

NORTHWEST NATURAL GAS CO
Form DEF 14A
April 17, 2006
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SCHEDULE 14A (RULE 14A-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

**PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE
SECURITIES EXCHANGE ACT OF 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only

(as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material under § 240.14a-12

NORTHWEST NATURAL GAS COMPANY

(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.

- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
 - (1) Title of each class of securities to which transaction applies:

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

 - (4) Proposed maximum aggregate value of transaction:

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 - (1) Amount Previously Paid:

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

 - (3) Filing Party:

 - (4) Date Filed:

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220 N.W. SECOND AVENUE

PORTLAND, OR 97209

April 17, 2006

To the Shareholders of Northwest Natural Gas Company:

We cordially invite you to attend the 2006 Annual Meeting of Shareholders of Northwest Natural Gas Company (the Company), which will be held in the Colonel Lindbergh Room of the Embassy Suites Hotel, 319 SW Pine Street, Portland, Oregon, on Thursday, May 25, 2006, commencing at 2:00 p.m., Pacific Daylight Time. We look forward to greeting as many of our shareholders as are able to join us.

At the meeting you will be asked to consider and vote upon: (1) the election of four Class I directors for terms of three years, (2) the reapproval of the Company's Long-Term Incentive Plan, (3) the amendment of the Company's Employee Stock Purchase Plan, (4) the restatement of the Company's Restated Articles of Incorporation, (5) the amendment of Article IV of the Restated Articles of Incorporation and (6) the ratification of the appointment of PricewaterhouseCoopers LLP as the Company's independent auditors for the year 2006. Your Board of Directors unanimously recommends that you vote **FOR** each of Proposals 1, 2, 3, 4, 5 and 6.

In connection with the meeting, we enclose a notice of the meeting, a proxy statement and a proxy card. Detailed information relating to the Company's activities and operating performance is contained in our 2005 Annual Report, which is also enclosed.

It is important that your shares are represented and voted at the meeting. Whether or not you plan to attend, please vote your shares in one of three ways: via Internet, telephone or mail. Instructions regarding Internet and telephone voting are included on the proxy card. If you elect to vote by mail, please sign, date and return the proxy card in the enclosed postage-paid envelope. Your proxy may be revoked at any time before it is exercised in the manner set forth in the proxy statement.

Sincerely,

/s/ Richard L. Woolworth

Richard L. Woolworth
Chairman of the Board

/s/ Mark S. Dodson

Mark S. Dodson
President and Chief Executive Officer

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NORTHWEST NATURAL GAS COMPANY

ONE PACIFIC SQUARE
220 N.W. SECOND AVENUE
PORTLAND, OREGON 97209
(503) 226-4211

NOTICE OF 2006 ANNUAL MEETING OF SHAREHOLDERS

Portland, Oregon, April 17, 2006

To the Shareholders:

The 2006 Annual Meeting of Shareholders of Northwest Natural Gas Company will be held in the Colonel Lindbergh Room of the Embassy Suites Hotel, 319 SW Pine Street, Portland, Oregon, on Thursday, May 25, 2006, at 2:00 p.m., Pacific Daylight Time, for the following purposes:

1. to elect four Class I directors to a term of three years;
2. to reapprove the Company's Long-Term Incentive Plan;
3. to amend the Company's Employee Stock Purchase Plan;
4. to restate the Company's Restated Articles of Incorporation;
5. to amend Article IV of the Company's Restated Articles of Incorporation;
6. to ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent public accountants for the year 2006; and
7. to transact such other business as may properly come before the meeting or any adjournment thereof.

Holders of record at the close of business on April 6, 2006 are entitled to vote upon all matters properly submitted to shareholder vote at the meeting.

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The Board of Directors of the Company is soliciting the proxies of all holders of the Common Stock who may be unable to attend the meeting in person. These proxies also will instruct the relevant fiduciary under the Company's Dividend Reinvestment and Direct Stock Purchase Plan or Retirement K Savings Plan to vote any shares held for shareholders' benefit under those Plans, as indicated on the proxies. A proxy and a stamped return envelope are enclosed for your use. No postage is needed if mailed in the United States. Instructions regarding Internet and telephone voting also are included on the enclosed proxy card.

Your vote is very important to us.

We urge you to vote by promptly marking, signing, dating and returning the enclosed proxy card, or by granting a proxy by telephone or the Internet in accordance with the instructions on the enclosed proxy card, as soon as possible. Your prompt vote will save the Company the additional expense of further requests to ensure the presence of a quorum. You may vote in person at the meeting whether or not you previously have returned your proxy.

By Order of the Board of Directors,

/s/ C. J. Rue
C. J. Rue
Secretary

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NORTHWEST NATURAL GAS COMPANY

April 17, 2006

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NORTHWEST NATURAL GAS COMPANY

ONE PACIFIC SQUARE

220 N.W. SECOND AVENUE

PORTLAND, OREGON 97209

(503) 226-4211

2006 ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD MAY 25, 2006

PROXY STATEMENT

The Board of Directors of Northwest Natural Gas Company is soliciting the proxies of all holders of the Common Stock who may be unable to attend in person the Annual Meeting of Shareholders to be held in the Colonel Lindbergh Room of the Embassy Suites Hotel, 319 SW Pine Street, Portland, Oregon, on Thursday, May 25, 2006, at 2:00 p.m., Pacific Daylight Time. The Company requests that you sign and return the enclosed proxy promptly. Alternatively, you may grant your proxy by telephone or the Internet.

The Company's Annual Report for the fiscal year ended December 31, 2005, including audited financial statements, is being mailed to all shareholders, together with this proxy statement and the accompanying proxy card, commencing April 17, 2006.

The close of business on April 6, 2006 has been fixed as the record date for the determination of shareholders entitled to notice of and to vote at the meeting.

VOTING BY PROXY AND HOW TO REVOKE YOUR PROXY

You may vote your shares either in person or by duly authorized proxy. You may use the proxy card accompanying this proxy statement if you are unable to attend the meeting in person or you wish to have your shares voted by proxy even if you do attend the meeting. If you are a registered shareholder, you may vote by telephone, Internet or mail, or you may vote your shares in person at the meeting. To vote:

By telephone (do not return your proxy card)

On a touch-tone telephone, call the toll-free number indicated on your proxy card. Telephone voting is available 24 hours a day, 7 days a week, until 11:59 p.m. Eastern Daylight Time on May 24, 2006.

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Have your proxy card available when you call.

Follow the simple recorded instructions. You will be prompted to enter your 12-digit Control Number located on your proxy card.

By Internet (do not return your proxy card)

Go to **www.proxyvote.com**. Internet voting is available 24 hours a day, 7 days a week, until 11:59 p.m. Eastern Daylight Time on May 24, 2006.

Have your proxy card available.

Follow the simple instructions. You will be prompted to enter your 12-digit Control Number located on your proxy card.

By mail

Mark your choice on your proxy card. If you properly execute your proxy card but do not specify your choice, your shares will be voted FOR Proposals 1, 2, 3, 4, 5 and 6, as recommended by the Company's Board of Directors.

Date and sign your proxy card.

Mail your proxy card in the enclosed postage-paid envelope. If your envelope is misplaced, send your proxy card to Northwest Natural Gas Company, c/o Auto Data Processing Investor Communication Services, Proxy Services, 51 Mercedes Way, Edgewood, NY 11717.

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You may revoke your proxy at any time before the proxy is exercised (1) by delivering a written notice of revocation, (2) by filing with the corporate secretary a subsequently dated, properly executed proxy, (3) by voting after the date of the proxy by telephone or Internet, or (4) by attending the meeting and voting in person. Your attendance at the meeting, by itself, will not constitute a revocation of a proxy. You should address any written notices of proxy revocation to:

Northwest Natural Gas Company

220 NW Second Avenue

Portland, OR 97209

Attention: Corporate Secretary

If your shares are held in nominee or street name by a bank or broker, you should follow the directions on the instruction form you receive from your bank or broker as to how to vote, change your vote, or revoke your proxy.

If an adjournment of the meeting occurs, it will have no effect on the ability of shareholders of record as of the record date to exercise their voting rights or to revoke any previously delivered proxies.

VOTING SECURITIES OF THE COMPANY

The 27,588,296 shares of Common Stock outstanding on March 17, 2006 were held by 9,014 shareholders residing in 50 states, the District of Columbia and a number of foreign countries.

Each holder of Common Stock of record at the close of business on April 6, 2006 will be entitled to one vote for each share of Common Stock so held on all matters properly submitted at the meeting. Such holder will be entitled to cumulative voting for directors; that is, to cast as many votes for one candidate as shall equal the number of shares held of record multiplied by the number of directors to be elected, or to distribute such number of votes among any number of the candidates.

A majority of the shares of Common Stock outstanding at the close of business on April 6, 2006 must be represented at the meeting, in person or by proxy, to constitute a quorum for the transaction of business.

It is important that your shares be represented at the meeting. You are urged, regardless of the number of shares held, to sign and return your proxy. Alternatively, you may grant your proxy by telephone or the Internet as described above.

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PROPOSAL 1 ELECTION OF DIRECTORS

The Company's Restated Articles of Incorporation provide that the Board of Directors be comprised of not less than nine nor more than 13 directors, with the exact number of directors to be determined by the Board. The Board has fixed the number of directors at 11. The Restated Articles also provide that the Board of Directors be divided into three classes and that the number of directors in each class be as nearly equal in number as possible. Members of each class are elected to serve a three-year term with the terms of office of each class ending in successive years.

The term of Class I directors expires with this year's Annual Meeting. Messrs. Timothy P. Boyle, Mark S. Dodson, Randall C. Papé and Richard L. Woolworth are nominees for election to the Board as Class I directors to serve until the 2009 Annual Meeting or until their successors have been duly qualified and elected. Each of these directors was elected by the shareholders at the 2003 Annual Meeting. In case any of the nominees should become unavailable for election for any reason, the persons named in the proxy will have discretionary authority to vote for a substitute. Management knows of no reason why any of the nominees would be unable to serve if elected.

Vote Required

Under Oregon law, if a quorum of shareholders is present at the Annual Meeting, the four nominees who receive the greatest number of votes cast at the meeting shall be elected directors. Abstentions and broker non-votes are counted for purposes of determining whether a quorum exists at the Annual Meeting but are not counted and have no effect on the results of the vote for directors.

The Board of Directors recommends the election of the nominees listed below.

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**INFORMATION CONCERNING NOMINEES
AND CONTINUING DIRECTORS**

NOMINEES FOR ELECTION TO BOARD OF DIRECTORS

Class I

(For a term ending in 2009)

Timothy P. Boyle

President and Chief Executive Officer, Columbia Sportswear Company, Portland, Oregon

Age: 56

Director since: 2003

Board Committees: Finance, Organization and Executive Compensation, Strategic Planning

Since 1989, Mr. Boyle has served as President and Chief Executive Officer of Columbia Sportswear Company, an active outdoor apparel and footwear company headquartered in Portland, Oregon. He began working with Columbia Sportswear Company in 1970. Mr. Boyle is a member of the Boards of Directors of Widmer Brothers Brewing, the University of Oregon Foundation and Oregon Trout and is a trustee of Reed College and a past member of the Young Presidents Organization. He earned a Bachelor of Science degree in Journalism from the University of Oregon.

Mark S. Dodson

President and Chief Executive Officer of the Company, Portland, Oregon

Age: 61

Director since: 2003

Board Committees: None

Mr. Dodson became Chief Executive Officer of the Company on January 1, 2003, where he previously served as President, Chief Operating Officer and General Counsel since 2001. He joined the Company in 1997 as Senior Vice President of Public Affairs and General Counsel, following a 17-year career with the Portland law firm Ater Wynne Hewitt Dodson & Skerritt. Mr. Dodson serves on the executive committee of Associated Oregon Industries and is a member of the Board of Directors of Catalyst Paper Corporation and the Oregon Business Council. He also has worked on affordable housing issues as a board member and chairman of the Neighborhood Partnership Fund. Mr. Dodson is currently the Chair of the Portland Business Alliance and was formerly Chairman of the Oregon State Board of Higher Education. He currently serves as a Trustee of Linfield College and as a member of the Board of Directors of Waseda University USA, and recently headed the Oregon Governor's Task Force on Scholarship and Student Aid. He earned an undergraduate degree from Harvard University and a law degree from Boalt College

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Randall C. Papé

President and Chief Executive Officer, The Papé Group, Inc., Eugene, Oregon

Age: 55

Director since: 1996

Board Committees: Governance, Finance (Chair), Public Affairs and Environmental Policy

Since 1981, Mr. Papé has served as President, Chief Executive Officer and a director of The Papé Group, Inc., a holding company for Papé Machinery, Inc., Flightcraft, Inc., Papé Material Handling, Ditch Witch Northwest, Industrial Finance Co. and Papé Properties, Inc. He also is President, CEO and a director of Liberty Financial Group, a holding company for LibertyBank, and its subsidiary, Commercial Equipment Lease Corporation. He is an owner and director of Sanipac, Inc. and its subsidiary, Eco Sort LLC, and a partner in Papé Investment Company. Mr. Papé serves as a commissioner of the Oregon Department of Transportation and also serves as chair of the Oregon Business Council. He is a former director and past president of Mt. Bachelor, Inc. and a former trustee and past president of the University of Oregon Foundation. He earned a Bachelor of Science degree in Finance from the University of Oregon.

Richard L. Woolworth

Chairman of the Board of the Company and Retired Chairman and Chief Executive Officer, The Regence Group, Portland, Oregon

Age: 64

Director since: 2000

Board Committees: Governance (Chair), Audit

Mr. Woolworth became Chairman of the Board of the Company on March 1, 2005. From 1995 through 2003, Mr. Woolworth served as Chairman and CEO of The Regence Group, the largest affiliation of BlueCross and/or BlueShield companies in the western United States. He also served as Board Chairman of Regence BlueCross BlueShield of Oregon and Regence HMO Oregon. He also serves as a director of the Columbia Mutual Funds. He is past chair of the national BlueCross and BlueShield Association, the Portland Chamber of Commerce, the Oregon Business Council and United Way and has chaired fundraising drives for both United Way and the Juvenile Diabetes Foundation. Mr. Woolworth is a former certified public accountant and a graduate of Lewis and Clark College in Portland.

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MEMBERS OF THE BOARD OF DIRECTORS CONTINUING IN OFFICE

Class II

(Term ending in 2007)

Tod R. Hamachek

Former Chairman and Chief Executive Officer, Penwest Pharmaceuticals Company, Danbury, Connecticut

Age: 60

Director since: 1986

Board Committees: Governance, Audit, Strategic Planning (Chair)

Mr. Hamachek served as Chairman and Chief Executive Officer of Penwest Pharmaceuticals Company from October 1997 to February 2005. Penwest, which was spun off from Penford Corporation in 1998, is engaged in the research, development and commercialization of novel drug delivery products and technologies. From 1985 until 1998, Mr. Hamachek served as President and Chief Executive Officer of Penford Corporation, a diversified producer of specialty paper, food starches and pharmaceutical ingredients. He is a director of The Seattle Times Company and The Blethen Corporation (the majority owner of The Seattle Times Company). Mr. Hamachek is also a trustee of the Aldrich Museum of Contemporary Art in Ridgefield, Connecticut. He is a graduate of Williams College and Harvard Business School.

Kenneth Thrasher

Chairman and Chief Executive Officer, Compli Corporation, Portland, Oregon

Age: 56

Director since: 2005

Board Committees: Organization and Executive Compensation, Public Affairs and Environmental Policy

Since 2002, Mr. Thrasher has served as Chairman and Chief Executive Officer of Compli Corporation, a software solution provider for management of compliance in employment practices and corporate governance. Prior to joining Compli, Mr. Thrasher served 19 years in executive positions with Fred Meyer, Inc., including serving as President and Chief Executive Officer from 1999 to 2001, Executive Vice President and Chief Administrative Officer from 1997 to 1999, and Senior Vice President and CFO for 10 years. Mr. Thrasher serves on the board of directors of Friends of the Children, the Oregon Mentoring Initiative, the Portland Art Museum, the Childrens Institute, the Oregon Business Council, the Leaders Roundtable and the Oregon Coast Aquarium. In 2001, he was appointed by the Oregon Governor as Chairperson of the Quality Education Commission, a position he held until early 2005, including four years as chair. He is also a co-chair of Portland State University's capital endowment campaign. Mr. Thrasher earned a Bachelor of Science degree in Business Administration from Oregon State University.

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Russell F. Tromley

Chairman and Chief Executive Officer, Tromley Industrial Holdings, Inc., Tualatin, Oregon

Age: 66

Director since: 1994

Board Committees: Audit, Governance, Organization and Executive Compensation (Chair)

Mr. Tromley became Chairman and Chief Executive Officer of Tromley Industrial Holdings, Inc. in 2005 after having served as President and CEO since the company's formation in 1990. Tromley Industrial Holdings is involved in nonferrous metals alloying and distribution, the manufacture and sale of equipment for the foundry and steel industry, industrial equipment leasing and industrial and retail business property investments. Mr. Tromley is a past President of the Casting Industry Suppliers Association and of the Arlington Club, and is a non-lawyer arbitrator for, and a member of the House of Delegates of, the Oregon State Bar Association. He was a founding director of The Bank of the Northwest, and served on the advisory board of Pacific Northwest Bank of Oregon and as a director emeritus of the Evans Scholars Foundation and the Western Golf Association. Mr. Tromley is a member of the Board of Directors of the Harvard Business School Alumni Association. Mr. Tromley attended the University of Washington and Harvard Business School.

Class III

(Term ending in 2008)

Martha L. Stormy Byorum

Senior Managing Director, Stephens Cori Capital Advisors, New York, New York

Age: 57

Director since: 2004

Board Committees: Audit, Finance

In January 2005, Ms. Byorum became Senior Managing Director of Stephens Cori Capital Advisors, a division of Stephens, Inc., a private investment banking firm founded in 1933. From 2003 to 2004, Ms. Byorum served as Chief Executive Officer of Cori Investment Advisors, LLC, which was spun off from Violy, Byorum & Partners (VB&P) in 2003. VB&P was the leading independent strategic advisory and investment banking firm specializing in Latin America. Prior to co-founding VB&P in 1996, Byorum had a 24-year career at Citibank, where, among other things, she served as Chief of Staff and Chief Financial Officer for Citibank's Latin American Banking Group from 1986-1990, overseeing \$15 billion of loans and coordinating activities in 22 countries. She later was appointed the head of Citibank's U.S. Corporate Banking Business and a member of the bank's Operating Committee and Customer Group with global responsibilities. A graduate of Southern Methodist University and the Wharton School at the University of Pennsylvania, she is a Life Trustee of Amherst College, a Trustee Emeritus of the Folger Shakespeare Library and a board member of Aeterna-Zentaris Laboratories, Inc., a biopharmaceutical company.

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John D. Carter

President and Chief Executive Officer, Schnitzer Steel Industries, Inc., Portland, Oregon

Age: 60

Director since: 2002

Board Committees: Audit (Chair), Finance, Governance

Mr. Carter has served as President and Chief Executive Officer of Schnitzer Steel Industries Inc. since May 2005. From 2002 to May 2005, Mr. Carter was engaged in a consulting practice focused primarily on strategic planning in transportation and energy for national and international businesses, as well as other small business ventures. From 1982 to 2002, Mr. Carter served in a variety of senior management capacities at Bechtel Group, Inc. including Executive Vice President and Director, as well as President of Bechtel Enterprises, Inc., a wholly owned subsidiary, and other operating groups. Prior to his Bechtel tenure, Mr. Carter was a partner in a San Francisco law firm. He is a director of Schnitzer Steel Industries, FLIR Systems, Inc., and Kuni Automotive in the U.S. In the United Kingdom, he served as a director of London & Continental Railways until February 2006, and, until December 2005, served as a director of Cross London Rail Links, Ltd. He is a graduate of Stanford University and Harvard Law School.

