employee or former employee (including any deceased employee) who at any time during the Plan Year that includes the applicable determination date was an officer of the Employer having remuneration greater than \$130,000 (as adjusted under Section 416(i)(1) of the Code for Plan Years beginning after December 31, 2002), a 5 percent owner (as defined in Section 416(i)(1)(B)(i) of the Code) of the Employer, or a 1 percent owner (as defined in Section 416(i)(1)(B)(ii) of the Code) of the Employer having remuneration greater than \$150,000. The determination of who is a key employee shall be made in accordance with Section 416(i) of the Code and the applicable regulations and other guidance of general applicability issued thereunder.

(v) “non-key employee” means any employee who is not a key employee;

(vi) “average remuneration” means the average annual remuneration (as defined in Section 4.4(d)) of a Member for the five consecutive years of his or her Continuous Service after December 31, 1983 during which he or she received the greatest aggregate remuneration from the Employer, excluding any remuneration for service after the last Plan Year with respect to which the Plan is top-heavy;

(vii) “required aggregation group” means each other qualified plan of the Employer (including plans that terminated within the five-year period ending on the determination date) in which there are members who are key employees or which enables the Plan to meet the requirements of Section 401(a)(4) or 410 of the Code; and

(viii) “permissive aggregation group” means each plan in the required aggregation group and any other qualified plan(s) of the Employer in which all members are non-key employees, if the resulting aggregation group continues to meet the requirements of Sections 401(a)(4) and 410 of the Code.

(b) For purposes of this Section, the Plan shall be “top-heavy” with respect to any Plan Year beginning on or after January 1, 1984, if as of the applicable determination date the top-heavy ratio exceeds 60%. The top-heavy ratio shall be determined as of the applicable valuation date in accordance with Section 416(g)(3) and (4)(B) of the Code on the basis of the actuarial assumptions (other than with respect to future withdrawals and future salary increases) used by the Plan’s Actuary in the actuarial valuation performed for Code Section 412 minimum funding purposes as of such valuation date. For purposes of determining whether the Plan is top-heavy, the present value of Accrued Benefits under the Plan will be combined with the present value of account balances under the Savings Plan. The accrued benefit of a non-key employee under the Plan shall be (i) determined under the method, if any, that uniformly applies for accrual purposes under all plans maintained by the Employer, or (ii) if there is no such method, as if such benefit accrued not more rapidly than the slowest accrual rate permitted under the fractional rule described in Section 411(b)(1)(C) of the Code.

(c) The following provisions shall be applicable to Members for any Plan Year with respect to which the Plan is top-heavy:

(i) In lieu of the vesting requirements specified in Section 7.2, any Participant who has completed three years of Service shall be fully vested in, and have a nonforfeitable right to, his or her Accrued Retirement Allowance determined in accordance with the provisions of Section 1.1 and subparagraph (ii) below.

(ii) The Accrued Benefit of a Participant who is a non-key employee shall not be less than two percent of his or her average remuneration multiplied by the number of years of his or her Service, not in excess of 10, during the Plan Years for which the Plan is top-heavy. That minimum benefit shall be payable at a Participant’s Normal Retirement Date. If payments commence at a time other than the Participant’s Normal Retirement Date, the minimum Accrued Retirement Allowance shall be of Actuarial Equivalent value to that minimum benefit. For purposes of the preceding sentence, effective January 1, 2002, Service shall be disregarded to the extent that such Service occurs during a Plan Year when the Plan benefits (within the meaning of Section 410(b) of the Code) no key employee or former key employee.

(d) If the Plan is top-heavy with respect to a Plan Year and ceases to be top-heavy for a subsequent Plan Year, the following provisions shall be applicable:

(i) The Accrued Retirement Allowance in any such subsequent Plan Year shall not be less than the minimum Accrued Retirement Allowance provided in paragraph (c)(ii) above, computed as of the end of the most recent Plan Year for which the Plan was top-heavy.

(ii) If a Participant has completed three years of Continuous Service on or before the last day of the most recent Plan Year for which the Plan was top-heavy, the vesting provision set forth in paragraph (c)(i) above shall continue to be applicable.

SECTION 16. RETIREE MEDICAL ACCOUNT

16.1 Construction

The provisions of this Section 16 are intended to meet the requirements of Section 401(h) of the Internal Revenue Code and the regulations thereunder.

16.2 Establishment of Account:

The Company shall establish a recordkeeping account (the “Retiree Medical Account”) within the trust fund maintained under Section 10 of the Plan, effective October 1, 1992, to provide for the payment of Medical Benefits of Eligible Retirees and their Dependents and to hold contributions made under this Section 16. The establishment of the Retiree Medical Account in no way affects the Company's right to amend, suspend or terminate any other employee benefit plan offered by the Company. The Medical Benefits supplied through the Retiree Medical Account are subordinate to the retirement benefits offered by the Plan.