C. Scott Gibson

President, Gibson Enterprises, Portland, Oregon

Age: 53

Director since: 2002

Board Committees: Public Affairs and Environmental Policy (Chair), Organization and Executive Compensation, Strategic Planning

Mr. Gibson has been President of Gibson Enterprises, a venture capital firm, since its formation in 1992. In 1983, Mr. Gibson co-founded Sequent Computer Systems and served as its President from 1988 until March 1992. Before his tenure at Sequent, Mr. Gibson served as General Manager for the Memory Components Division of Intel Corporation. Mr. Gibson serves as Chairman of the Board of Radisys Corporation, and as a director of TriQuint Semiconductor, Pixelworks and Electroglas, Inc. He also serves as a member of the Board of Trustees of the Oregon Community Foundation, the OHSU Foundation and the Franklin W. Olin College of Engineering, and is Vice Chair of the Oregon Health and Science University governing board. Mr. Gibson earned a Bachelor of Science degree in electrical engineering and a Masters in Business degree from the University of Illinois.

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Richard G. Reiten

Retired Chairman and CEO of the Company, Portland, Oregon

Age: 66

Director since: 1996

Board Committees: Public Affairs and Environmental Policy, Finance, Strategic Planning

Mr. Reiten served as Chief Executive Officer of the Company from January 1, 1997 until December 31, 2002. He joined the Company as President and Chief Operating Officer and was elected to the Board effective March 1, 1996. He was appointed to the additional position of Chairman of the Board in September 2000, a position he held until February 28, 2005. Prior to joining the Company, from 1992 through 1995, Mr. Reiten served as President and Chief Operating Officer of Portland General Electric Company (PGE) after serving as President of PGE's parent company, Portland General Corporation (PGC), from 1989 through 1992. He also served as a director of PGC from 1983 to 1987 and from 1990 to 1995 when he retired from PGE. He is a director of U.S. Bancorp, Building Materials Holding Corporation, The Regence Group, Idacorp and National Fuel Gas Company. He is a past chairman of the board of the American Gas Association and currently serves on the board of Associated Electric and Gas Insurance Services Ltd., as Vice Chairman of The Nature Conservancy of Oregon and on the Board of the Oregon Community Foundation. He is a past General Chairman of the United Way campaign for Portland and a past Chairman of both the Portland Metropolitan Chamber of Commerce and the Association for Portland Progress. Mr. Reiten is a graduate of the University of Washington and the Executive and Board of Directors Programs at Stanford Business School.

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**INFORMATION CONCERNING THE
BOARD OF DIRECTORS AND ITS COMMITTEES**

Annual Meeting Attendance

The Board of Directors conducts its annual organization meeting on the same date as the Annual Meeting of Shareholders, which all of the directors are encouraged to attend. In 2005, all of the Company's directors attended the Annual Meeting of Shareholders.

Independence

The Board of Directors has adopted Director Independence Standards to comply with updated New York Stock Exchange rules. The Director Independence Standards, amended as of December 16, 2004, are available on the Company's website at www.nwnatural.com. No director is deemed independent unless the Board affirmatively determines that the director has no material relationship with the Company either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company. The Board applies its adopted standards as well as additional qualifications prescribed under the listing standards of the New York Stock Exchange and applicable state and federal statutes. Annually the Board determines whether each director meets the criteria of independence. In 2006, the Board determined that nine of the eleven directors met the independence criteria. They are directors Boyle, Byorum, Carter, Gibson, Hamachek, Papé, Thrasher, Tromley and Woolworth.

Committees

There are six standing committees of the Board: the Audit, Governance, Organization and Executive Compensation, Finance, Public Affairs and Environmental Policy and Strategic Planning Committees. Each of the committees operates according to a formal written charter, all of which are reviewed annually and are available on the Company's website at www.nwnatural.com. Copies of the charters are also available upon request. The performance of each committee is reviewed annually. Each committee may obtain advice and assistance from internal or external legal, accounting or other advisors, when appropriate.

Audit Committee

The Audit Committee is comprised of directors Byorum, Carter, Hamachek, Tromley and Woolworth, each of whom is an independent director as defined under current New York Stock Exchange listing standards and the Company's Director Independence Standards. Based on its review of relevant information, the Board has determined that Mr. Woolworth is an audit committee financial expert and independent as those terms are defined under applicable Securities and Exchange Commission rules.

The Audit Committee is responsible for overseeing matters relating to accounting, financial reporting, internal control and auditing. The Committee is also responsible for the appointment, compensation, oversight and review of the independent registered public accounting firm, and reviews the corporate audit and other internal accounting control matters with the independent auditor. A more detailed description of the Audit Committee's responsibilities is included in the Report of the Audit Committee, which is included on page 33. The Committee reports regularly to the Board. The Committee held seven meetings during 2005. The Chair of the Committee, Mr. Carter, presides at all executive sessions of the Committee.

Governance Committee

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The Governance Committee is empowered, during intervals between Board meetings, to exercise all of the authority of the Board in the management of the Company, except as otherwise may be provided by law. The Committee, which serves as the nominating

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committee, makes recommendations to the Board regarding nominees for election to the Board, criteria for Board and committee membership and policies that govern the Board's activities, including the Corporate Governance Standards discussed below, and evaluates Board and individual director performance. It also considers any questions of possible conflicts of interest of Board members and senior executives and jointly reviews annually the performance of the CEO with the Organization and Executive Compensation Committee. This Committee is comprised of directors Carter, Hamachek, Papé, Tromley and Woolworth, each of whom is an independent director as defined under current New York Stock Exchange listing standards and the Company's Director Independence Standards. The Committee held six meetings in 2005. The Chair of the Committee, Mr. Woolworth, presides at all executive sessions of the Committee and executive sessions of the non-management directors of the Board.

Organization and Executive Compensation Committee

The Organization and Executive Compensation Committee is comprised of directors Boyle, Gibson, Thrasher and Tromley, each of whom is an independent director as defined under current New York Stock Exchange listing standards and the Company's Director Independence Standards. Each member of this Committee also meets the criteria as a non-employee director under applicable rules of the Securities and Exchange Commission and the criteria for outside directors under Section 162(m) of the Internal Revenue Code of 1986, as amended. Mr. Tromley chairs the Committee. The Committee reviews the performance of the CEO and other executive officers, considers executive compensation survey data in making recommendations to the Board relating to the Company's executive compensation program and benefit plans, and administers the Restated Stock Option Plan, the Long-Term Incentive Plan, the Executive Deferred Compensation Plan, the Executive Annual Incentive Plan, the Directors Deferred Compensation Plan and the Deferred Compensation Plan for Directors and Executives. This Committee also makes recommendations to the Board regarding board compensation and organization and executive succession matters. Five meetings of this Committee were held during 2005.

The Report of the Organization and Executive Compensation Committee is included on page 26.

Public Affairs and Environmental Policy Committee

The Public Affairs and Environmental Policy Committee reviews the Company's policies and practices relating to significant public and political issues that may have an impact on the Company's business operations, financial performance or public image. It oversees the Company's programs and policies relating to civic, charitable and community affairs, safety and equal employment opportunity. The Committee also develops and recommends to the Board appropriate environmental policies and advises the Board concerning the status of the Company's compliance with environmental regulations. The Committee makes recommendations to the Board to ensure that the Company fulfills its objectives in a manner consistent with the responsibilities of good corporate citizenship. The Committee is comprised of directors Gibson, Papé, Reiten and Thrasher. Mr. Gibson serves as Chair of the Committee. The Committee held three meetings in 2005.

Finance Committee

The Finance Committee is responsible for reviewing strategies and making recommendations to the Board with respect to the Company's financing programs, financial policy matters and material regulatory issues. The Committee consists of directors Boyle, Byorum, Carter, Papé and Reiten. Mr. Papé chairs the Committee. The Committee held three meetings in 2005.

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Strategic Planning Committee

The Strategic Planning Committee is responsible for reviewing and making recommendations to management and the Board of Directors with respect to the long-term strategic goals, objectives and plans of the Company for the purpose of creating and maintaining long-term shareholder value. The Committee is comprised of directors Boyle, Gibson, Hamachek and Reiten. Mr. Hamachek chairs the Committee, which met three times in 2005.

Board Nominations

The Board is responsible for selecting candidates for Board membership and the Governance Committee has been assigned the responsibility of recommending to the Board of Directors nominees for election as directors. The Governance Committee has not used a third party to assist in finding candidates. The Governance Committee, with recommendations and input from the Chairman of the Board, the Chief Executive Officer and other directors, evaluates the qualifications of each director candidate in accordance with the Director Selection Criteria established by the Board. The Director Selection Criteria includes three guiding principles: independence, absence of conflicts and diversity. Specific mandatory criteria include, among other things:

- Reputation of high integrity and character and demonstrated record of ethical conduct;
- General knowledge of and interest in the Company and its business;
- Demonstrated record of prudence and good business judgment;
- Ability to think strategically and communicate effectively;
- Willingness to challenge and think independently;
- Commitment to the Company's core values and purpose;
- Ability to foster a positive and focused atmosphere in the board room; and
- Not over committed by service on multiple other boards.

In addition, preferred criteria include, among other things, prior experience as a director of a public company, substantive knowledge of the utility industry and the ability to understand, analyze and apply financial information and accounting rules.

Shareholders' recommendations for director-nominees may be submitted to the Secretary of the Company for consideration by the Governance Committee. In evaluating shareholder recommendations for director-nominees, the Governance Committee applies the same Director Selection Criteria discussed above. The Company's Restated Articles of Incorporation provide that no person, except those nominated by the Board, shall be eligible for election as a director at any annual or special meeting of shareholders unless a written request that his or her name be placed in nomination, together with the written consent of the nominee, shall be received from a shareholder of record entitled to vote at such election by the Secretary of the Company on or before the later of (a) the thirtieth day prior to the date fixed for the meeting, or (b) the tenth day after the mailing of the notice of that meeting.

Table of Contents**NON-EMPLOYEE DIRECTOR COMPENSATION****Fees and Arrangements**

Following the Organization and Executive Compensation Committee's review of the existing terms of compensation for non-employee directors and a review of a survey by the Committee's independent consultant of compensation paid to non-employee directors of companies of comparable size, the Board of Directors approved modifications to the terms of compensation to be paid to non-employee directors, effective January 1, 2005. The compensation terms for non-employee members of the Board of Directors are described below:

Annual Cash Retainer (New Board members and all after 12/31/08):	\$ 55,000
Extra Annual Cash Retainer for Committee Chairs:	\$ 5,000
Extra Annual Cash Retainer for Audit Committee Chair:	\$ 10,000
Board Meeting Fees:	\$ 1,500
Committee Meeting Fees:	\$ 1,000
Extra Annual Cash Retainer for Chairman of the Board (effective March 1, 2005):	\$ 60,000

Assuming 14 meetings per year (7 Board and 7 Committee), for a Board member who chairs one Committee, the expected total annual compensation would be \$77,500.

Effective January 1, 2005, the Company increased its annual retainer for new directors from \$35,000 to \$55,000 and terminated the Company's Non-Employee Directors Stock Compensation Plan with respect to new awards on January 1, 2005 (see below). All awards outstanding under the plan on January 1, 2005 will continue to vest according to the terms of the plan. Accordingly, current Board members who, as of the end of 2004, had unvested stock covered by outstanding awards, continue to vest with respect to such stock at approximately \$20,000 worth of stock per year through December 31, 2008. During that time, their annual cash retainer would be \$35,000 instead of \$55,000.

Also effective January 1, 2005, the per diem fee for each day or significant portion of a day spent in the conduct of Company business on a day other than a day on which a meeting of the Board or a Board Committee is held was increased to \$1,500.

During 2005, there were six meetings of the Company's Board, each of which included an executive session of non-management directors. No continuing director attended fewer than 75 percent of the total meetings of the Company's Board or Committees on which he or she served.

In 2002, the Board approved an arrangement for Mr. Reiten whereby he agreed to serve as non-employee Chairman of the Board through February 2005. According to the terms of the arrangement, Mr. Reiten was paid a monthly fee of \$5,000 per month through February 2004 and, after that date, was paid a reduced monthly fee of \$2,500 per month through February 2005. In addition, he was entitled to standard Board-approved cash and stock retainers and meeting fees, as well as office space, secretarial support and annual club dues. The Company continued to provide access to office space and secretarial support from March 1, 2005 until February 28, 2006, a benefit valued at approximately \$104,000.

Non-Employee Directors Stock Compensation Plan

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Before January 1, 2005, non-employee directors of the Company were awarded approximately \$100,000 worth of the Company's Common Stock upon joining the Board

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pursuant to the Company's Non-Employee Directors Stock Compensation Plan. These initial awards vested in monthly installments over the five calendar years following the award. On January 1 of each year following the initial year, non-employee directors were awarded an additional \$20,000 of Common Stock, which vested in monthly installments in the fifth year following the award (after the previous award had fully vested). The shares awarded were purchased in the open market by the Company at the time of award. Non-employee directors could elect to receive awards in the form of deferred cash credits into the directors' cash accounts under the Directors Deferred Compensation Plan, rather than in the form of Common Stock. Directors could elect also to defer unvested shares into their stock accounts under the Directors Deferred Compensation Plan. Any amounts deferred according to the Directors Deferred Compensation Plan would generally vest at the same time that the Common Stock would have vested.

All awards vest immediately upon the death of a director and upon a change in control of the Company. Unvested shares and unvested cash credits are forfeited if the recipient ceases to be a director. Certificates representing a director's vested shares are not delivered to the director until after the director leaves the Board.

In September 2004, the Board of Directors amended the Non-Employee Directors Stock Compensation Plan to provide that no new awards will be granted on or after January 1, 2005. Previous awards will continue to vest in monthly installments according to the original vesting schedule.

Deferred Compensation Plans

Directors Deferred Compensation Plan

Prior to January 1, 2005, directors could elect to defer the receipt of all or a part of their directors' fees under the Company's Directors Deferred Compensation Plan (DDCP). At the director's election, deferred amounts were credited to either a cash account or a Company stock account. If deferred amounts were credited to stock accounts, such accounts were credited with a number of shares based on the purchase price of the Common Stock on the next purchase date under the Company's Dividend Reinvestment and Direct Stock Purchase Plan, and such accounts were credited with additional shares based on the deemed reinvestment of dividends. Cash accounts were credited quarterly with interest at a rate equal to Moody's Average Corporate Bond Yield plus two percentage points. The crediting rate was subject to a six percent minimum rate. The rate was adjusted quarterly. At the election of the participant, deferred balances in the stock and/or cash accounts were payable after termination of Board service in a lump sum, in installments over a period not to exceed 10 years, or in a combination of lump sum and installments.

The Company's obligations under the DDCP are unfunded and benefits will be paid either from the general funds of the Company or from the Umbrella Trust for Directors which has been established for the DDCP. With respect to the cash accounts, the Company has purchased life insurance policies on the lives of the participants, the proceeds from which will be used to reimburse the Company for the payment of cash benefits from the DDCP. The cost of any one individual participant cannot be properly allocated or determined because of overall Plan assumptions. In addition, the Company has contributed cash and Common Stock to the trustee of the Umbrella Trust such that the Umbrella Trust holds the number of shares of Common Stock equal to the number of shares credited to all directors' stock accounts. Shares so held will be used to fund the Company's obligation to pay out the stock accounts.

The Company may from time to time transfer other assets to the trustee of the Umbrella Trust to hold in trust for the benefit of DDCP participants. The Company's obligations under

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the DDCP are not limited to trust assets, and DDCP participants will have a claim against the Company for any payments not made by the trustee. The Company instructs the trustee as to the investment of the trust's assets and the trustee's fees and expenses are paid by the Company.

Upon the occurrence of certain events, such as a change in control of the Company, termination of the DDCP or the failure by the Company to provide the trust with adequate funds to pay current benefits, the Company may be required under the terms of the trust to contribute to the trust annually the amount by which the present value of all benefits payable under the DDCP exceeds the value of the trust's assets.

In September 2004, the Board approved an amendment to the DDCP partially terminating the plan so that no deferrals will be made to the plan subsequent to December 31, 2004. All amounts deferred into the plan prior to December 31, 2004 will remain in the plan and all other provisions of the DDCP remain in effect.

2005 Deferred Compensation Plan for Directors and Executives

In November 2004, the Board of Directors approved the Northwest Natural Gas Company Deferred Compensation Plan for Directors and Executives (DCP), effective January 1, 2005.

The DCP replaced the existing Executive Deferred Compensation Plan (EDCP) and the DDCP as the vehicle for nonqualified deferral of compensation by executives and directors. The DCP includes a number of technical changes from the EDCP and DDCP in provisions relating to the timing of deferral elections and the timing of payout elections as necessary to comply with the deferred compensation requirements of the American Jobs Creation Act of 2004. However, the DCP continues the basic provisions of the EDCP and DDCP under which deferred amounts are credited to either a cash account or a Company stock account. Stock accounts represent a right to receive shares of Company Common Stock on a deferred basis, and such accounts are credited with additional shares based on the deemed reinvestment of dividends. Cash accounts are credited quarterly with interest at a rate equal to Moody's Average Corporate Bond Yield plus two percentage points. The crediting rate is subject to a six percent minimum rate. The Company's obligation to pay deferred compensation in accordance with the terms of the DCP will generally become due on retirement, death, or other termination of service, and will be paid in a lump sum or in installments of five or ten years as elected by the participant in accordance with the terms of the DCP. The right of each participant in the DCP is that of a general, unsecured creditor of the Company.

Directors Retirement Benefit

On January 1, 1998, in connection with the termination of a prior retirement benefit for directors and in lieu of that benefit, the Company credited a number of shares of Company Common Stock to a stock account under the DDCP for each then current director. If such a director retires from the Board at age 70 or older with 10 or more years of service as a director or if the director earlier dies or becomes disabled or if there is an earlier change in control of the Company, the Company is obligated to deliver to the director (or to his or her beneficiary) the number of shares credited to the account, plus an additional number of shares based on reinvested dividends credited to the account over time. Concurrently with the creation of the stock accounts, the Company contributed to the Umbrella Trust for Directors a number of shares of the Company's Common Stock equal to the number of shares credited to directors' accounts. Such stock is held in the Umbrella Trust and will be used to fund the Company's obligation to pay out the stock accounts. The number of shares of Common Stock in the retirement benefit stock account of each such director at December 31, 2005 was: Tod R. Hamachek, 858; Randall C. Papé, 647; Richard G. Reiten, 1,421; and Russell F. Tromley, 1,321.

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CORPORATE GOVERNANCE STANDARDS

The Board of Directors adopted Corporate Governance Standards that are intended to provide the Company and its Board of Directors with guidelines designed to ensure that business is conducted to serve stakeholders with the highest level of integrity. These Corporate Governance Standards are reviewed annually by the Governance Committee to determine if changes should be recommended to the Board of Directors. The Corporate Governance Standards, as amended as of September 21, 2005, are available on the Company's website at www.nwnatural.com and are available in print to any shareholder who requests a copy. Among other matters, the Corporate Governance Standards include the following:

A substantial majority of the Board should be independent and the Board annually assesses the independence of each Board member in accordance with its Director Independence Standards.

The Governance Committee, the Audit Committee and the Organization and Executive Compensation Committee consist entirely of independent directors, as that term is defined by New York Stock Exchange listing standards and the Company's Director Independence Standards.

Director nominees are recommended by the Governance Committee to the full Board in accordance with the Director Selection Criteria established by the Board.

Directors must retire from the Board at the first annual meeting of shareholders after reaching age 70. In addition, a director is expected to volunteer to resign from the Board if he or she retires or changes the principal position he or she held when initially elected to the Board.

Board and Committee structure and function, including expected Board meeting attendance and review of materials.

Board members have complete access to the Company's senior management and all Committees have access to independent counsel, accountants or other advisors, as appropriate.

The Governance Committee oversees the annual assessment of the performance and effectiveness of the Board, including Board Committees, and provides the results to the full Board for discussion. In addition, the Governance Committee annually conducts peer reviews of directors prior to the end of their term of office.

Annually the Board reviews and approves the strategic plan and one-year operating and capital expenditure plans for the Company.

Committee members are recommended by the Governance Committee for appointment by the Board and Committee membership is rotated from time to time.

The Board provides for an executive session of non-management directors at the end of each Board meeting. The chair of the Governance Committee presides at these executive sessions.

Succession planning and management development are reported at least annually by the Chief Executive Officer to the Board. The Organization and Executive Compensation Committee, in consultation with the Governance Committee, is responsible for planning for succession and submitting its recommendations to the Board of Directors with respect to Chief Executive Officer selection.

The Organization and Executive Compensation Committee, in consultation with the Governance Committee, recommends to the Board reasonable director compensation. Directors who are also employees of the Company receive no additional compensation for service as directors.

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Within five years after joining the Board, each Board member shall own Company shares (including shares credited to the directors deferred compensation accounts and vested and unvested shares awarded under the Non-Employee Directors Stock Compensation Plan) valued at five times the Board member's annual retainer fee.

Director orientation and continuing education programs are provided which are designed to familiarize new directors with the full scope of the Company's business and key challenges and to develop and maintain skills necessary or appropriate for the performance of their duties.

Incentive compensation plans link pay directly and objectively to measured financial and other goals set in advance by the Board.

Code of Ethics and Financial Code of Ethics policies, both of which are available on the Company's website at www.nwnatural.com.

In addition, the Board of Directors has adopted procedures for the receipt, retention and treatment of concerns from Company employees and others regarding accounting, internal controls, auditing or other matters. Employees may submit concerns anonymously pursuant to the Code of Ethics hotline, located on the Company's internal Web site. Shareholders may submit concerns in writing to the non-management directors of the Company, c/o the Corporate Secretary, 220 NW Second Avenue, Portland OR 97209, or by calling 1-800-541-9967 or sending an e-mail to directors@nwnatural.com. Concerns relating to accounting, internal accounting controls or auditing matters will be referred by the Corporate Secretary to the chair of the Audit Committee and the chair of the Governance Committee. Other concerns will be referred by the Corporate Secretary to the chair of the Governance Committee.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's directors and executive officers to file reports of ownership and changes in ownership of Company Common Stock with the Securities and Exchange Commission. The Company is required to disclose in this proxy statement any late or missed filings of those reports made by its directors and executive officers during 2005. Based solely upon a review of the copies of such reports furnished to it and written representations that no other such reports were required, the Company believes that during 2005 all directors and executive officers timely filed all such required reports.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

From time to time, the Company conducts business with affiliates of The Papé Group, Inc., of which director Randall C. Papé is President, Chief Executive Officer and a major shareholder.

The Company entered into a lease through May 31, 2007 with an affiliate of The Papé Group and paid \$78,167 in connection with the lease in 2005. From time to time, the Company also purchases equipment from and employs the services of certain affiliates of The Papé Group. In 2005, the Company paid \$271,159 for such equipment and services. Based upon representations from The Papé Group's independent auditor and a review of the transactions, the Board of Directors has affirmatively determined that these transactions were arm's length transactions entered into in the ordinary course of business and not material.

Table of Contents**SECURITY OWNERSHIP OF COMMON STOCK OF CERTAIN BENEFICIAL OWNERS**

The following table shows ownership of Common Stock of the Company on February 28, 2006 by each person who, to the knowledge of the Company, owned beneficially more than 5% of the Common Stock of the Company:

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Barclays Global Investors, NA Barclays Global Fund Advisors 45 Fremont St. San Francisco, CA 94105	1,703,988 ¹	6.18

¹ Based on information set forth on Form 13G filed January 26, 2006, with the Securities and Exchange Commission by Barclays Global Investors, NA. These shares are held as follows: Barclays Global Investors, NA, holds 978,720 shares, of which it holds sole voting power as to 819,283 shares and sole dispositive power as to 978,720 shares and Barclays Global Fund Advisors holds sole voting and dispositive power as to 725,268 shares.

**BENEFICIAL OWNERSHIP OF COMMON STOCK BY DIRECTORS
AND EXECUTIVE OFFICERS**

Set forth below is certain information with respect to beneficial ownership of the Company's Common Stock as of February 28, 2006 by all directors and nominees, each of the executive officers and the key employee named in the Summary Compensation Table on page 20 and all directors and executive officers as a group.

Name of Beneficial Owner	Number of Shares¹	Percent of Outstanding Common Stock
David H. Anderson	21,064 ²	*
Timothy P. Boyle	1,681 ³	*
Martha L. Stormy Byorum	1,527 ⁴	*
John D. Carter	13,770 ⁵	*
Mark S. Dodson	47,814 ⁶	*
Lea Anne Doolittle	9,395 ⁷	*
C. Scott Gibson	2,568 ⁸	*
Tod R. Hamachek	5,766 ⁹	*
Gregg S. Kantor	18,463 ¹⁰	*
Michael S. McCoy	43,140 ¹¹	*
Randall C. Papé	9,057 ¹²	*
Richard G. Reiten	40,817 ¹³	*
Kenneth Thrasher	1,000 ¹⁴	*

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Russell F. Tromley	6,028 ¹⁵	*
David A. Weber	9,706 ¹⁶	*
Richard L. Woolworth	1,988 ¹⁷	*
All directors and officers as a		
a group (20 in number)	269,801 ¹⁸	1.0

* The total for each individual is less than 1.0 percent.

Based on the total number of shares and exercisable stock options outstanding on February 28, 2006.

- ¹ Unless otherwise indicated, beneficial ownership includes both sole voting power and sole investment power. Certain shares under the Non-Employee Directors Stock Compensation Plan (NEDSCP), the Directors Deferred Compensation Plan (DDCP), the Executive Deferred Compensation Plan (EDCP) and the Deferred Compensation Plan for Directors and Executives (DCP) are not included in the table as they represent, under the terms of the plans, rights to receive shares that would not be paid until the year following termination of service with the Company.
- ² Includes 10,700 shares which Mr. Anderson has the right to acquire within 60 days through the exercise of options under the Restated Stock Option Plan (Restated SOP), 4,000 restricted Long-Term Incentive Plan shares that are subject to forfeiture and 75 shares held indirectly under the Retirement K Savings Plan (RKSP). Does not include 43 shares credited to a stock account under the EDCP.

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- ³ Includes 1,321 shares subject to forfeiture under the NEDSCP. Does not include 2,911 shares credited to a stock account under the DDCP and 3,279 shares credited to a stock account under the DCP, of which 672 shares are subject to forfeiture under the NEDSCP.
- ⁴ Includes 1,313 shares subject to forfeiture under the NEDSCP. Does not include 883 shares credited to a stock account under the DDCP and 1,403 shares credited to a stock account under the DCP, of which 628 shares are subject to forfeiture under the NEDSCP.
- ⁵ Includes 1,313 shares subject to forfeiture under the NEDSCP. Does not include 4,776 shares credited to a stock account under the DDCP and 3,758 shares credited to a stock account under the DCP, of which 632 shares are subject to forfeiture under the NEDSCP.
- ⁶ Includes 3,144 shares held jointly with his wife, 20,000 shares which Mr. Dodson has the right to acquire within 60 days through the exercise of options under the Restated SOP and 365 shares held indirectly under the RKSP.
- ⁷ Includes 5,150 shares held indirectly under the RKSP and 3,400 shares which Ms. Doolittle has the right to acquire within 60 days through the exercise of options under the Restated SOP. Does not include 361 shares credited to a stock account under the EDCP.
- ⁸ Includes 1,313 shares subject to forfeiture under the NEDSCP. Does not include 1,806 shares credited to a stock account under the DDCP and 1,410 shares credited to a stock account under the DCP, of which 632 shares are subject to forfeiture under the NEDSCP.
- ⁹ Includes 1,313 shares subject to forfeiture under the NEDSCP. Does not include 14,658 shares credited to a stock account under the DDCP and 1,470 shares credited to a stock account under the DCP, of which 660 shares are subject to forfeiture under the NEDSCP.
- ¹⁰ Includes 11,500 shares which Mr. Kantor has the right to acquire within 60 days through the exercise of options under the Restated SOP and 2,283 shares held indirectly under the RKSP.
- ¹¹ Includes 13,822 shares held indirectly by Mr. McCoy under the RKSP, 16,318 shares held jointly with his wife and 13,000 shares which Mr. McCoy has the right to acquire within 60 days through the exercise of options under the Restated SOP. Does not include 1,130 shares credited to a stock account under the EDCP.
- ¹² Includes 1,973 shares subject to forfeiture under the NEDSCP. Does not include 9,857 shares credited to a stock account under the DDCP.
- ¹³ Includes 1,387 shares subject to forfeiture under the NEDSCP and 22,497 shares held indirectly by Mr. Reiten under the RKSP. Does not include 3,072 shares credited to a stock account under the DDCP, 5,956 shares credited to a stock account under the EDCP and 1,647 shares credited to a stock account under the DCP, of which 737 shares are subject to forfeiture under the NEDSCP.
- ¹⁴ Shares held jointly with his wife.
- ¹⁵ Includes 1,973 shares subject to forfeiture under the NEDSCP and 27 shares held by Mr. Tromley s wife. Does not include 5,462 shares credited to a stock account under the DDCP.
- ¹⁶ Includes 1,074 shares held indirectly under the RKSP and 8,400 shares which Mr. Weber has the right to acquire within 60 days through the exercise of options under the Restated SOP.
- ¹⁷ Includes 1,313 shares subject to forfeiture under the NEDSCP. Does not include 8,421 shares credited to a stock account under the DDCP and 1,470 shares credited to a stock account under the DCP, of which 660 shares are subject to forfeiture under the NEDSCP.
- ¹⁸ Includes 36,017 shares, of which 9,502 shares are held jointly with spouse or other relative, 4 shares are held as custodian for minor children, 5,589 shares are held indirectly under the RKSP and 17,700 shares which the executive officers not named above have the right to acquire within 60 days through the exercise of options under the Restated SOP.

Table of Contents**EXECUTIVE COMPENSATION**

Shown below is information concerning the annual and other compensation for services in all capacities to the Company for the years ended December 31, 2005, 2004, and 2003, of those persons who were, during 2005 and at December 31, 2005 (i) the chief executive officer, (ii) the four most highly compensated executive officers, and (iii) one key employee of the Company (the Named Executive Officers):

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION			LONG-TERM COMPENSATION		
		SALARY	BONUS	OTHER ANNUAL COMPEN- SATION ¹	RESTRICTED STOCK AWARD ² (#)	SECURITIES UNDERLYING OPTIONS (#)	ALL OTHER COMPEN- SATION ³
Mark S. Dodson President and Chief Executive Officer	2005	\$ 489,167	\$ 300,000	\$ 23,420	0	0	\$ 48,614
	2004	427,500	260,000	16,920	0	30,000	121,943
	2003	390,000	250,000	1,585	0	0	20,811
Michael S. McCoy Executive Vice President	2005	257,833	120,000	17,166	0	0	17,127
	2004	245,833	101,000	16,811	0	12,000	135,223
	2003	238,833	100,000	424	0	0	19,601
David H. Anderson Senior Vice President and Chief Financial Officer (became an officer on 9/30/04)	2005	264,719	126,000	15,480	0	0	90,767
	2004	65,000	0	3,870	5,000	16,000	0
Gregg S. Kantor Senior Vice President	2005	169,187	74,000	15,869	0	0	12,034
	2004	162,167	63,000	15,480	0	6,000	11,514
	2003	157,500	58,000	154	0	0	7,217
Lea Anne Doolittle Vice President	2005	167,350	64,000	13,576	0	0	11,845
	2004	161,167	55,000	13,380	0	5,000	11,409
	2003	156,167	49,000	0	0	0	7,455
David A. Weber Chief Information Officer	2005	185,100	62,000	7,500	0	0	10,336
	2004	179,667	63,000	7,500	0	5,000	10,562
	2003	168,359	64,000	0	0	0	39,719

¹ Amounts for 2005 include (i) monitoring system expenses (\$556 for Mr. Dodson and \$658 for Mr. McCoy); (ii) car allowances (\$16,680 for Mr. Dodson, \$15,480 each for Mr. McCoy, Mr. Anderson and Mr. Kantor, \$13,380 for Ms. Doolittle and \$7,500 for Mr. Weber); and (iii) the employee portion of the Medicare Hospital Insurance Tax liability paid by the Company on the present value increase in those years of their benefits under the Executive Supplemental Retirement Income Plan, together with an additional payment relating to income tax payable by such officers in respect of the payments made by the Company (\$6,184 for Mr. Dodson, \$1,028 for Mr. McCoy, \$0 for Mr. Anderson, \$389 for Mr. Kantor, \$196 for Ms. Doolittle and \$0 for Mr. Weber). Amounts for 2004

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include (i) monitoring system expenses (\$240 for Mr. Dodson and \$1,331 for Mr. McCoy); and (ii) car allowances (\$16,680 for Mr. Dodson, \$15,480 each for Mr. McCoy and Mr. Kantor, \$3,870 for Mr. Anderson, \$13,380 for Ms. Doolittle and \$7,500 for Mr. Weber). All amounts shown for the Named Executive Officers for 2003 represent the employee portion of the Medicare Hospital Insurance Tax liability paid by the Company on the present value increase in those years of their benefits under the Executive Supplemental Retirement Income Plan, together with an additional payment relating to income tax payable by such officers in respect of the payments made by the Company.

² The aggregate number of vested shares of restricted stock at December 31, 2005 was 1,000 shares with a market value of \$34,180. Dividends are paid on all shares of restricted stock.

³ Amounts for the year 2005 include (i) Company matching amounts contributed or accrued for the Named Executive Officers under the Company's Deferred Compensation Plan for Directors and Executives (\$19,410 for Mr. Dodson, \$0 for Mr. McCoy, \$4,346 for Mr. Anderson, \$799 for Mr. Kantor, \$598 for Ms. Doolittle and \$1,372 for Mr. Weber) and its Retirement K Savings Plan (\$7,560 for Mr. Dodson, \$0 for Mr. McCoy, \$6,325 for Mr. Anderson, \$7,560 for Mr. Kantor, \$7,406 for Ms. Doolittle and \$7,560 for

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Mr. Weber); (ii) above-market interest credited to the Executive Deferred Compensation Plan and the Deferred Compensation Plan for Directors and Executives accounts of the Named Executive Officers (\$4,629 for Mr. Dodson, \$7,461 for Mr. McCoy, \$63 for Mr. Anderson, \$463 for Mr. Kantor, \$652 for Ms. Doolittle and \$1,405 for Mr. Weber); (iii) social club dues (\$10,962 for Mr. Dodson, \$5,700 for Mr. McCoy, \$39,072 for Mr. Anderson (including an initial membership fee), \$2,052 for Mr. Kantor, \$1,860 for Ms. Doolittle and \$0 for Mr. Weber); (iv) spousal travel (\$3,859 for Mr. Dodson, \$1,217 for Mr. McCoy, \$353 for Mr. Kantor and \$0 each for Mr. Anderson, Ms. Doolittle and Mr. Weber); and (v) amounts paid for supplemental disability insurance (\$2,195 for Mr. Dodson, \$2,749 for Mr. McCoy, \$961 for Mr. Anderson, \$807 for Mr. Kantor, \$1,329 for Ms. Doolittle and \$0 for Mr. Weber). The amount shown for Mr. Anderson for the year 2005 also includes a hiring bonus of \$40,000 and the amount shown for Mr. Weber for the year 2003 includes the final \$30,000 installment of a hiring bonus.

OPTION GRANTS IN LAST FISCAL YEAR

No stock options were granted to the Named Executive Officers listed in the Summary Compensation Table in 2005.

LONG-TERM INCENTIVE PLAN AWARDS IN 2005

The following table provides information on performance-based Long-Term Incentive Plan awards granted to the Named Executive Officers listed in the Summary Compensation Table in 2005.

Name	Long-Term Incentive Plan ¹				
	Performance Period	Number of Shares			
		Award	Threshold	Target	Maximum
Mark S. Dodson	2005-2007	10,000	2,500	10,000	20,000
Michael S. McCoy	2005-2007	5,000	1,250	5,000	10,000
David H. Anderson	2005-2007	5,000	1,250	5,000	10,000
Gregg S. Kantor	2005-2007	3,000	750	3,000	6,000
Lea Anne Doolittle	2005-2007	2,000	500	2,000	4,000
David A. Weber	2005-2007	2,000	500	2,000	4,000

¹ Each Named Executive Officer received an award based on a three-year performance period (2005-2007). The Organization and Executive Compensation Committee established Company performance measures based on total shareholder return relative to a peer group, with a minimum return of 6% per year for a cycle (75% of award) and performance milestones relative to the Company's core and non-core strategic plans (25% of award). At the end of the cycle, the Committee will determine the Company's ability to achieve the established criteria and assign a factor to each component ranging between 0% and 200%. As a general guideline, if the Company achieves the targets as stated, the component factor would be 100%. A participant generally must be employed by the Company at the end of the performance period to receive an award payout, although pro-rated awards will be paid if employment terminates earlier on account of death, disability or retirement, or for other reasons within six months of the end of the performance period. Awards will be paid in Common Stock as soon as practicable after the end of the performance period. Participants will also receive dividend equivalent cash payments equal to the number of shares of Common Stock received on the award payout multiplied by the aggregate cash dividends paid per share by the Company during the performance period. Upon a change in control of the Company (as defined in the plan), all outstanding awards will be paid at the target award level.

Table of Contents**AGGREGATED OPTION EXERCISES IN 2005 AND YEAR-END OPTION VALUES**

Shown below is information with respect to options to purchase shares of the Company's Common Stock exercised in 2005 and unexercised options granted under the Restated Stock Option Plan to the Named Executive Officers and held by them at December 31, 2005.

Name	No. of Shares Acquired on Exercise	Value Realized	No. of Securities Underlying Unexercised Options at December 31, 2005		Value of Unexercised Options at December 31, 2005	
			Exercisable	Unexercisable ¹	Exercisable ²	Unexercisable ^{1,2}
Mark S. Dodson	17,629	\$ 184,262	10,000	20,000	\$ 28,400	\$ 56,800
Michael S. McCoy	13,000	139,627	9,000	8,000	42,885	22,720
David H. Anderson	0	0	5,400	10,600	11,664	22,896
Gregg S. Kantor	3,000	32,706	9,500	4,000	75,180	11,360
Lea Anne Doolittle	5,000	50,050	1,700	3,300	4,828	9,372
David A. Weber	2,500	32,563	6,700	3,300	44,228	9,372

¹ Unexercisable options are those options that have not vested. Of the options shown, a portion became exercisable on January 1, 2006 and the remainder will become exercisable on January 1, 2007.

² Represents the difference between the option exercise prices and the closing price of \$34.18 for the Company's Common Stock as quoted on the New York Stock Exchange on December 30, 2005 times the number of options.

Table of Contents**PENSION PLANS**

The Company currently maintains two non-qualified supplemental defined benefit retirement plans: the Executive Supplemental Retirement Income Plan (ESRIP) originally adopted in 1981 in which all Named Executive Officers hired prior to September 1, 2004 participate, and the Supplemental Executive Retirement Plan (SERP) adopted in 2004 in which individuals who first became executive officers after September 1, 2004 participate. Under both plans, a target retirement benefit is determined based on final average compensation and years of service, with the actual benefit determined after offset for benefits payable under Social Security, the Company's qualified Retirement Plan for Non-Bargaining Unit Employees (NBU Plan), and the supplemental make-up provisions of the Company's non-qualified deferred compensation plans (DCPs).