16.3 Definitions

For purposes of this Section 16:

(a) “Medical Benefits” means, for any Plan Year commencing on or after October 1, 1992, the same medical benefits as the medical or other benefits provided to such Eligible Retirees and their Dependents under the Company's program for providing health care benefits (the “Program”) as in effect during such Plan Year; provided, however, that (i) for Plan Years commencing on or after October 1, 1992 and prior to October 1, 2004, “Medical Benefits” shall be provided only to the extent the per capita cost of the Program exceeds 150 percent of the per capita cost of the Program during the Plan Year ending on September 30, 1993, and (ii) for Plan Years commencing on or after October 1, 2004, “Medical Benefits” shall be provided only to the extent that the per capita cost of the Program exceeds \$8,000, each as determined in accordance with reasonable actuarial methods and assumptions. Unless the context clearly requires otherwise, all of the terms and conditions of the Program, as in effect from time to time, are hereby incorporated herein by reference, including, without limitation of the foregoing, all the terms and conditions describing the specific hospital, surgical and medical expenses covered, the amounts payable with respect to covered expenses, the exclusions, conditions and limitations pertaining to the payment of covered benefits, the termination of coverage and the procedures for claiming benefits. Medical Benefits shall be paid under this Section only to the extent there are sufficient funds to provide such benefits available in the Retiree Medical Account described in Section 16.2. In no event shall any benefits be paid under this Section to the extent the same benefits are paid by or are payable under any other plan, program, or arrangement sponsored by the Company or its Affiliates.

(b) “Eligible Retiree” means a Participant who (i) has terminated employment with the Company and its Affiliates, (ii) is eligible for (or who has received) a benefit under Section 4 of the Plan, (iii) is eligible for Medical Benefits, and (iv) effective on and after October 1, 2004, has at no time been a “key employee,” within the meaning of Section 416(i) of the Internal Revenue Code. Notwithstanding the foregoing, “Eligible Retiree” shall not include a Participant who is not making any contributions that may be required to obtain Medical Benefits under the Program; and

(c) “Dependent” means the lawful Spouse of an Eligible Retiree and any other individual who is a “dependent” of an Eligible Retiree (i) within the meaning of Section 152 of the Internal Revenue Code and (ii) under the terms of the Program. Notwithstanding the foregoing, “Dependent” shall not include an individual for whom contributions are required to be made to obtain Medical Benefits under the Program and such contributions are not being made.

16.4 Company Contribution

For each Plan Year beginning on or after October 1, 1992, the Company on behalf of the Employers may contribute to the Plan's trust fund such amounts as may be necessary to meet all or a portion of the total cost of the Medical Benefits provided under Section 16.2, as determined under any generally accepted actuarial method that is reasonable (in view of the provisions and coverage of this Section 16), less any portion of the cost to be met by any contributions by Eligible Retirees or Dependents under the Program. Any contributions so made by the Company shall be accompanied by a written statement specifically designating such contribution as a contribution to fund the Medical Benefits provided under this Section 16. All Company contributions must be reasonable and ascertainable.

Notwithstanding the foregoing, Company contributions shall be subject to the following limitations:

(a) No amount shall be contributed if the contribution of such amount would cause the sum of (i) the aggregate amount of contributions made under this Section 16.4 after October 1, 1992, and (ii) the contributions, if any, made after that date under the Plan to provide life insurance protection as defined in Treasury Regulation Section 1.401-14(c)(1)(i), to exceed 25 percent of the total contributions actually made to the Plan, other than contributions made to fund past service credits, after the date on which the Retiree Medical Account is established.

(b) Each contribution made by the Company hereby is conditioned upon its deductibility under Section 404(a)(1) of the Internal Revenue Code, and no contribution shall be made by the Company hereunder for any Plan Year in excess of the amount for which a deduction is allowable for such Year under Section 404 of the Internal Revenue Code and the regulations thereunder.

(c) The Company shall not be required to make any contribution under this Section 16 after the date as of which the provisions of this Section 16 are terminated pursuant to Section 16.10, except to fund Medical Benefits payable hereunder with respect to expenses incurred by Eligible Retirees and their Dependents prior to the date of such termination.

The Company's contribution may be in the form of a “qualified transfer,” within the meaning of Section 420 of the Internal Revenue Code, in which case, to the extent the requirements of Section 420 of the Internal Revenue Code contradict the provisions of this Section 16 or impose additional rules on the Plan, the provisions of the Code Section shall govern.

16.5 *Investment of Contributions*

All contributions under this Section 16 shall be made in the form of payments to the Trustee. Any contributions so made by the Company shall be accompanied by a written statement specifically designating such contribution as a contribution to fund the Medical Benefits provided under this Section 16.

Amounts in the Retiree Medical Account need not be invested separately from other Plan assets. However, if amounts in the Retiree Medical Account are invested, on a commingled basis, with other Plan assets, there shall be allocated to the Retiree Medical Account that portion of the total income or loss attributable to the investment of all Plan assets which the total amount in the Retiree Medical Account bears to the total value of all Plan assets.