Executive Supplemental Retirement Income Plan (ESRIP)

The following table shows the estimated annual target retirement benefit payable upon retirement at age 62 as a straight life annuity with 10 years of guaranteed payments, net of Social Security offset, to executive officers who participate in the ESRIP. The actual amounts payable under the ESRIP will be reduced by benefits payable under the NBU Plan and supplemental make-up benefits under the DCPs. Optional forms of payment, including joint and survivor forms, are available, subject to an actuarial adjustment in the amount of payment.

PENSION PLAN TABLE

Compensation	Years of Service			
	10	15	20	25 or more
\$150,000	\$ 41,400	\$ 74,000	\$ 77,700	\$ 81,500
200,000	63,100	106,500	111,500	116,500
250,000	84,700	139,000	145,200	151,500
300,000	106,400	171,500	179,000	186,500
350,000	128,000	204,000	212,700	221,500
400,000	149,700	236,500	246,500	256,500
450,000	171,300	269,000	280,200	291,500
500,000	193,000	301,500	314,000	326,500
550,000	214,600	334,000	347,700	361,500
600,000	236,300	366,500	381,500	396,500
650,000	257,900	399,000	415,200	431,500
700,000	279,600	431,500	449,000	466,500
750,000	301,200	464,000	482,700	501,500
800,000	322,900	496,500	516,500	536,500
850,000	344,500	529,000	550,200	571,500

For purposes of the target retirement benefit described above, compensation consists of the average of the annual salary and Executive Annual Incentive Plan bonus awarded to a plan participant by the Company for the highest three compensation years in the last 10 years prior to retirement. See salary and bonus columns of the Summary Compensation Table, above.

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The credited years of service under the ESRIP for Messrs. Dodson, McCoy and Kantor, and Ms. Doolittle are 8 years, 36 years, 9 years and 5 years, respectively. The service requirements for Mr. Dodson's ESRIP benefit were modified by the terms of his employment agreement. See

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Employment Agreements, below. A participant who becomes entitled to severance benefits under his or her executive severance agreement in connection with a change in control of the Company will receive three additional years of service credit for ESRIP purposes. See Executive Severance Agreements, below.

Mr. Weber is not a participant in the ESRIP, but is a participant in the NBU Plan. As such, he will be entitled to a benefit equal to 1.8% of his average compensation at retirement for the first 10 years of service, plus the annuity equivalent of 7.5 percent of his average compensation at retirement for each year of service in excess of 10 years. Mr. Weber's estimated annual benefit payable upon retirement at the NBU Plan's normal retirement age, age 62, is \$54,193, assuming no future changes in compensation levels, interest rates or IRS limits on recognizable compensation.

ESRIP benefits are 50% vested after five years of service and become vested for an additional 10% for each additional year of service until fully vested after 10 years of service. A participant who becomes entitled to severance benefits under his or her executive severance agreement in connection with a change in control of the Company will be fully vested in ESRIP benefits regardless of years of service.

Supplemental Executive Retirement Plan (SERP)

Under the SERP, the target retirement benefit is a lump sum benefit payable upon retirement rather than an annual retirement benefit as under the ESRIP. For a SERP participant who retires at age 60 with at least 15 years of service, the target lump sum payment is six times the participant's final average pay, with the actual SERP benefit subject to reduction for the lump-sum actuarial equivalent of benefits payable under Social Security and the NBU Plan and the supplemental make-up benefits under the DCPs. For participants who retire with less than 15 years of service, the retirement benefit is reduced pro rata based on the actual years of service. In lieu of a lump sum, the SERP permits participants to elect to be paid their benefits in the form of an actuarially equivalent annuity.

For purposes of the target retirement benefit described above, final average pay consists of the average of the annual salary and Executive Annual Incentive Plan bonus awarded to a plan participant by the Company for the highest 60 consecutive months in the last 120 months prior to retirement. See salary and bonus columns of the Summary Compensation Table, above.

SERP benefits are fully vested after five years of service. A participant who becomes entitled to severance benefits under his or her executive severance agreement in connection with a change in control of the Company will be fully vested in SERP benefits regardless of years of service, and will receive three additional years of service credit for SERP purposes. See Executive Severance Agreements, below.

Mr. Anderson is the only Named Executive Officer who participates in the SERP. As of December 31, 2005, he had one year of credited service under the SERP. Assuming no change in salary and bonus compensation from the amounts paid to him in 2005 and retirement at age 60, Mr. Anderson's lump-sum target SERP benefit would be \$2,344,314 including all components described above.

Executive Severance Agreements

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The Board of Directors has approved the Company's entry into severance agreements with each executive officer of the Company, including all of the Named Executive Officers. These agreements generally provide for the payment, upon the termination of the employee's

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employment by the Company without cause or by the employee for good reason (as defined in the severance agreement) within two years following a change in control of the Company, of an amount equal to one, two or three times the sum of the employee's annual salary and average bonus for the last three years, and also provide up to three-years' continuation of life and health insurance benefits. In addition, if any payments to the Named Executive Officers other than Mr. Weber are subject to the excise tax on parachute payments, the Company will make an additional payment to the employee such that the employee will receive net benefits as if no excise tax were payable. If such additional payments are required, the Company will not be able to deduct such additional payments for federal income tax purposes and also will be denied such a deduction for some or all of the other payments made pursuant to the agreement and its other plans and policies. Each employee is obligated under the severance agreement to remain in the employ of the Company for a period of 270 days following a potential change in control (as defined in the severance agreements).

Executive Deferred Compensation Arrangements

As discussed above, the Company's existing EDCP was replaced by the DCP, effective January 1, 2005. With respect to executives, the DCP provides that the Company's obligation to pay deferred compensation in accordance with the terms of the DCP will generally become due on retirement, death, other termination of employment or service, or an earlier date selected by the participant at the time of the deferral election, and will be paid in a lump sum or in installments of five, ten or fifteen years as elected by the participant in accordance with the terms of the DCP. See Directors Compensation Deferred Compensation Plans 2005 Deferred Compensation Plan for Directors and Executives, above.

Employment Agreements

On July 2, 1997, the Company entered into an employment agreement with Mr. Dodson for a term extending until December 31, 2002, with an option for Mr. Dodson to renew for an additional term through December 31, 2007. Effective January 1, 2003, the agreement was extended to December 31, 2007 and modified to reflect his appointment as President and Chief Executive Officer. Under this agreement, the Company modified the service requirements applicable to Mr. Dodson for purposes of the ESRIP. Accordingly, Mr. Dodson became vested and eligible under the ESRIP for supplemental retirement benefits at 32.5% of final annual compensation upon retirement on or after December 31, 2002, and will be vested and eligible under the ESRIP for supplemental benefits at 65% of final annual compensation upon retirement on or after December 31, 2007. The agreement also provides that Mr. Dodson will be vested and eligible under the ESRIP for supplemental retirement benefits at 65% of final annual compensation with no reduction in benefits based on early retirement if he (a) becomes disabled, (b) dies after December 31, 2002, (c) is terminated other than for cause, or (d) becomes entitled to severance benefits under his executive severance agreement in connection with a change in control of the Company.

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**REPORT OF THE ORGANIZATION AND EXECUTIVE COMPENSATION COMMITTEE ON
EXECUTIVE MANAGEMENT COMPENSATION**

Executive Compensation Principles

The Organization and Executive Compensation Committee of the Board of Directors (the Committee) determines the compensation of NW Natural's executive officers and oversees the administration of executive compensation programs. The Committee is comprised of directors Boyle, Gibson, Thrasher and Tromley, each of whom is an independent director under applicable New York Stock Exchange listing standards and the Company's Director Independence Standards. Each member of this Committee also meets the criteria as a non-employee director under applicable rules of the Securities and Exchange Commission and the criteria for outside directors under Section 162(m) of the Internal Revenue Code of 1986, as amended. NW Natural's executive compensation programs are designed to attract, motivate and retain talented executives critical to the achievement of the Company's long-term business strategy, its annual goals and objectives, the enhancement of shareholder value, and the implementation of corporate values. The program seeks to do this by:

- tying a portion of each executive's total compensation opportunity to the achievement of previously-established annual and long-term performance goals;
- aligning directors' and executives' long-term interests with those of the Company's shareholders by requiring ownership of the Company's Common Stock by directors and officers; and
- providing total compensation, including base salary and incentive compensation, which is competitive with that of other energy service and industrial companies of comparable size and circumstances.

Each year, the Committee reviews the relationship between the Company's executive compensation policies and the creation of shareholder value, as well as the competitiveness of the programs. The Committee submits recommendations regarding salary actions and annual bonuses to the Board for approval. The Committee approves stock option grants and long-term incentive awards for officers, and also recommends to the Board appropriate changes in the compensation programs of the Company. The Committee also reviews and recommends changes to the compensation for the Board, oversees CEO and executive succession, conducts annual reviews of the CEO's performance and administers executive compensation and benefits.

The Committee engages an independent compensation consultant to assist it in evaluating the competitiveness of the Company's executive compensation programs and to provide overall guidance to the Committee as it relates to the design and operation of executive and director compensation programs. The Committee periodically reviews its selection of a compensation consultant. The last such review was completed in 2004. The consultant attends meetings of the Committee at least twice a year to present the results of the competitive compensation analysis and to advise the Committee on current practices or changes in law.

The Committee annually assesses its performance. In April 2005 the Committee completed its latest assessment and concluded that the Committee was operating effectively in accordance with its charter.

Executive Compensation Components

The Company's executive compensation program consists of three primary components: annual base salary, annual incentive cash bonuses and long-term stock incentives. The proportion of each component aligns with energy industry practice for each executive position.

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Base Salaries

Base salaries paid to executives are established by the Board of Directors upon the recommendation of the Committee based, in part, on a review of market salary analyses prepared by the Company's independent compensation consultant who reports to the Committee Chair. These analyses include salary survey data for comparable executive positions of energy companies of approximately the same size in terms of total revenues and market capitalization located throughout the United States. The Committee also reviews data from the American Gas Association executive compensation survey, which includes gas distribution companies comparable to the Company.

The Committee uses this information as a guide to establish base salaries that are competitive with those paid to executives in similar positions in comparable energy companies as provided in the general survey data provided by the consultant. Generally, it is the Committee's policy to target executives' base salaries at a level equivalent to the 50th percentile for base salaries for comparable positions included in the consultant's analyses. Each executive's targeted salary level may be adjusted, at the discretion of the Committee, on the basis of such executive's performance and potential, as well as changes in duties and responsibilities.

Executive Annual Incentive Plan

The Company's Executive Annual Incentive Plan is intended to advance the interests of the Company and its shareholders by means of an incentive cash bonus program which will motivate key executives to achieve previously-established annual performance goals. The amounts to be paid if these goals should be achieved or exceeded, when added to base salaries, are intended to place the Company's executives' compensation at between the 50th and 75th percentiles of total cash compensation for comparable positions included in the consultant's survey data and analyses.

Participation in the Executive Annual Incentive Plan currently is limited to 13 participants selected by the Committee, including eight executive officers. The payment of awards under this Plan is contingent upon meeting predetermined individual and Company performance goals. At the beginning of each year, weighted performance goals are established. At year-end, performance is measured against these goals. The results are considered by the Committee in determining the amounts to be awarded, if any.

The amounts of the awards are based on a formula which reflects an allocation between Company and individual performance criteria. The allocation depends upon each executive's ability to influence corporate performance. Depending upon position, performance and the other factors considered by the Committee, an executive can earn from 25 percent to 50 percent of base salary if the prescribed Company and individual performance goals are met, or up to 37.5 percent to 75 percent of base salary if these goals are exceeded.

Performance goals established for 2005 focused on strengthening the Company's financial position. These goals included the achievement of: (1) earnings per share in an amount which the Committee determined would demonstrate above average performance; and (2) several operating goals related to return on new residential customers, customer satisfaction improvement, market share, capital cost management and productivity in serving customers. In combination, these goals measured the Company's performance in terms of its overall profitability, return on new residential customers, customer satisfaction, market share, the reduction of costs and the achievement of greater efficiency. In determining the awards, the Committee accorded 50 percent of the weight to earnings per share and 50 percent to the combined group of operating goals producing an overall corporate performance factor equal to

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102 percent of target. The grant of any award for 2005 was conditioned upon the Company's 2005 earnings per share exceeding a percentage of the target designated in advance by the Committee and being sufficient to cover the payment of all dividends.

Long-Term Incentives

The long-term portion of the Company's executive compensation program consists of two components: stock options and performance shares. Stock options provide incentives to executives to increase the Company's Common Stock price performance, thereby aligning their interests with those of the other common shareholders.

In prior years, the Company typically made stock option grants under the Restated Stock Option Plan every two years, rather than annually. The Committee has determined that, commencing in 2006, such grants will be made annually and would vest over four years rather than three years. These changes were made to better align with competitive practice, and control costs associated with changes in stock option accounting rules. No options were granted to the Named Executive Officers in 2005. The options that were granted to the Named Executive Officers in 2004 are shown in the Summary Compensation Table (page 20). The number of options granted is based upon a combination of several factors, including the stock option component of the independent compensation consultant's competitive market analysis of long-term incentives, and the Committee's judgment as to how many options will provide meaningful incentives to executives. In determining the number of options to be granted, the Committee takes into consideration the number of shares available for grant under the Plan, the number of options previously granted and the number of shares then owned by each Named Executive Officer in relation to targeted objectives for stock ownership by executives. Those objectives, contained in the Company's Corporate Governance Standards, provide the following ownership guidelines for executive officers, expressed as a multiple of each officer's base salary: (i) two times salary for the Chief Executive Officer, (ii) one and one-half times salary for the Executive Vice President and Senior Vice Presidents, and (iii) one times salary for all other executive officers. These ownership objectives generally are to be attained within five years of being appointed an officer. The Committee annually reviews progress against these objectives.

The second component of long-term compensation is provided through a performance share program pursuant to the Company's Long-Term Incentive Plan. This program consists of annual awards payable in Company stock, based on the Company's financial performance over three-year performance cycles. Awards granted by the Committee in 2003 were based on a three-year performance cycle covering the period 2003-2005. The performance measure used to determine incentive awards for this cycle was the Company's average return on equity during the period covered by the award in relation to pre-established targeted objectives. The return on equity target of 11.25 percent established by the Committee for the three-year cycle was well above the approved regulated return on equity of 10.2 percent. This target was not achieved and no awards were paid for the cycle which concluded on December 31, 2005.

In February 2004, the Committee established new performance criteria that have been used for both the 2004-2006 and 2005-2007 performance periods. For these performance periods, the actual number of performance shares received at the end of the performance period will be determined considering two primary factors. Seventy-five percent of the award is based on the first factor, and 25 percent of the award is based on the second factor. The first factor is Total Shareholder Return (TSR) performance relative to a peer group of 10 gas utility companies. This peer group is used exclusively for this program although some of the companies comprising the peer group are energy companies included in the survey data utilized by the Committee's consultant. The Company must achieve an average of 6 percent TSR over the

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three-year period before any awards can be earned. Further, the Company must outperform the middle of the ranked peer companies to earn target awards. The second factor is subjectively determined by the Committee considering milestone performance relative to the goals set forth in the Company's strategic plan and approved by the Committee prior to the beginning of the cycle.

The Board of Directors is recommending the reapproval of the Long-Term Incentive Plan. See Proposal 2- Proposed Reapproval of Long-Term Incentive Plan, below.

Total Remuneration

In addition to an annual review of the cash components discussed above, every two years, at the Committee's request, the independent compensation consultant conducts a complete review of the total remuneration paid or provided to Company executives in comparison to the total remuneration paid or provided to executives in similar positions with a group of comparable energy and gas utility companies. This review includes salary, annual incentives, equity and long-term incentive compensation, health, welfare and other benefits, and the dollar value and cost to the Company of all perquisites and benefits under the Company's non-qualified deferred compensation and supplemental retirement plans. Based upon the review conducted in 2005, the Committee has found the total remuneration for the executive officers, including the CEO, to be reasonable and aligned with the Executive Compensation Principles outlined above. Additionally, the Committee actively reviews the compensation of the CEO relative to other executive officers, management, and the average employee and has concluded that relative differences are appropriate. Further, in 2005 the Committee reviewed the full cost of all change in control features contained in executive plans and agreements and found that the estimated costs of those features were in alignment with expectations. The Committee also identified the need to make some adjustments to the definition of change in control to require the consummation of a transaction, rather than only shareholder approval. The Committee will continue to actively monitor each component of total remuneration and make changes to remuneration programs, as necessary.

CEO Compensation

Compensation paid to Mark S. Dodson for the year 2005, as President and Chief Executive Officer, consisted of his base salary and an annual incentive bonus. Mr. Dodson's 2005 compensation reflects his base salary of \$500,000, effective as of March 1, 2005. This base salary was deemed by the Committee and the Board to be appropriate to maintain the competitiveness of his base salary. His compensation also reflects a cash bonus of \$300,000 under the Executive Annual Incentive Plan. The 2005 incentive award, which is equal to 61 percent of Mr. Dodson's 2005 base salary, was based, in part, upon the achievement of the corporate performance goals as described above under the Executive Annual Incentive Plan and upon the Committee's evaluation of Mr. Dodson's performance in relation to the achievement of pre-established individual performance goals. For 2005, the Company reported earnings of \$2.11 a diluted share and net income applicable to common stock of \$58.1 million. In combination with the operating performance criteria, 2005 results met performance goals established for the year. The Committee determined that the achievements made with respect to these corporate performance goals, together with Mr. Dodson's overall accomplishments for the year, warranted the bonus awarded to Mr. Dodson for 2005. Considering the competitive market analysis of long-term incentive opportunities, in early 2005 the Committee awarded Mr. Dodson 10,000 performance shares for the three-year cycle beginning January 1, 2005. See Long-Term Incentive Plan Awards In 2005, on page 21.

Deductibility of Compensation

Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), generally limits to \$1 million per person the amount that the Company may deduct for compensation

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paid in any year to any individual who, on the last day of the taxable year, is its chief executive officer or is among its four highest compensated officers (other than the chief executive officer). Certain exceptions to this limitation apply to so-called performance-based compensation. The Company does not expect the sum of the base salary, annual cash incentive bonus and other relevant compensation paid to any executive officer to exceed \$1 million in any year. In the event that in the future the Company determines that an executive's annual compensation may approach or exceed this limitation, it will consider the use of this exception to the limitation under Code Section 162(m) as it has in the case of stock options and the non-discretionary portion of long-term incentive awards as described below.

It is the Company's policy generally to grant options that meet the requirements of the Code and the regulations thereunder so that any such compensation recognized by an optionee will be fully deductible performance-based compensation. The shareholders have previously approved the Restated Stock Option Plan and the Long-Term Incentive Plan to comply with the performance-based compensation requirements of Code Section 162(m) so that compensation received on the exercise of options granted under this Plan would not be subject to the \$1 million limitation. In 1996, the Committee determined that option grants would henceforth generally be Non-Statutory Stock Options for which the Company will receive a tax deduction upon exercise.

The non-discretionary portion of performance share awards under the Long-Term Incentive Plan are also generally intended to meet the performance-based compensation requirements of the Code and regulations so that any compensation paid under those awards will be fully deductible. However, the discretionary portion of the Long-Term Incentive Plan performance share awards would not qualify for this tax deduction and it is not expected that this would cause non-deductible compensation to exceed \$1 million.

Respectfully submitted on February 22, 2006 by the Organization and Executive Compensation Committee of the Board of Directors:

Russell F. Tromley, Chair
C. Scott Gibson

Timothy P. Boyle
Kenneth Thrasher

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SHAREHOLDER RETURN PERFORMANCE PRESENTATION

Set forth below is a line graph comparing the annual percentage change in the cumulative total shareholder return, assuming reinvestment of dividends at the end of the month during which they were paid, on the Company's Common Stock against the cumulative total return of the Standard & Poor's (S&P) SmallCap 600 Index and the S&P Utilities Index for the period of five years commencing December 31, 2000 and ended December 31, 2005. The S&P Utilities Index encompasses companies considered electric, gas or water utilities, or companies that operate as independent producers and/or distributors of power.

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The following table shows the fees that the Company paid or accrued for the audit and other services provided by PricewaterhouseCoopers LLP for the fiscal years 2005 and 2004:

	2005	2004
Audit Fees	\$ 679,280	\$ 961,049
Audit-Related Fees	42,781	33,750
Tax Fees	47,224	17,358
All Other Fees	1,575	3,600
Total	\$ 770,860	\$ 1,015,757

Audit Fees

This category includes fees for services rendered for the audit of the annual financial statements included in the Form 10-K and the review of the quarterly financial statements included in the Forms 10-Q. The amount includes \$378,119 in 2005 and \$731,800 in 2004 for the review of the Company's internal controls over financial reporting in compliance with Section 404 of the Sarbanes-Oxley Act of 2002. In addition, amounts include fees for statutory filings and audits, issuance of consents and comfort letters relating to the registration of Company securities and assistance with the review of documents filed with the Securities and Exchange Commission.

Audit-Related Fees

These fees and expenses include required audits of the Company's Retirement Plans and its Retirement K Savings Plan. The fees and expenses for the audit of the Company's Retirement Plans were paid by the Trustee of the Company's Retirement Trust.

Tax Fees

This category includes fees for tax compliance, tax planning and tax advice.

All Other Fees

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The category relates to services other than those described above. In 2005, this amount relates to payments for an accounting research tool and seminar fees. In 2004, this amount relates to a letter required for the installation of a combined heat and power project and the license of an accounting research tool. All fees in this category were pre-approved by the Audit Committee. See Report of Audit Committee, below.

Pre-Approval Policy for Audit and Non-Audit Services

For 2006, the Audit Committee approved services for audit, audit-related and tax services, including audit services relating to compliance with Section 404 of the Sarbanes-Oxley Act. As of February 23, 2006, there were no other services pre-approved by the Audit Committee. The chair of the Audit Committee is authorized to pre-approve non-audit services between meetings of the Audit Committee and must report such approvals at the next Audit Committee meeting. See Report of Audit Committee, below.

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REPORT OF AUDIT COMMITTEE

The Audit Committee of the Board of Directors (the Committee) is responsible for providing independent, objective oversight of the Company's accounting functions, financial reporting and internal controls. The Committee is solely responsible for the engagement of the independent registered public accounting firm on behalf of the Company, and the independent auditor reports to the Committee. The Committee acts under a written charter, amended as of July 22, 2004, to ensure compliance with applicable laws and regulations. The charter is reviewed annually by the Committee and is available on the Company's website at www.nwnatural.com. Each of the members of the Committee is independent as defined by current New York Stock Exchange listing standards and the Company's Director Independence Standards.

The Committee, in accordance with its written charter, oversees the quality and integrity of the Company's accounting, auditing and financial reporting practices. During fiscal 2005, the Committee discussed the interim financial information in each of the Company's quarterly reports to the Securities and Exchange Commission (SEC) in special meetings with the Chief Executive Officer, the Chief Financial Officer, the Controller and PricewaterhouseCoopers LLP, the Company's independent registered public accounting firm, as auditor, prior to filing them with the SEC. In addition, the Chair of the Committee and available Committee members review the Company's quarterly earnings press release before its dissemination.

During 2005, the Committee reviewed disclosure controls and procedures designed to ensure the continuing integrity of the Company's financial reports and the Company's compliance with corporate governance mandates, including Committee oversight of the Company's assessment of its internal controls over financial reporting in compliance with Section 404 of the Sarbanes-Oxley Act of 2002.

In fulfilling its responsibilities, the Committee has reviewed and discussed the audited financial statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2005 with the Company's management and the independent auditor. As part of its review, the Committee discussed the Company's critical accounting policies and matters of judgment and estimates used in the preparation of the financial statements included in the Company's 2005 Annual Report on Form 10-K. In addition, the Committee discussed with the independent auditor those matters required to be discussed by Statement on Auditing Standards No. 61, as amended, *Communications with Audit Committees*, and Public Company Accounting Oversight Board Auditing Standard No. 2, *An Audit of Internal Control Over Financial Reporting Performed in Conjunction with an Audit of Financial Statements*. Management is responsible for the financial statements and the reporting process, including a report on the Company's internal controls over financial reporting. The independent auditor is responsible for expressing an opinion as to whether the financial statements are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States, as well as expressing an opinion on (i) management's assessment of the effectiveness of Company's internal controls over financial reporting and (ii) the effectiveness of internal controls over financial reporting.

In discharging its oversight responsibility as to the audit process, the Committee obtained from the independent auditor a formal written statement describing all relationships and non-audit services between the independent auditor and the Company that might bear on the auditor's independence consistent with Independence Standards Board Standard No. 1, as amended, *Independence Discussions with Audit Committees*. In this regard, the Committee considered whether or not the provision of non-audit services by the independent auditor for the year 2005 is compatible with maintaining the independence of the firm.

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In February 2005, the Committee pre-approved certain non-audit services performed by the Company's independent auditor and affirmed its procedure for the pre-approval of any future non-audit services performed by its independent auditor during the 2005 audit. On February 23, 2006, the Committee pre-approved specific services to be performed by the independent auditor in 2006, including audit, audit-related and tax services, and established its procedure for pre-approval of all other services to be performed by the independent auditor in 2006. The Committee determined that:

For proposed non-audit services, Company management will submit to the Committee the list of non-audit services that it recommends the Committee engage the independent auditor to provide;

The Committee will review and consider for approval the list of permissible non-audit services and the budget for such services;

The Committee will be informed routinely by management as to the non-audit services actually provided by the independent auditor pursuant to this pre-approval process; and

The Director of Internal Auditing will be responsible for reporting at least annually to the Committee all independent auditor fees against the pre-approved budget for such services.

The chair of the Committee is authorized to pre-approve non-audit services between meetings of the Committee and must report such approvals at the next Committee meeting.

The Committee also discussed with the independent auditors any relationships that may impact their objectivity and independence and satisfied itself as to the auditor's independence. The Committee also completed its annual assessment of the independent auditor's and internal auditor's performance. The Committee discussed with management, the internal auditors and the independent auditor the quality, adequacy and effectiveness of the Company's internal controls over financial reporting, and the organization, responsibilities, budget and staffing of the internal audit function. The Committee reviewed with both the independent auditor and the internal auditors their respective audit plans, audit scopes and identification of audit risks.

The Committee, in reliance on the reviews and discussions referred to above, recommended to the Board of Directors (and the Board has approved and directed) that the audited financial statements be included in Northwest Natural Gas Company's Annual Report on Form 10-K for the year ended December 31, 2005, for filing with the Securities and Exchange Commission.

Respectfully submitted on February 23, 2006 by the Audit Committee of the Board of Directors:

John D. Carter, Chair
Martha L. Stormy Byorum
Richard L. Woolworth

Tod R. Hamachek
Russell F. Tromley

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PROPOSAL 2 PROPOSED REAPPROVAL OF LONG-TERM INCENTIVE PLAN

In December 2000, the Board of Directors adopted, and, in May 2001, the shareholders approved, the Company's Long-Term Incentive Plan (the Plan). The Plan gives the Board broad authority to make long-term stock incentive awards and, in its discretion, to qualify such awards as performance-based compensation as defined under Section 162(m) of the Internal Revenue Code of 1986 (the Code), thereby permitting full deductibility of any amounts paid under such awards to the Named Executive Officers. The Code requires that the Plan be reapproved by the shareholders at least once every five years in order for awards under the Plan to continue to qualify as performance-based compensation, and the Plan is being submitted to shareholders for that reason. No amendments to the Plan are proposed. The material terms of the Plan are described below, and a complete copy of the Plan is attached to this Proxy Statement as Appendix A.

Eligibility

All employees, officers and directors of the Company and its subsidiaries are eligible to receive awards under the Plan.

Shares Available

The Plan provides that not more than 500,000 shares of Common Stock may be issued pursuant to the Plan. Since the Plan was adopted in 2001, a total of 5,000 restricted shares have been issued under the Plan, and target awards for a total of 105,000 shares are currently outstanding under the Plan.

Administration

The Plan states that it is administered by the Board of Directors, which may adopt rules and regulations for the operation of the Plan and generally supervises the administration of the Plan. The Board of Directors may delegate to a committee of the Board of Directors or specified officers of the Company, or both, authority to administer the Plan, except that only the Board of Directors may amend, modify or terminate the Plan. The Board of Directors has delegated to the Organization and Executive Compensation Committee (the Committee) general authority for making awards under the Plan. The Committee determines individuals to whom awards are made under the Plan and the terms of any such awards.

Term of Plan

The Plan will continue until all shares available for issuance under the Plan have been issued and all restrictions on such shares have lapsed. The Board of Directors may suspend or terminate the Plan at any time.

Stock Bonus Awards

The Committee may award Common Stock as a stock bonus under the Plan. The Committee may determine the persons to receive awards, the number of shares to be awarded and the time of the award. No cash consideration (other than tax withholding amounts) will be paid by employees to the Company in connection with stock bonuses. Stock received as a stock bonus is subject to the terms, conditions and restrictions determined by the Committee at the time the stock is awarded. Restrictions may include restrictions concerning transferability and forfeiture of the shares. Stock bonus shares which are forfeited to the Company are again available for issuance under the Plan.

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Restricted Stock

The Plan provides that the Company may issue restricted shares in such amounts, for such consideration (including promissory notes and services), subject to such restrictions and on such terms as the Committee may determine. Restrictions may include restrictions concerning transferability, repurchase by the Company and forfeiture of the shares. Restricted shares that are forfeited to or repurchased by the Company are again available for issuance under the Plan.

Performance-based Awards

The Committee may grant Performance-based Awards denominated either in Common Stock or in dollar amounts. All or part of the awards will be earned if performance goals established by the Committee for the period covered by the award are met and the employee satisfies any other restrictions established by the Committee. The performance goals may be expressed as one or more targeted levels of performance with respect to one or more of the following objective measures with respect to the Company or any subsidiary, division or other unit of the Company: earnings, earnings per share, stock price increase, total shareholder return (stock price increase plus dividends), return on equity, return on assets, return on capital, economic value added, revenues, operating income, inventories, inventory turns, cash flows or any of the foregoing before the effect of acquisitions, divestitures, accounting changes, and restructuring and special charges. Performance-based Awards may be paid in cash or Common Stock and may be made as awards of restricted shares subject to forfeiture if performance goals are not satisfied, as determined by the Committee. No employee may receive in any fiscal year Performance-based Awards denominated in Common Stock under which the aggregate amount payable under the Awards exceeds the equivalent of 50,000 shares of Common Stock or Performance-based Awards denominated in dollars under which the aggregate amount payable under the Awards exceeds \$1,000,000. The payment of a Performance-based Award in cash will not reduce the number of shares reserved under the Plan.

Changes in Capital Structure

The Plan provides that if the outstanding Common Stock is increased or decreased or changed into or exchanged for a different number or kind of shares or other securities of the Company by reason of any stock split, stock dividend or recapitalization, appropriate adjustment will be made by the Committee in the number and kind of shares available for awards under the Plan.

Tax Consequences

An employee who receives stock in connection with the performance of services will generally realize taxable income at the time of receipt unless the shares are substantially nonvested for purposes of Section 83 of the Code. Absent an election under Section 83(b), an employee who receives substantially nonvested stock in connection with performance of services will realize taxable income in each year in which a portion of the shares substantially vest. The Company will generally be entitled to a tax deduction in the amount includable as income by the employee at the same time or times as the employee recognizes income with respect to the shares.

Section 162(m) of the Code limits to \$1,000,000 per person the amount that the Company may deduct for compensation paid to any individual who, on the last day of the taxable year, is its chief executive officer or is among its four highest compensated officers (other than the chief executive officer). Under IRS regulations, compensation received through a performance-based award will not be subject to the \$1,000,000 limit if the performance-based

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award and the plan meet certain requirements. One such requirement is shareholder approval at least once every five years of the performance criteria upon which award payouts will be based and the maximum amount payable under awards, both of which are set forth in Section 8 of the Plan. Approval of this proposal will constitute reapproval of the performance criteria and maximum amounts under the Plan previously approved by shareholders. Other requirements are that objective performance goals and the amounts payable upon achievement of the goals be established by a committee of at least two outside directors and that no discretion be retained to increase the amount payable under the awards. The Company believes that, if this proposal is approved by the shareholders, compensation received on vesting of Performance-based Awards granted under the Plan in compliance with all of the above requirements will continue to be exempt from the \$1,000,000 deduction limit.

Plan Benefits

In 2005, the Company granted Performance-based Awards under the Plan to the Named Executive Officers, the terms of which are summarized in the table set forth above under EXECUTIVE COMPENSATION Long-Term Incentive Plan Awards in 2005. In total, the Company granted Performance-based Awards in 2005 on the same terms to all current executive officers as a group at an aggregate target award level of 27,000 shares, and to all other employees as a group at an aggregate target award level of 8,000 shares.

Vote Required

Reapproval of the Plan by the shareholders will require the affirmative vote of the holders of a majority of the shares of Common Stock of the Company present, or represented by proxy, and entitled to vote on the matter at the Annual Meeting. Abstentions have the effect of no votes in determining whether the Plan is reapproved. Broker non-votes are counted for purposes of determining whether a quorum exists at the Annual Meeting but are not counted and have no effect on the results of the vote.

The Board of Directors recommends a vote FOR this proposal.

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PROPOSAL 3 PROPOSED AMENDMENTS TO THE EMPLOYEE STOCK PURCHASE PLAN

In 1967, the Board of Directors adopted and the shareholders approved the Company's Employee Stock Purchase Plan (the ESPP). The ESPP was amended in 1968, 1976, 1980, 1996 and 2000. A total of 800,000 shares of the Company's Common Stock have been reserved for issuance under the ESPP. At March 17, 2006 only 75,803 shares were available for future issuance under the ESPP.

On February 23, 2006, the Board of Directors adopted, subject to shareholder approval, amendments to the ESPP that would:

increase the number of shares authorized to be issued under the ESPP from 800,000 to 1,000,000 shares; and facilitate the administration of the ESPP by providing (1) that employees who work less than 20 hours per week, as opposed to 20 hours or less, are excluded from participating and (2) that the purchase price for shares be rounded up to a full penny rather than to the nearest one-tenth of a dollar.

The purposes of the ESPP are to encourage employees to become shareholders in the Company, to stimulate increased interest on their part in the affairs of the Company, to afford them the opportunity to share in the earnings and growth of the Company and to promote systematic savings by them. The proposed amendments are intended to further these purposes. The material terms of the ESPP, as proposed to be amended, are described below, and a complete copy of the ESPP, marked to show the proposed amendments, is attached to this Proxy Statement as Appendix B. The following description is qualified in its entirety by reference to Appendix B.

Summary of the ESPP

The ESPP provides for offerings of the Company's Common Stock to eligible employees at the times and in the amounts determined by the Board of Directors. The Board of Directors intends to continue its practice of making annual offerings under the ESPP. The price of each offering will equal 85 percent of the fair market value of the Common Stock on the date of that offering, rounded up to a full penny.

All active employees employed by the Company for at least 6 months and whose customary employment is at least 20 hours per week and 5 months per year (including officers and directors who are employees) are eligible to participate in the ESPP. However, no employee may participate if he or she owns, or through any subscription will acquire, sufficient Common Stock to give him or her 5 percent or more of the total combined voting power or value of all classes of stock of the Company. At March 1, 2006, approximately 1,259 employees were eligible to participate in the ESPP.

An eligible employee may participate by subscribing for shares within a prescribed period after each offering. Each participant may subscribe for a maximum of 900 shares per offering. If any offering is oversubscribed, the shares offered will be allocated among the participants.

Payment for shares purchased under the ESPP is made through payroll deductions within a period of not less than 6 months from the offering date. The maximum period under the Plan for payment for shares is 27 months, although the Board of Directors typically limits the offering periods consistent with its practice of allowing employees to make payroll deductions over a 12-month period. A participant may terminate participation in an offering at any time before the twentieth day preceding the end of the offering period.

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Shares subscribed for in any offering will be purchased at the end of the offering period. Prior to that time, contributions are held by the Company for the participant. There are no restrictions upon the disposition of shares purchased through the ESPP.

None of the participants' rights under the ESPP are assignable or transferable. The right to participate in, and any subscription under, the ESPP, terminates upon the termination of employment.

The Board of Directors, without shareholder approval, may amend, modify, suspend or terminate the ESPP at any time without notice, but it may not, without the affected employee's written consent, adversely affect any existing subscription or offering, and it may not amend the ESPP, without shareholder approval, to change the number of shares authorized to be offered (otherwise than to reflect a change in capitalization, such as a stock dividend or stock split), decrease the offering price below 85 percent of fair market value or change the eligibility requirements.

Tax Consequences

The Plan is an employee stock purchase plan under Section 423 of the Code. In the event of a disposition within one year after acquisition by the participant of the shares or within two years after they were offered under the ESPP, the participant would recognize ordinary income at the time of disposition in an amount equal to the difference between the fair market value of the shares at the time of their purchase by the participant and the price at which such shares were offered under the Plan. This ordinary income would be added to the participant's cost basis in determining gain or loss on a sale, which would generally be capital gain or loss. If held for a period in excess of these limitations, gain or loss upon a sale of shares purchased under the Plan is treated as capital gain or loss, except that any gain is treated as ordinary income to the extent of the difference between the fair market value of the shares at the time of offering and the offering price.

Purchases under the ESPP

The following table indicates shares purchased under the ESPP during the last fiscal year by the Named Executive Officers, by all executive officers as a group and by all employees (excluding executive officers) as a group:

Name	Number of Shares Purchased in 2005	Dollar Value ⁽¹⁾
Mark S. Dodson	788	\$ 3,782
Gregg S. Kantor	400	1,920
Lea Anne Doolittle	446	2,141
All Executive Officers (5 persons)	2,357	11,314
All employees, excluding Executive Officers	28,539	136,987

⁽¹⁾ Dollar Value equals the difference between the price paid for shares purchased under the ESPP and the fair market value of the shares on the offering date.

Vote Required

Approval of the ESPP amendments by the shareholders will require that the votes cast in favor of the proposal at the Annual Meeting exceed the votes cast against the proposal. Accordingly, abstentions and broker non-votes will have no effect on the results of the vote.

The Board of Directors recommends a vote FOR this proposal.

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PROPOSAL 4 PROPOSED RESTATEMENT OF THE RESTATED ARTICLES OF INCORPORATION

The Company last restated its Articles of Incorporation in 1988. At that time, the Restated Articles of Incorporation included the terms of six outstanding series of Preferred Stock and one outstanding series of Preference Stock. Subsequent to 1988, the Articles of Incorporation were amended by action of the Board of Directors to add terms for one additional series of Preferred Stock and one additional series of Preference Stock. Over the years, all outstanding series of Preferred Stock and Preference Stock were redeemed by the Company, and now there are no shares of either Preferred Stock or Preference Stock outstanding. The Articles of Incorporation currently include many pages of terms of these series of Preferred Stock and Preference Stock that were previously issued and redeemed, and that cannot be issued again. Under Oregon law, these provisions cannot be deleted from the Articles of Incorporation without shareholder approval. Starting with the goal of eliminating these outdated provisions, the Company has identified several other non-substantive changes to streamline or clarify the Articles of Incorporation.