16.6 *Key Employees*

For Plan Years beginning prior to October 1, 2004, a separate account within the Retiree Medical Account shall be maintained for the Medical Benefits of each Eligible Retiree or Dependent who is a “key employee,” within the meaning of Section 416(i) of the Internal Revenue Code, and their Dependents. Payment of such key employee’s Medical Benefits (including those of his or her Dependents) attributable to Plan Years commencing prior to October 1, 2004 when such individual was a key employee shall be made solely from his or her separate account. In accordance with the provisions of Section 16.3(b), no payment shall be made for Medical Benefits of any key employee or Dependent of a key employee.

16.7 *Forfeitures*

No eligible Employee shall have, as of any date, whether before or after he or she becomes an Eligible Retiree, any vested interest in any Medical Benefits provided for hereunder, or in any amount in the Retiree Medical Account, except for Medical Benefits payable with respect to any medical expense covered hereunder that was actually paid or incurred by an Eligible Retiree or a Dependent prior to such date. In particular, retirement or the fulfillment of the conditions for a pension benefit pursuant to the terms of this Plan or under the terms of any other employee benefit plan maintained by the Company shall not confer upon any eligible Employee, Eligible Retiree, or Dependent any right to continued benefits under this Section 16.

In the event that the interest of any eligible Employee, Eligible Retiree, or Dependent in the Retiree Medical Account is forfeited prior to termination of this Section 16, an amount equal to the amount of the forfeiture shall be applied as soon as possible to reduce Company contributions to fund the Medical Benefits provided under this Section 16.

16.8 *Impossibility of Diversion*

It shall be impossible, at any time prior to the satisfaction of all liabilities under the Plan to provide for the payment of Medical Benefits under this Section 16, for any amount in the Retiree Medical Account to be used for, or diverted to, any purposes other than the providing of such Medical Benefits. However, the payment of any necessary or appropriate expenses attributable to the administration of the Retiree Medical Account shall not be deemed a violation of the foregoing requirement.

16.9 *Amendment*

The Company may amend this Section 16 at any time, and from time to time, and may take such action retroactively if deemed advisable in order to meet the requirements of the Internal Revenue Code. However, no such amendment shall reduce or eliminate Medical Benefits otherwise payable hereunder with respect to any medical expense that was actually paid or incurred by an Eligible Retiree or Dependent prior to the date of such amendment.

16.10 *Termination*

The Company may terminate the provisions of this Section 16 at any time. No benefit shall be paid under this Section 16 after the effective date of such termination, except for any Medical Benefits otherwise payable hereunder with respect to any medical expense that was actually paid or incurred by an Eligible Retiree or Dependent prior to the date of such termination. A termination of the provisions of this Section 16 shall not constitute a termination or partial termination of the Plan.

16.11 *Reversion of Assets Upon Termination*

Upon the termination of this Section 16, any balance remaining in the Retiree Medical Account after all liabilities under this Section 16 have been satisfied shall be paid over to the Company.

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Laurence M. Downes, certify that:

- (1) I have reviewed this Quarterly Report on Form 10-Q of New Jersey Resources Corporation;
- (2) Based on my knowledge, this Quarterly Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this Quarterly Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Quarterly Report;
- (4) The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the Registrant and have:
 - a.) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Quarterly Report is being prepared;
 - b.) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c.) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this Quarterly Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Quarterly Report based on such evaluation;
 - d.) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to adversely affect, the Registrant's internal control over financial reporting; and
- (5) The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):
 - a.) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b.) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: February 3, 2010

By: /s/ Laurence M. Downes
Laurence M. Downes
Chairman, President and
Chief Executive Officer

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302
OF THE SARBANES-OXLEY ACT OF 2002**

I, Glenn C. Lockwood, certify that:

- (1) I have reviewed this Quarterly Report on Form 10-Q of New Jersey Resources Corporation;
- (2) Based on my knowledge, this Quarterly Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this Quarterly Report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this Quarterly Report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this Quarterly Report;
- (4) The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the Registrant and have:
 - a.) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this Quarterly Report is being prepared;
 - b.) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c.) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this Quarterly Report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this Quarterly Report based on such evaluation;
 - d.) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to adversely affect, the Registrant's internal control over financial reporting; and
- (5) The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent functions):
 - a.) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b.) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: February 3, 2010

By: /s/ Glenn C. Lockwood
Glenn C. Lockwood
Senior Vice President and
Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned, Laurence M. Downes, hereby certifies as follows:

- (a) I am the Chief Executive Officer of New Jersey Resources Corporation (the “Company”);
- (b) To the best of my knowledge, the Company’s Quarterly Report on Form 10-Q for the period ended December 31, 2009 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (c) To the best of my knowledge, based upon a review of the Report, the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 3, 2010

By: /s/ Laurence M. Downes
Laurence M. Downes
Chairman, President
and Chief Executive Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned, Glenn C. Lockwood, hereby certifies as follows:

- (a) I am the Chief Financial Officer of New Jersey Resources Corporation (the “Company”);
- (b) To the best of my knowledge, the Company’s Quarterly Report on Form 10-Q for the period ended December 31, 2009 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (c) To the best of my knowledge, based upon a review of the Report, the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 3, 2010

By: /s/ Glenn C. Lockwood
Glenn C. Lockwood
Senior Vice President and
Chief Financial Officer