The Board of Directors has adopted, and recommended to the shareholders for their approval, revised Restated Articles of Incorporation of the Company. A complete copy of the proposed Restated Articles of Incorporation, marked to show changes from the current Restated Articles of Incorporation, is attached to this Proxy Statement as Appendix C. The proposed amendments are summarized as follows:

Eliminate all provisions setting forth terms of previously issued and redeemed series of Preferred Stock and Preference Stock, as discussed above.

Eliminate all provisions regarding Preferred Stock and change the name of the Preference Stock to Preferred Stock. The current Restated Articles of Incorporation authorize the Board of Directors to designate and issue series of both Preferred Stock and Preference Stock. The Preferred Stock is senior to the Preference Stock on payment of dividends and on liquidation of the Company, while the Preference Stock provides somewhat greater flexibility to the Board of Directors in setting the terms of each series. For relative simplicity, the proposed Restated Articles of Incorporation provide for only one class of Preferred Stock substantially on the terms of the existing Preference Stock. There are currently 1,500,000 authorized, unissued shares of Preferred Stock and 2,000,000 authorized, unissued shares of Preference Stock; the proposed Restated Articles of Incorporation combine those amounts into 3,500,000 authorized shares of Preferred Stock.

Provide that all series of Preferred Stock (formerly known as Preference Stock) do not need to be of equal rank in payment of dividends and on liquidation, thereby giving the Board of Directors authority to establish relative preferences of series of Preferred Stock.

Eliminate references to par value of both the Common Stock and the Preferred Stock, as the concept of par value no longer has any meaning under Oregon corporate law.

Eliminate detailed provisions on the redemption procedure for Preferred Stock, as those details can be specified by the Board of Directors when establishing individual series.

Vote Required

Approval of the Restated Articles of Incorporation by the shareholders will require that the votes cast in favor of the proposal at the Annual Meeting exceed the votes cast against the proposal. Accordingly, abstentions and broker non-votes will have no effect on the results of the vote.

The Board of Directors recommends a vote FOR this proposal.

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PROPOSAL 5 PROPOSED AMENDMENT TO ARTICLE IV OF THE RESTATED ARTICLES OF INCORPORATION

Article IV of the Company's Restated Articles of Incorporation contains provisions regarding the number of directors, the division of directors into classes, and the election and removal of directors. The last sentence of subsection A.2 of Article IV states with respect to directors elected by the board to fill vacancies that:

The term of a director elected to fill a newly created directorship or any other vacancy shall expire at the same time as the terms of the other directors of the class in which that vacancy occurred.

After Article IV was adopted, Oregon law was amended to provide that the term of a director elected by the directors to fill a vacancy ends at the next annual meeting of shareholders. Accordingly, the sentence quoted above is inconsistent with current Oregon law.

The Board of Directors has adopted, and recommended to the shareholders for their approval, an amendment to the Restated Articles of Incorporation under which the above-quoted sentence would be deleted. Section C. of Article IV provides that any amendment of Article IV requires the affirmative vote of two-thirds of the outstanding Common Stock. Because this supermajority vote requirement is considerably higher than the vote requirement for the various other amendments to the Restated Articles of Incorporation covered in Item 4 above, the Board of Directors has provided for this proposed amendment of Article IV to be voted on separately so that the other amendments to the Restated Articles of Incorporation may be approved even though the two-thirds vote requirement for this proposal is not satisfied. Accordingly, this amendment is in addition to the various amendments set forth in the proposed Restated Articles of Incorporation to be voted on by the shareholders as set forth in Item 4 above.

Vote Required

Approval of the proposed deletion of the last sentence of subsection A.2 of Article IV of the Restated Articles of Incorporation by the shareholders will require the affirmative vote of the holders of at least two-thirds of the outstanding shares of Common Stock of the Company. Abstentions and broker non-votes therefore have the effect of no votes in determining whether the proposed amendment is approved.

The Board of Directors recommends a vote FOR this proposal.

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PROPOSAL 6 RATIFICATION OF APPOINTMENT OF INDEPENDENT PUBLIC ACCOUNTANTS

At a meeting held February 23, 2006, the Audit Committee of the Board of Directors appointed the firm of PricewaterhouseCoopers LLP, independent public accountants, to audit the books, records and accounts of the Company for fiscal year 2006. The Board of Directors recommends that the shareholders ratify this appointment.

Representatives of PricewaterhouseCoopers LLP will be present at the annual meeting with the opportunity to make a statement if they desire to do so, and will be available to respond to appropriate questions.

Vote Required

Under Oregon law, if a quorum of shareholders is present at the Annual Meeting, the ratification of PricewaterhouseCoopers LLP as independent auditors for 2006 will require that the votes cast in favor of their ratification exceed the votes cast against their ratification. Abstentions and broker non-votes are counted for purposes of determining whether a quorum exists at the Annual Meeting but are not counted and have no effect on the results of the vote for independent auditors.

The Board of Directors recommends a vote FOR this proposal.

OTHER MATTERS

Management does not know of any other matters to be presented at the Annual Meeting. If other matters should be properly presented at the meeting, the persons named in the accompanying proxy will vote the shares represented by such proxy with respect to such matters in accordance with their best judgment.

Consolidation Services Provided

The consolidation of an individual's multiple proxy cards into one envelope is a service the Company provides based on Social Security Number or Tax ID Number match.

If you received a consolidated mailing this year and you would like to receive a separate annual report or proxy statement for each account with the same Social Security Number, please submit your request to Shareholder Services, 220 NW Second Avenue, Portland, OR 97209-3991 or call (800) 422-4012, ext. 3412. The Company will promptly send additional copies of the annual report and/or proxy statement upon receipt of such request. You may also contact the Company if you received multiple copies of the annual meeting materials and would prefer to receive a single copy in the future.

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2007 ANNUAL MEETING OF SHAREHOLDERS

The 2007 Annual Meeting of Shareholders is scheduled to be held in Portland, Oregon on Thursday, May 24, 2007. Securities and Exchange Commission proxy rules require that any shareholder proposal to be considered for inclusion in the Company's proxy statement for the 2007 Annual Meeting of Shareholders must be received at the Company's principal executive office no later than December 15, 2006.

The Company's bylaws require shareholders to give the Company advance notice of any proposal to be submitted at any meeting of shareholders. The bylaws prescribe the information to be contained in any such notice, and a copy of the relevant provisions of the bylaws will be provided to any shareholder upon written request to the Secretary of the Company. For any shareholder proposal to be considered at the 2007 Annual Meeting of Shareholders, the shareholder's notice must be received by the Company's Secretary no later than February 26, 2007. The Securities and Exchange Commission's proxy rules allow the Company to use discretionary voting authority to vote on a matter coming before an annual meeting of shareholders which is not included in the Company's proxy statement, if the Company does not have notice of the matter before the deadline established in its bylaws. In addition, discretionary voting authority may generally also be used if the Company receives timely notice of such matter (as described above) and if, in the proxy statement, the Company describes the nature of such matter and how the Company intends to exercise its discretion to vote on such matter.

COMPANY INFORMATION

The Company makes available on its website (www.nwnatural.com), among other things:

Corporate Governance Standards;
Director Independence Standards;
Charters of the Governance, Audit, Organization and Executive Compensation, Finance, Public Affairs and Environmental Policy and Strategic Planning Committees;
Code of Ethics;
Standards of Conduct; and
Financial Code of Ethics.

You may request a copy of these documents, at no cost to you, by writing or calling Shareholder Services, Northwest Natural Gas Company, One Pacific Square, 220 N.W. Second Avenue, Portland, Oregon 97209, telephone 503-226-4211.

Shareholders may communicate with the Chairman of the Board or the non-management directors of the Board by:

calling 1-800-541-9967;
mailing correspondence to 220 NW Second Avenue, Portland, OR 97209, Attn: Corporate Secretary; or
sending an e-mail to directors@nwnatural.com.

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Correspondence or other communications received by the Corporate Secretary are forwarded to the chair of the Governance Committee or to the chair of the Audit Committee, as appropriate.

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SOLICITATION OF PROXIES

Proxies may be solicited on behalf of the Board of Directors by regular employees in person or by mail, telephone, the Internet or facsimile transmission. The Company will reimburse brokers or other persons holding stock in their names or in the names of their nominees for their reasonable expenses incurred in forwarding proxies and proxy materials to the beneficial owners of such shares. All solicitation costs will be borne by the Company. The Company has retained Georgeson Shareholder Inc. to assist in the solicitation of proxies from banks, brokers and nominees at a fee of \$7,500 plus reasonable out-of-pocket expenses. Shareholders may assist the Company in avoiding expenses in this connection by voting their proxies promptly.

If you are unable to be present at the Annual Meeting in person, please mark, date, sign and mail the enclosed proxy, or, alternatively, grant your proxy by telephone or the Internet, so that the business of the meeting can be transacted.

By Order of the Board of Directors,

/s/ C. J. Rue

C. J. Rue

Secretary

Portland, Oregon
April 17, 2006

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Appendix A

NORTHWEST NATURAL GAS COMPANY

LONG TERM INCENTIVE PLAN

Amended and Restated Effective July 26, 2001

1. Purpose. The purpose of this Long Term Incentive Plan (the *Plan*) is to enable Northwest Natural Gas Company (the *Company*) to attract and retain the services of selected employees, officers and directors of the Company or of any subsidiary of the Company.

2. Shares Subject to the Plan. Subject to adjustment as provided below and in Section 9, the shares to be offered under the Plan shall consist of Common Stock of the Company, and the total number of shares of Common Stock that may be awarded under the Plan shall not exceed 500,000 shares. The shares awarded under the Plan may be authorized and unissued shares, reacquired shares or shares purchased on the open market for delivery to participants. If a Performance-based Award granted under the Plan expires, terminates or is cancelled, the shares subject to such Performance-based Award shall again be available under the Plan. If shares sold or awarded as a bonus or Performance-based Award under the Plan are forfeited to the Company or repurchased by the Company, the number of shares forfeited or repurchased shall again be available under the Plan.

3. Effective Date and Duration of Plan.

(a) **Effective Date.** The Plan shall become effective as of January 1, 2001. However, all awards under the Plan shall be conditioned on and subject to approval of the Plan by the shareholders of the Company. Subject to this limitation, Performance-based Awards may be granted and shares may be awarded as bonuses or sold under the Plan at any time after the effective date and before termination of the Plan.

(b) **Duration.** The Plan shall continue in effect until all shares available for award under the Plan have been delivered to participants and all restrictions on such shares have lapsed. The Board of Directors may suspend or terminate the Plan at any time except with respect to Performance-based Awards and shares subject to restrictions then outstanding under the Plan. Termination shall not affect any right of the Company to repurchase shares or the forfeitability of shares awarded under the Plan.

4. Administration.

(a) **Board of Directors.** The Plan shall be administered by the Board of Directors of the Company, which shall determine and designate from time to time the individuals to whom awards shall be made, the amount of the awards and the other terms and conditions of the awards. Subject to the provisions of the Plan, the Board of Directors may from time to time adopt and amend rules and regulations relating to administration of the Plan, advance the lapse of any waiting period, accelerate any exercise date, waive or modify any restriction applicable to shares (except those restrictions imposed by law) and make all other determinations in the judgment of the Board of Directors necessary or desirable for the

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administration of the Plan. The interpretation and construction of the provisions of the Plan and related agreements by the Board of Directors shall be final and conclusive. The Board of Directors may correct any defect or supply any omission or

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reconcile any inconsistency in the Plan or in any related agreement in the manner and to the extent it shall deem expedient to carry the Plan into effect, and it shall be the sole and final judge of such expediency.

(b) **Committee.** The Board of Directors may delegate to a committee of the Board of Directors or specified officers of the Company, or both (the Committee) any or all authority for administration of the Plan. If authority is delegated to a Committee, all references to the Board of Directors in the Plan shall mean and relate to the Committee except (i) as otherwise provided by the Board of Directors, and (ii) that only the Board of Directors may amend or terminate the Plan as provided in Sections 3 and 10.

5. Types of Awards; Eligibility. The Board of Directors may, from time to time, take the following action, separately or in combination, under the Plan: (i) award stock bonuses as provided in Section 6; (ii) sell shares subject to restrictions as provided in Section 7; and (iii) grant Performance-based Awards as provided in Section 8. An award may be made to any employee, officer or director of the Company or any subsidiary of the Company. The Board of Directors shall select the individuals to whom awards shall be made and shall specify the action taken with respect to each individual to whom an award is made. At the discretion of the Board of Directors, an individual may be given an election to surrender an award in exchange for the grant of a new award.

6. Stock Bonuses. The Board of Directors may award shares under the Plan as stock bonuses. Shares awarded as a bonus shall be subject to the terms, conditions and restrictions determined by the Board of Directors. The restrictions may include restrictions concerning transferability and forfeiture of the shares awarded, together with any other restrictions determined by the Board of Directors. The Board of Directors may require the recipient to sign an agreement as a condition of the award, but may not require the recipient to pay any monetary consideration other than amounts necessary to satisfy tax withholding requirements. The agreement may contain any terms, conditions, restrictions, representations and warranties required by the Board of Directors. The certificates representing the shares awarded shall bear any legends required by the Board of Directors. The Company may require any recipient of a stock bonus to pay to the Company in cash or by check upon demand amounts necessary to satisfy any applicable federal, state or local tax withholding requirements. If the recipient fails to pay the amount demanded, the Company may withhold that amount from other amounts payable to the recipient, including salary, subject to applicable law. With the consent of the Board of Directors, a recipient may satisfy this obligation, in whole or in part, by instructing the Company to withhold from any shares to be received or by delivering to the Company other shares of Common Stock; provided, however, that the number of shares so withheld or delivered shall not exceed the minimum amount necessary to satisfy the required withholding obligation. Upon the payment of a stock bonus, the number of shares reserved for award under the Plan shall be reduced by the number of shares paid as a bonus, less the number of shares withheld or delivered to satisfy withholding obligations.

7. Restricted Stock. The Board of Directors may sell shares under the Plan for any consideration (including promissory notes and services) determined by the Board of Directors. Shares sold under the Plan shall be subject to the terms, conditions and restrictions determined by the Board of Directors. The restrictions may include restrictions concerning transferability, repurchase by the Company and forfeiture of the shares sold, together with any other restrictions determined by the Board of Directors. All Common Stock sold pursuant to this Section 7 shall be subject to a purchase agreement, which shall be executed by the Company and the prospective purchaser of the shares before the delivery of certificates representing the shares to the purchaser. The purchase agreement may contain any terms, conditions, restrictions, representations and warranties required by the Board of Directors.

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The certificates representing the shares shall bear any legends required by the Board of Directors. The Company may require any purchaser of restricted stock to pay to the Company in cash or by check upon demand amounts necessary to satisfy any applicable federal, state or local tax withholding requirements. If the purchaser fails to pay the amount demanded, the Company may withhold that amount from other amounts payable to the purchaser, including salary, subject to applicable law. With the consent of the Board of Directors, a purchaser may satisfy this obligation, in whole or in part, by instructing the Company to withhold from any shares to be received or by delivering to the Company other shares of Common Stock; provided, however, that the number of shares so withheld or delivered shall not exceed the minimum amount necessary to satisfy the required withholding obligation. Upon the sale of restricted stock, the number of shares reserved for award under the Plan shall be reduced by the number of shares sold, less the number of shares withheld or delivered to satisfy withholding obligations.

8. Performance-based Awards. The Board of Directors may grant awards intended to qualify as qualified performance-based compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended, and the regulations thereunder (*Performance-based Awards*). Performance-based Awards shall be denominated at the time of grant either in Common Stock (*Stock Performance Awards*) or in dollar amounts (*Dollar Performance Awards*). Payment under a Stock Performance Award or a Dollar Performance Award shall be made, at the discretion of the Board of Directors, in Common Stock (*Performance Shares*), or in cash or in any combination thereof. Performance-based Awards shall be subject to the following terms and conditions:

(a) **Award Period.** The Board of Directors shall determine the period of time for which a Performance-based Award is made (the *Award Period*).

(b) **Performance Goals and Payment.** The Board of Directors shall establish in writing objectives (*Performance Goals*) that must be met by the Company or any subsidiary, division or other unit of the Company (*Business Unit*) during the Award Period as a condition to payment being made under the Performance-based Award. The Performance Goals for each award shall be one or more targeted levels of performance with respect to one or more of the following objective measures with respect to the Company or any Business Unit: earnings, earnings per share, stock price increase, total shareholder return (stock price increase plus dividends), return on equity, return on assets, return on capital, economic value added, revenues, operating income, inventories, inventory turns, cash flows or any of the foregoing before the effect of acquisitions, divestitures, accounting changes, and restructuring and special charges (determined according to criteria established by the Board of Directors). The Board of Directors shall also establish the number of Performance Shares or the amount of cash payment to be made under a Performance-based Award if the Performance Goals are met or exceeded, including the fixing of a maximum payment (subject to Section 8(d)). The Board of Directors may establish other restrictions to payment under a Performance-based Award, such as a continued employment requirement, in addition to satisfaction of the Performance Goals. Some or all of the Performance Shares may be delivered to the participant at the time of the award as restricted shares subject to forfeiture in whole or in part if Performance Goals or, if applicable, other restrictions are not satisfied.

(c) **Computation of Payment.** During or after an Award Period, the performance of the Company or Business Unit, as applicable, during the period shall be measured against the Performance Goals. If the Performance Goals are not met, no payment shall be made under a Performance-based Award. If the Performance Goals are met or exceeded, the Board of Directors shall certify that fact in writing and certify the number of Performance Shares earned or the amount of cash payment to be made under the terms of the Performance-based Award.

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(d) **Maximum Awards.** No participant may receive in any fiscal year Stock Performance Awards under which the aggregate amount payable under the Awards exceeds the equivalent of 50,000 shares of Common Stock or Dollar Performance Awards under which the aggregate amount payable under the Awards exceeds \$1,000,000.

(e) **Tax Withholding.** Each participant who has received Performance Shares shall, upon notification of the amount due, pay to the Company in cash or by check amounts necessary to satisfy any applicable federal, state and local tax withholding requirements. If the participant fails to pay the amount demanded, the Company or the Employer may withhold that amount from other amounts payable to the participant, including salary, subject to applicable law. With the consent of the Board of Directors, a participant may satisfy this obligation, in whole or in part, by instructing the Company to withhold from any shares to be received or by delivering to the Company other shares of Common Stock; provided, however, that the number of shares so delivered or withheld shall not exceed the minimum amount necessary to satisfy the required withholding obligation.

(f) **Effect on Shares Available.** The payment of a Performance-based Award in cash shall not reduce the number of shares of Common Stock reserved for award under the Plan. The number of shares of Common Stock reserved for award under the Plan shall be reduced by the number of shares delivered to the participant upon payment of an award, less the number of shares delivered or withheld to satisfy withholding obligations.

9. Changes in Capital Structure. If the outstanding Common Stock of the Company is hereafter increased or decreased or changed into or exchanged for a different number or kind of shares or other securities of the Company by reason of any stock split, combination of shares or dividend payable in shares, recapitalization or reclassification, appropriate adjustment shall be made by the Board of Directors in the number and kind of shares available for grants under the Plan. In addition, the Board of Directors shall make appropriate adjustment in the number and kind of shares subject to outstanding Performance-based Awards so that the recipient's proportionate interest before and after the occurrence of the event is maintained. Notwithstanding the foregoing, the Board of Directors shall have no obligation to effect any adjustment that would or might result in the award of fractional shares, and any fractional shares resulting from any adjustment may be disregarded or provided for in any manner determined by the Board of Directors. Any such adjustments made by the Board of Directors shall be conclusive.

10. Amendment of Plan. The Board of Directors may at any time, and from time to time, modify or amend the Plan in such respects as it shall deem advisable because of changes in the law while the Plan is in effect or for any other reason. Except as provided in Section 9, however, no change in an award already granted shall be made without the written consent of the holder of such award.

11. Approvals. The issuance by the Company of authorized and unissued shares or reacquired shares under the Plan is subject to the approval of the Oregon Public Utility Commission and the Washington Utilities and Transportation Commission, but no such approvals shall be required for the purchase of shares on the open market for delivery to participants in satisfaction of awards under the Plan. The obligations of the Company under the Plan are otherwise subject to the approval of state and federal authorities or agencies with jurisdiction in the matter. The Company will use its best efforts to take steps required by state or federal law or applicable regulations, including rules and regulations of the Securities and Exchange Commission and any stock exchange on which the Company's shares may then be listed, in connection with the grants under the Plan. The foregoing notwithstanding, the Company shall not be obligated to issue or deliver Common Stock under the Plan if such issuance or delivery would violate applicable state or federal securities laws.

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12. **Employment and Service Rights.** Nothing in the Plan or any award pursuant to the Plan shall (i) confer upon any employee any right to be continued in the employment of the Company or any subsidiary or interfere in any way with the right of the Company or any subsidiary by whom such employee is employed to terminate such employee's employment at any time, for any reason, with or without cause, or to decrease such employee's compensation or benefits, or (ii) confer upon any person engaged by the Company any right to be retained or employed by the Company or to the continuation, extension, renewal, or modification of any compensation, contract, or arrangement with or by the Company.

13. **Rights as a Shareholder.** The recipient of any award under the Plan shall have no rights as a shareholder with respect to any Common Stock until the date the recipient becomes the holder of record of those shares. Except as otherwise expressly provided in the Plan, no adjustment shall be made for dividends or other rights for which the record date occurs prior to the date the recipient becomes the holder of record.

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Appendix B

**NORTHWEST NATURAL GAS COMPANY
EMPLOYEE STOCK PURCHASE PLAN**

1. Purposes of the Plan

The purposes of this Employee Stock Purchase Plan are to encourage employees to become stockholders in the Company, to stimulate increased interest on their part in the affairs of the Company, to afford them an opportunity to share in the profits and growth of the Company, and to promote systematic savings by them. These purposes are sought to be accomplished under the Plan by enabling employees to subscribe for and purchase directly from the Company a limited number of the authorized and unissued shares of its Common Stock at a discount from the market price at the time offerings are made, with an opportunity to pay the purchase price in installments, by payroll deductions (including bonus deductions) over a period of not more than 27 months from the offering date. The Plan has been found desirable by the Board of Directors and is believed by management to be advantageous to employees desiring to become holders of Common Stock and in the best interests of the Company. Participation in the Plan is entirely voluntary. Each employee must decide whether it is in his or her best interests to purchase shares of Common Stock under the Plan.

317,978

326,748

6.00%, 05/01/2021-08/01/2021

18,046

18,821

6.09%, 11/01/2024

254,601

260,354

6.11%, 12/01/2013

358,670

367,723

6.14%, 12/01/2020

115,270

120,257

6.55%, 09/01/2037 μ

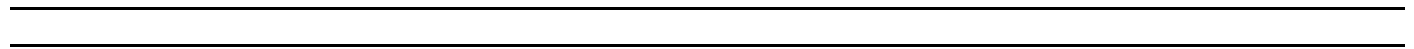
4,300,057

4,602,404

6.61%, 09/01/2032 μ

3,819,909

3,939,931



157,443,875

Total Agency Mortgage-Backed Pass Through Securities (cost \$156,698,139)

160,413,177

See Notes to Financial Statements

SCHEDULE OF INVESTMENTS continued

October 31, 2009

	Principal Amount	Value
AGENCY REPERFORMING MORTGAGE-BACKED PASS THROUGH SECURITIES 0.1%		
FIXED-RATE 0.1%		
FNMA, Ser. 2001-T10, Class A2, 7.50%, 12/25/2041 (cost \$350,286)	\$321,917	\$354,123
COMMERCIAL MORTGAGE-BACKED SECURITIES 1.9%		
FIXED-RATE 0.5%		
Bear Stearns Comml. Mtge. Securities Trust, Ser. 2007-PW15, Class A4, 5.33%, 02/11/2044	1,415,000	1,292,892
Greenwich Capital Comml. Funding Corp., Ser. 2007-GG9, Class AM, 5.48%, 03/10/2039	200,000	154,591
Morgan Stanley Capital I Trust, Ser. 2006-HQ10, Class AM, 5.36%, 11/21/2041	2,445,000	1,985,720
		<u>3,433,203</u>
FLOATING-RATE 1.4%		
Citigroup Comml. Mtge. Trust, Ser. 2007-C6, Class A4, 5.70%, 12/10/2049	1,875,000	1,715,777
GE Comml. Mtge. Trust:		
Ser. 2006-C7, Class AM, 5.79%, 06/10/2046	2,875,000	2,382,475
Ser. 2007-C9, Class A4, 5.82%, 12/10/2049	1,400,000	1,299,396
Morgan Stanley Capital I Trust:		
Ser. 2006-IQ11, Class AM, 5.77%, 10/15/2042	240,000	199,138
Ser. 2007-2A, Class 2A, 5.81%, 08/12/2045 144A	4,505,000	3,285,466
		<u>8,882,252</u>
<i>Total Commercial Mortgage-Backed Securities (cost \$9,029,452)</i>		<u>12,315,455</u>
CORPORATE BONDS 49.5%		
CONSUMER DISCRETIONARY 7.2%		
Auto Components 1.1%		
Cooper Tire & Rubber Co., 7.625%, 03/15/2027	4,575,000	3,774,375
Goodyear Tire & Rubber Co.:		
7.86%, 08/15/2011	1,180,000	1,206,550
8.625%, 12/01/2011	690,000	715,013
9.00%, 07/01/2015	237,000	245,295
10.50%, 05/15/2016	730,000	793,875
Metaldyne Corp., FRN, 10.28%, 04/09/2014	506,870	376,052

		7,111,160
<hr/>		
Diversified Consumer Services	0.2%	
Carriage Services, Inc., 7.875%, 01/15/2015	1,425,000	1,346,625
Service Corporation International:		
6.75%, 04/01/2015	95,000	92,863
7.50%, 04/01/2027	200,000	179,000
		<hr/>
		1,618,488
<hr/>		
Hotels, Restaurants & Leisure	1.6%	
Boyd Gaming Corp.:		
7.125%, 02/01/2016	375,000	326,250
7.75%, 12/15/2012	95,000	94,763
Caesars Entertainment, Inc., 7.875%, 03/15/2010	785,000	783,037
See Notes to Financial Statements		

SCHEDULE OF INVESTMENTS continued

October 31, 2009

	Principal Amount	Value
CORPORATE BONDS continued		
CONSUMER DISCRETIONARY continued		
Hotels, Restaurants & Leisure continued		
Harrah's Entertainment Corp.:		
10.00%, 12/15/2018 144A	\$250,000	\$191,250
11.25%, 06/01/2017 144A	2,025,000	2,075,625
Hyatt Hotels Corp., 6.875%, 08/15/2019 144A	715,000	730,713
Inn of the Mountain Gods Resort & Casino, 12.00%, 11/15/2010 • + MGM MIRAGE:	1,050,000	422,625
6.625%, 07/15/2015	500,000	381,250
8.50%, 09/15/2010	780,000	778,050
11.125%, 11/15/2017 144A	400,000	442,000
11.375%, 03/01/2018 144A	55,000	49,775
Pokagon Gaming Authority, 10.375%, 06/15/2014 144A	60,000	62,400
Scientific Games Corp., 9.25%, 06/15/2019 144A	450,000	461,250
Seneca Gaming Corp., 7.25%, 05/01/2012	205,000	198,850
Shingle Springs Tribal Gaming Authority, 9.375%, 06/15/2015 144A	1,205,000	861,575
Speedway Motorsports, Inc., 8.75%, 06/01/2016 144A	695,000	729,750
Trump Entertainment Resorts, Inc., 8.50%, 06/01/2015 •	1,384,000	121,100
Universal City Development Partners, Ltd.:		
8.875%, 11/15/2015 144A	360,000	358,200
10.875%, 11/15/2016 144A	235,000	236,175
11.75%, 04/01/2010	1,610,000	1,622,075
Wynn Resorts, Ltd., 7.875%, 11/01/2017 144A	50,000	49,375
		<hr/> 10,976,088 <hr/>
Household Durables 0.9%		
D.R. Horton, Inc., 9.75%, 09/15/2010	2,190,000	2,283,075
Lennar Corp.:		
5.125%, 10/01/2010	700,000	703,500
12.25%, 06/01/2017	60,000	72,300
Libbey, Inc., FRN, 8.26%, 06/01/2011	715,000	695,337
Meritage Homes Corp., 7.00%, 05/01/2014	630,000	601,650
Newell Rubbermaid, Inc., 10.60%, 04/15/2019	950,000	1,172,758
Sealy Corp., 10.875%, 04/15/2016 144A	180,000	202,500
		<hr/> 5,731,120 <hr/>
Internet & Catalog Retail 0.3%		
QVC, Inc., 7.50%, 10/01/2019 144A	1,040,000	1,034,800

Ticketmaster Entertainment, Inc., 10.75%, 08/01/2016	760,000	786,600
		<hr/>
		1,821,400
		<hr/>
Media 2.0%		
Cablevision Systems Corp., 8.625%, 09/15/2017 144A	95,000	98,800
CBS Corp., 8.875%, 05/15/2019	30,000	33,941
CCO Holdings, LLC, 8.75%, 11/15/2013 •	3,720,000	4,082,700
See Notes to Financial Statements		

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SCHEDULE OF INVESTMENTS continued

October 31, 2009

	Principal Amount	Value
CORPORATE BONDS continued		
CONSUMER DISCRETIONARY continued		
Media continued		
Charter Communications, Inc.:		
13.50%, 10/30/2016 #	\$250,000	\$288,907
Step Bond:		
10.00%, 04/30/2012 144A • ††	1,914,000	1,952,280
12.875%, 09/15/2014 144A • ††	4,235,000	4,700,850
Dish DBS Corp., 7.875%, 09/01/2019 144A	780,000	802,425
Lamar Media Corp.:		
6.625%, 08/15/2015	90,000	86,400
7.25%, 01/01/2013	180,000	177,750
9.75%, 04/01/2014	60,000	66,300
R.H. Donnelley Corp., 11.75%, 05/15/2015 144A •	111,000	63,825
Regal Cinemas, Inc., 8.625%, 07/15/2019 144A	25,000	26,000
Sirius XM Radio, Inc., 9.625%, 08/01/2013	165,000	151,388
WMG Acquisition Corp., 9.50%, 06/15/2016 144A	60,000	64,350
XM Satellite Radio Holdings, Inc., 13.00%, 08/01/2013 144A	335,000	335,000
Young Broadcasting, Inc.:		
8.75%, 01/15/2014 •	2,121,000	21,210
10.00%, 03/01/2011 •	1,540,000	15,400
		12,967,526
Multiline Retail 0.1%		
Macy's, Inc., 5.90%, 12/01/2016	55,000	51,012
Neiman Marcus Group, Inc., 9.75%, 10/15/2015 @	366,576	326,253
Saks, Inc., 9.875%, 10/01/2011	125,000	127,500
		504,765
Specialty Retail 0.4%		
American Achievement Corp.:		
8.25%, 04/01/2012 144A	2,525,000	2,512,375
Sr. Disc. Note, Step Bond, 10.25%, 10/01/2012 †	205,000	198,850
		2,711,225
Textiles, Apparel & Luxury Goods 0.6%		
Oxford Industries, Inc., 11.375%, 07/15/2015	2,505,000	2,705,400
Visant Corp., 7.625%, 10/01/2012	1,495,000	1,511,819

		4,217,219
<hr/>		
CONSUMER STAPLES	2.0%	
Beverages	0.5%	
Anheuser-Busch InBev, 6.875%, 11/15/2019 144A	2,000,000	2,231,872
Cott Beverages, Inc., 8.00%, 12/15/2011	1,220,000	1,227,625
		<hr/>
		3,459,497
		<hr/>
Food Products	1.1%	
Del Monte Foods Co.:		
6.75%, 02/15/2015	25,000	25,062
7.50%, 10/15/2019 144A	1,790,000	1,825,800
See Notes to Financial Statements		

SCHEDULE OF INVESTMENTS continued

October 31, 2009

	Principal Amount	Value
CORPORATE BONDS continued		
CONSUMER STAPLES continued		
Food Products continued		
Dole Food Company, Inc.:		
8.00%, 10/01/2016 144A	\$660,000	\$671,550
13.875%, 03/15/2014 144A	1,625,000	1,909,375
Smithfield Foods, Inc.:		
7.00%, 08/01/2011	1,490,000	1,445,300
10.00%, 07/15/2014 144A	1,200,000	1,266,000
Tyson Foods, Inc.:		
7.85%, 04/01/2016	310,000	319,300
10.50%, 03/01/2014	60,000	68,700
		<hr/> 7,531,087 <hr/>
Tobacco 0.4%		
Altria Group, Inc., 10.20%, 02/06/2039	1,820,000	2,432,949
		<hr/>
ENERGY 7.6%		
Energy Equipment & Services 2.1%		
Basic Energy Services, Inc., 11.625%, 08/01/2014 144A	365,000	388,725
Bristow Group, Inc.:		
6.125%, 06/15/2013	110,000	106,150
7.50%, 09/15/2017	1,355,000	1,310,963
Forbes Energy Services, Ltd., 11.00%, 02/15/2015	2,935,000	2,472,737
GulfMark Offshore, Inc., 7.75%, 07/15/2014	1,500,000	1,470,000
Hercules Offshore, Inc., 10.50%, 10/15/2017 144A	660,000	660,000
Hornbeck Offshore Services, Inc.:		
8.00%, 09/01/2017 144A	1,605,000	1,596,975
Ser. B, 6.125%, 12/01/2014	1,785,000	1,660,050
Parker Drilling Co., 9.625%, 10/01/2013	884,000	897,260
PHI, Inc., 7.125%, 04/15/2013	2,040,000	1,968,600
Pride International, Inc., 8.50%, 06/15/2019	905,000	1,015,863
SEACOR Holdings, Inc., 7.375%, 10/01/2019	415,000	417,132
		<hr/> 13,964,455 <hr/>
Oil, Gas & Consumable Fuels 5.5%		
Alon Refining Krotz Springs, Inc., 13.50%, 10/15/2014 144A	1,135,000	1,078,250
Arch Coal, Inc., 8.75%, 08/01/2016 144A	45,000	46,350
Atlas Energy Resources, LLC, 12.125%, 08/01/2017	530,000	580,350

Chesapeake Energy Corp.:		
6.875%, 01/15/2016	4,930,000	4,782,100
9.50%, 02/15/2015	1,470,000	1,598,625
El Paso Corp.:		
7.42%, 02/15/2037	1,670,000	1,466,305
12.00%, 12/12/2013	445,000	511,750
Encore Acquisition Co., 6.00%, 07/15/2015	545,000	512,300
Exco Resources, Inc., 7.25%, 01/15/2011	2,970,000	2,970,000
See Notes to Financial Statements		

SCHEDULE OF INVESTMENTS continued

October 31, 2009

	Principal Amount	Value
CORPORATE BONDS continued		
ENERGY continued		
Oil, Gas & Consumable Fuels continued		
Ferrellgas Partners, LP:		
8.75%, 06/15/2012	\$450,000	\$452,250
9.125%, 10/01/2017 144A	290,000	304,500
Forest Oil Corp.:		
7.25%, 06/15/2019	975,000	914,063
8.50%, 02/15/2014 144A	660,000	673,200
Frontier Oil Corp., 6.625%, 10/01/2011	885,000	894,956
Holly Corp., 9.875%, 06/15/2017 144A	1,695,000	1,762,800
Murray Energy Corp., 10.25%, 10/15/2015 144A	500,000	497,500
Newfield Exploration Co., 6.625%, 04/15/2016	100,000	99,000
North American Energy Alliance, LLC, 10.875%, 06/01/2016 144A	50,000	52,250
Nustar Logistics, LP, 7.65%, 04/15/2018	1,090,000	1,204,352
Peabody Energy Corp.:		
5.875%, 04/15/2016	1,310,000	1,283,800
7.875%, 11/01/2026	2,650,000	2,597,000
Petrohawk Energy Corp.:		
7.875%, 06/01/2015	980,000	994,700
10.50%, 08/01/2014	495,000	542,025
Plains Exploration & Production Co., 8.625%, 10/15/2019	2,515,000	2,533,862
Range Resources Corp., 8.00%, 05/15/2019	50,000	52,125
Sabine Pass LNG, LP:		
7.25%, 11/30/2013	1,870,000	1,683,000
7.50%, 11/30/2016	2,135,000	1,814,750
SandRidge Energy, Inc., 8.00%, 06/01/2018 144A	55,000	54,725
Southwestern Energy Co., 7.50%, 02/01/2018	1,045,000	1,078,963
Tesoro Corp.:		
6.50%, 06/01/2017	445,000	400,500
7.50%, 07/17/2012	860,000	780,914
9.75%, 06/01/2019	700,000	722,750
Williams Cos.:		
7.50%, 01/15/2031	155,000	160,662
8.125%, 03/15/2012	440,000	479,507
8.75%, 01/15/2020	75,000	86,114
		<hr/>
		35,666,298
		<hr/>

FINANCIALS 9.4%**Capital Markets** 0.5%

E*TRADE Financial Corp.:

7.375%, 09/15/2013	435,000	391,500
12.50%, 11/30/2017	2,507,000	2,795,305
		<hr/>
		3,186,805
		<hr/>

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SCHEDULE OF INVESTMENTS continued

October 31, 2009

	Principal Amount	Value
CORPORATE BONDS continued		
FINANCIALS continued		
Commercial Banks 0.3%		
CapitalSource, Inc., 12.75%, 07/15/2014 144A	\$1,705,000	\$1,739,100
Zions Bancorp, 7.75%, 09/23/2014	220,000	197,092
		<hr/>
		1,936,192
		<hr/>
Consumer Finance 6.7%		
Calpine Construction Finance Corp., 8.00%, 06/01/2016 144A	60,000	61,200
CCH II Capital Corp., 10.25%, 09/15/2010 •	5,035,000	6,110,525
Discover Financial Services, 10.25%, 07/15/2019	785,000	922,180
Ford Motor Credit Co., LLC:		
8.70%, 10/01/2014	895,000	894,884
9.75%, 09/15/2010	2,718,000	2,786,879
9.875%, 08/10/2011	2,815,000	2,880,547
GMAC, LLC:		
6.75%, 12/01/2014 144A	1,298,000	1,190,915
6.875%, 09/15/2011 144A	1,839,000	1,783,830
6.875%, 08/28/2012 144A	1,844,000	1,761,020
7.00%, 02/01/2012 144A	262,000	252,830
7.50%, 12/31/2013 144A	2,715,000	2,538,525
7.75%, 01/19/2010 144A	2,970,000	2,977,425
8.00%, 12/31/2018 144A	2,822,000	2,342,260
8.00%, 11/01/2031	450,000	382,913
8.00%, 11/01/2031 144A	2,259,000	1,954,035
International Lease Finance Corp.:		
4.375%, 11/01/2009	615,000	615,000
4.75%, 01/13/2012	620,000	508,331
4.875%, 09/01/2010	1,205,000	1,152,743
5.125%, 11/01/2010	35,000	32,872
JBS USA Finance, Inc., 11.625%, 05/01/2014 144A	3,130,000	3,482,125
Nielsen Financial LLC, Co.:		
11.50%, 05/01/2016	10,000	10,675
Sr. Disc. Note, Step Bond, 0.00%, 08/01/2016 †	55,000	47,919
NiSource Finance Corp., 10.75%, 03/15/2016	3,090,000	3,684,834
Pinnacle Foods Finance, LLC, 10.625%, 04/01/2017	450,000	461,250
Sprint Capital Corp.:		
6.875%, 11/15/2028	5,085,000	3,839,175
7.625%, 01/30/2011	1,115,000	1,133,119
		<hr/>

		43,808,011
		<hr/>
Diversified Financial Services 0.8%		
Citigroup, Inc., 8.50%, 05/22/2019	205,000	240,031
Leucadia National Corp.:		
7.00%, 08/15/2013	480,000	487,200
7.125%, 03/15/2017	1,785,000	1,695,750
8.125%, 09/15/2015	2,655,000	2,701,463
		<hr/>
		5,124,444
		<hr/>

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SCHEDULE OF INVESTMENTS continued

October 31, 2009

	Principal Amount	Value
CORPORATE BONDS continued		
FINANCIALS continued		
Real Estate Investment Trusts (REITs) 0.9%		
Host Marriott Corp.:		
7.125%, 11/01/2013	\$810,000	\$810,000
9.00%, 05/15/2017 144A	235,000	252,625
Omega Healthcare Investors, Inc.:		
7.00%, 04/01/2014	965,000	948,112
7.00%, 01/15/2016	500,000	480,000
Potlatch Corp., 7.50%, 11/01/2019 144A	660,000	653,400
Ventas, Inc.:		
6.75%, 04/01/2017	953,000	919,645
7.125%, 06/01/2015	1,139,000	1,130,457
9.00%, 05/01/2012	555,000	584,138
		<hr/> 5,778,377 <hr/>
Thriffs & Mortgage Finance 0.2%		
Residential Capital, LLC, 8.50%, 05/15/2010	1,900,000	1,681,500
HEALTH CARE 2.5%		
Biotechnology 0.1%		
Talecris Biotherapeutics Holdings Corp., 7.75%, 11/15/2016 144A	580,000	593,050
Health Care Equipment & Supplies 0.1%		
Biomet, Inc.:		
10.375%, 10/15/2017 @	310,000	335,187
11.625%, 10/15/2017	315,000	346,894
		<hr/> 682,081 <hr/>
Health Care Providers & Services 2.0%		
Apria Healthcare Group, 11.25%, 11/01/2014 144A	1,040,000	1,131,000
HCA, Inc.:		
6.30%, 10/01/2012	440,000	433,400
7.875%, 02/01/2011	820,000	840,500
7.875%, 02/15/2020 144A	395,000	407,838
8.50%, 04/15/2019 144A	2,455,000	2,614,575
8.75%, 09/01/2010	1,101,000	1,125,772
9.25%, 11/15/2016	2,750,000	2,880,625
9.625%, 11/15/2016 @	1,331,000	1,415,851

Omnicare, Inc., 6.125%, 06/01/2013	1,240,000	1,196,600
Prospect Medical Holdings, Inc., 12.75%, 07/15/2014 144A	605,000	601,975
Symbion, Inc., 11.75%, 08/23/2015 @	362,317	277,173
		<hr/>
		12,925,309
		<hr/>
Life Sciences Tools & Services 0.2%		
Bio-Rad Laboratories, Inc.:		
7.50%, 08/15/2013	525,000	535,500
8.00%, 09/15/2016 144A	490,000	505,925
		<hr/>
		1,041,425
		<hr/>

See Notes to Financial Statements

SCHEDULE OF INVESTMENTS continued

October 31, 2009

	Principal Amount	Value
CORPORATE BONDS continued		
HEALTH CARE continued		
Pharmaceuticals 0.1%		
Pfizer, Inc., 5.35%, 03/15/2015	\$900,000	\$994,872
INDUSTRIALS 4.9%		
Aerospace & Defense 2.7%		
Alliant Techsystems, Inc., 6.75%, 04/01/2016	1,640,000	1,619,500
DAE Aviation Holdings, Inc., 11.25%, 08/01/2015 144A	375,000	309,375
Geo Group, Inc., 7.75%, 10/15/2017 144A	1,105,000	1,127,100
GeoEye, Inc., 9.625%, 10/01/2015 144A	220,000	228,250
Hexcel Corp., 6.75%, 02/01/2015	1,445,000	1,408,875
L-3 Communications Holdings, Inc.:		
5.20%, 10/15/2019 144A	50,000	50,187
5.875%, 01/15/2015	8,040,000	7,859,100
6.375%, 10/15/2015	2,394,000	2,376,045
Spirit AeroSystems Holdings, Inc., 7.50%, 10/01/2017 144A	440,000	438,900
TransDigm Group, Inc., 7.75%, 07/15/2014 144A	445,000	451,675
Vought Aircraft Industries, Inc., 8.00%, 07/15/2011	1,810,000	1,814,525
		<u>17,683,532</u>
Airlines 0.4%		
Delta Air Lines, Inc.:		
9.50%, 09/15/2014 144A	695,000	712,375
12.25%, 03/15/2015 144A	1,295,000	1,246,437
United Airlines, Inc., 10.40%, 05/01/2018	645,000	669,591
		<u>2,628,403</u>
Building Products 0.0%		
Associated Materials, LLC, 9.875%, 11/15/2016 144A	255,000	262,650
Commercial Services & Supplies 1.0%		
Allied Waste North America, Inc., 6.875%, 06/01/2017	320,000	339,702
Browning-Ferris Industries, Inc., 9.25%, 05/01/2021	1,675,000	2,048,915
Cornell Companies, Inc., 10.75%, 07/01/2012	160,000	164,000
Corrections Corporation of America:		
6.25%, 03/15/2013	1,125,000	1,125,000
6.75%, 01/31/2014	325,000	323,375
7.75%, 06/01/2017	1,220,000	1,262,700

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DigitalGlobe, Inc., 10.50%, 05/01/2014 144A	245,000	265,825
Interface, Inc., 11.375%, 11/01/2013 144A	250,000	271,250
Iron Mountain, Inc.:		
6.625%, 01/01/2016	535,000	525,637
7.75%, 01/15/2015	445,000	452,788
		<hr/>
		6,779,192
		<hr/>
Machinery 0.6%		
Commercial Vehicle Group, Inc., 13.00%, 02/15/2013 144A @ +	3,425,000	3,031,125
CPM Holdings, Inc., 10.625%, 09/01/2014 144A	645,000	677,250
		<hr/>
		3,708,375
		<hr/>

See Notes to Financial Statements

SCHEDULE OF INVESTMENTS continued

October 31, 2009

	Principal Amount	Value
CORPORATE BONDS continued		
INDUSTRIALS continued		
Road & Rail 0.1%		
Kansas City Southern:		
8.00%, 06/01/2015	\$55,000	\$56,650
13.00%, 12/15/2013	445,000	512,863
		<hr/> 569,513 <hr/>
Trading Companies & Distributors 0.1%		
United Rentals North America, Inc.:		
6.50%, 02/15/2012	490,000	486,325
10.875%, 06/15/2016 144A	60,000	65,400
		<hr/> 551,725 <hr/>
INFORMATION TECHNOLOGY 2.4%		
Communications Equipment 0.1%		
EchoStar Corp.:		
6.625%, 10/01/2014	340,000	332,350
7.75%, 05/31/2015	320,000	328,800
		<hr/> 661,150 <hr/>
Electronic Equipment, Instruments & Components 1.4%		
Anixter International, Inc., 10.00%, 03/15/2014	1,475,000	1,604,063
Da-Lite Screen Co., Inc., 9.50%, 05/15/2011	1,690,000	1,624,513
Jabil Circuit, Inc., 8.25%, 03/15/2018	5,345,000	5,705,787
Sanmina-SCI Corp., 8.125%, 03/01/2016	510,000	489,600
		<hr/> 9,423,963 <hr/>
Internet Software & Services 0.2%		
Terremark Worldwide, Inc., 12.00%, 06/15/2017 144A	1,390,000	1,542,900
IT Services 0.6%		
First Data Corp.:		
9.875%, 09/24/2015	240,000	222,600
10.55%, 09/24/2015	2,982,957	2,684,661
iPayment, Inc., 9.75%, 05/15/2014	825,000	606,375
Viasystems, Inc., 10.50%, 01/15/2011	475,000	477,375

		3,991,011
<hr/>		
Semiconductors & Semiconductor Equipment	0.1%	
National Semiconductor Corp., 6.60%, 06/15/2017	55,000	55,708
Spanion, Inc., 11.25%, 01/15/2016 144A •	280,000	239,400
		<hr/>
		295,108
<hr/>		
MATERIALS	3.9%	
Chemicals	1.4%	
Dow Chemical Co., 8.55%, 05/15/2019	1,095,000	1,252,170
Huntsman International, LLC, 5.50%, 06/30/2016 144A	1,055,000	917,850
Koppers Holdings, Inc., Sr. Disc. Note, Step Bond, 0.00%, 11/15/2014 †	2,805,000	2,819,025
See Notes to Financial Statements		

SCHEDULE OF INVESTMENTS continued

October 31, 2009

	Principal Amount	Value
CORPORATE BONDS continued		
MATERIALS continued		
Chemicals continued		
MacDermid, Inc., 9.50%, 04/15/2017 144A	\$228,000	\$216,600
Mosaic Co.:		
7.30%, 01/15/2028	1,895,000	1,956,587
7.625%, 12/01/2016 144A	1,685,000	1,814,843
Nalco Holding Co., 8.25%, 05/15/2017 144A	55,000	58,025
SOLUTIA, Inc., 8.75%, 11/01/2017	50,000	51,750
Tronox Worldwide, LLC, 9.50%, 12/01/2012 •	340,000	215,050
		<hr/> 9,301,900 <hr/>
Construction Materials 0.6%		
CPG International, Inc.:		
10.50%, 07/01/2013	1,730,000	1,479,150
FRN, 7.87%, 07/01/2012	745,000	629,525
CRH America, Inc., 8.125%, 07/15/2018	440,000	508,883
Headwaters, Inc., 11.375%, 11/01/2014 144A	625,000	629,687
Texas Industries, Inc., 7.25%, 07/15/2013	510,000	502,350
		<hr/> 3,749,595 <hr/>
Containers & Packaging 0.6%		
Exopack Holding Corp., 11.25%, 02/01/2014	2,190,000	2,233,800
Graham Packaging Co., 8.50%, 10/15/2012	1,540,000	1,559,250
Silgan Holdings, Inc., 7.25%, 08/15/2016 144A	440,000	448,800
		<hr/> 4,241,850 <hr/>
Metals & Mining 0.6%		
AK Steel Corp., 7.75%, 06/15/2012	485,000	488,637
Freeport-McMoRan Copper & Gold, Inc.:		
8.25%, 04/01/2015	1,855,000	1,991,660
8.375%, 04/01/2017	1,200,000	1,291,789
Indalex Holdings Corp., 11.50%, 02/01/2014 •	3,170,000	51,513
		<hr/> 3,823,599 <hr/>
Paper & Forest Products 0.7%		

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Clearwater Paper Corp., 10.625%, 06/15/2016 144A	545,000	596,775
Georgia Pacific Corp.:		
8.125%, 05/15/2011	800,000	836,000
8.25%, 05/01/2016 144A	60,000	63,900
8.875%, 05/15/2031	230,000	236,900
International Paper Co., 9.375%, 05/15/2019	1,455,000	1,764,313
NewPage Corp., 11.375%, 12/31/2014 144A	350,000	350,875
Verso Paper Holdings, LLC, 11.375%, 08/01/2016	723,000	473,565
		<hr/>
		4,322,328
		<hr/>

See Notes to Financial Statements

SCHEDULE OF INVESTMENTS continued

October 31, 2009

	Principal Amount	Value
CORPORATE BONDS continued		
TELECOMMUNICATION SERVICES 4.1%		
Diversified Telecommunication Services 2.1%		
Cincinnati Bell, Inc., 8.25%, 10/15/2017	\$535,000	\$530,987
Citizens Communications Co., 7.875%, 01/15/2027	1,720,000	1,586,700
FairPoint Communications, Inc., 13.125%, 04/01/2018 • Frontier Communications Corp.:	1,190,000	196,350
8.125%, 10/01/2018	1,760,000	1,775,400
8.25%, 05/01/2014	200,000	206,000
Global Crossing, Ltd., 12.00%, 09/15/2015 144A	230,000	247,825
Qwest Corp.:		
7.125%, 11/15/2043	795,000	608,175
7.25%, 09/15/2025	275,000	240,625
7.50%, 06/15/2023	1,370,000	1,263,825
7.875%, 09/01/2011	385,000	399,437
8.00%, 10/01/2015 144A	5,000	4,988
8.875%, 03/15/2012	5,040,000	5,329,800
SBA Telecommunications, Inc.:		
8.00%, 08/15/2016 144A	605,000	629,200
8.25%, 08/15/2019 144A	100,000	105,000
West Corp., 9.50%, 10/15/2014	65,000	65,325
Windstream Corp., 7.875%, 11/01/2017 144A	720,000	730,800
		13,920,437
Wireless Telecommunication Services 2.0%		
CC Holdings GS V, LLC, 7.75%, 05/01/2017 144A	60,000	63,300
Centennial Communications Corp., 8.125%, 02/01/2014	3,505,000	3,640,819
Cricket Communications, Inc.:		
7.75%, 05/15/2016 144A	1,045,000	1,047,612
9.375%, 11/01/2014	115,000	112,125
Crown Castle International Corp., 7.125%, 11/01/2019	75,000	74,063
iPCS, Inc., FRN, 3.73%, 05/01/2014 @	220,000	178,200
MetroPCS Communications, Inc., 9.25%, 11/01/2014	1,900,000	1,923,750
Sprint Nextel Corp.:		
6.90%, 05/01/2019	425,000	371,875
Ser. D, 7.375%, 08/01/2015	2,835,000	2,526,694
Ser. F, 5.95%, 03/15/2014	3,445,000	3,018,681
		12,957,119

UTILITIES 5.5%

Electric Utilities 3.2%

Aquila, Inc., Step Bond, 11.875%, 07/01/2012 ††	7,345,000	8,529,668
CMS Energy Corp.:		
8.50%, 04/15/2011	355,000	373,186
8.75%, 06/15/2019	245,000	270,928
Edison Mission Energy, 7.00%, 05/15/2017	60,000	48,750
Energy Future Holdings Corp., 11.25%, 11/01/2017 @	2,175,300	1,424,821
See Notes to Financial Statements		

SCHEDULE OF INVESTMENTS continued

October 31, 2009

	Principal Amount	Value
CORPORATE BONDS continued		
UTILITIES continued		
Electric Utilities continued		
Mirant Americas Generation, LLC, 8.50%, 10/01/2021	\$235,000	\$210,325
Mirant Mid-Atlantic, LLC, Ser. C, 10.06%, 12/30/2028	3,181,076	3,272,532
Mirant North America, LLC, 7.375%, 12/31/2013	1,010,000	999,900
NRG Energy, Inc.:		
7.25%, 02/01/2014	510,000	507,450
8.50%, 06/15/2019	1,200,000	1,221,000
Orion Power Holdings, Inc., 12.00%, 05/01/2010	3,735,000	3,875,062
Public Service Company of New Mexico, 7.95%, 04/01/2015	130,000	133,083
		<hr/> 20,866,705 <hr/>
Gas Utilities 0.4%		
National Fuel Gas Co., 8.75%, 05/01/2019	2,000,000	2,367,320
		<hr/>
Independent Power Producers & Energy Traders 1.4%		
AES Corp.:		
8.00%, 06/01/2020	50,000	50,250
8.875%, 02/15/2011	1,145,000	1,185,075
Dynegy Holdings, Inc.:		
6.875%, 04/01/2011	1,035,000	1,047,937
7.125%, 05/15/2018	835,000	638,775
7.625%, 10/15/2026	1,130,000	774,050
Reliant Energy, Inc.:		
6.75%, 12/15/2014	3,872,000	3,959,120
7.625%, 06/15/2014	1,880,000	1,842,400
7.875%, 06/15/2017	50,000	49,250
		<hr/> 9,546,857 <hr/>
Multi-Utilities 0.5%		
PNM Resources, Inc., 9.25%, 05/15/2015	555,000	575,813
Texas-New Mexico Power Co., 9.50%, 04/01/2019 144A	2,110,000	2,589,168
		<hr/> 3,164,981 <hr/>
<i>Total Corporate Bonds (cost \$312,594,944)</i>		<hr/> 324,825,556 <hr/>

FOREIGN BONDS – CORPORATE (PRINCIPAL AMOUNT DENOMINATED IN CURRENCY INDICATED) 13.4%

CONSUMER DISCRETIONARY 0.4%

Media 0.1%

Central European Media Enterprises, Ltd.:

11.625%, 09/15/2016 EUR

450,000

645,687

Class A, FRN, 3.10%, 05/15/2014 EUR

250,000

270,416

916,103

Multiline Retail 0.3%

Marks & Spencer Group plc, 6.375%, 11/07/2011 GBP

1,000,000

1,728,806

See Notes to Financial Statements

SCHEDULE OF INVESTMENTS continued

October 31, 2009

	Principal Amount	Value
FOREIGN BONDS – CORPORATE (PRINCIPAL AMOUNT DENOMINATED IN CURRENCY INDICATED) continued		
CONSUMER STAPLES 1.2%		
Beverages 0.1%		
Canandaigua Brands, Inc., 8.50%, 11/15/2009 GBP	350,000	\$578,027
Food & Staples Retailing 0.1%		
McDonald's Corp., 4.25%, 06/10/2016 EUR	700,000	1,067,213
Tobacco 1.0%		
British American Tobacco plc, 5.50%, 09/15/2016 GBP	750,000	1,269,888
Imperial Tobacco Group plc, 8.375%, 02/17/2016 EUR	3,000,000	5,230,129
		6,500,017
FINANCIALS 7.5%		
Capital Markets 0.1%		
Morgan Stanley, 5.375%, 11/14/2013 GBP	560,000	935,487
Commercial Banks 3.7%		
Eurofima, 6.25%, 12/28/2018 AUD	2,450,000	2,126,929
European Investment Bank:		
3.125%, 04/15/2014 EUR	1,900,000	2,853,891
4.25%, 10/15/2014 EUR	3,000,000	4,715,063
6.125%, 01/23/2017 AUD	8,530,000	7,591,960
Instituto de Credito Oficial, 4.375%, 05/23/2012 EUR	3,800,000	5,915,999
KfW Bankengruppe, 4.50%, 03/26/2013 AUD	995,000	863,066
Rabobank Australia, Ltd., 6.25%, 11/22/2011 NZD	725,000	534,127
		24,601,035
Consumer Finance 1.5%		
British American Tobacco Finance plc, 5.375%, 06/29/2017 EUR	1,400,000	2,189,293
HSBC Finance Corp., 7.00%, 03/27/2012 GBP	370,000	649,028
ISS Financing plc, 11.00%, 06/15/2014 EUR	450,000	726,734
Toyota Motor Credit Corp., 8.50%, 12/21/2010 NZD	5,460,000	4,089,514
Virgin Media Finance plc, 8.75%, 04/15/2014 EUR	940,000	1,424,852
Wind Acquisition Finance SpA, 9.75%, 12/01/2015 EUR	300,000	479,022
		9,558,443

Diversified Financial Services 0.7%

FMG Finance Property, Ltd., 9.75%, 09/01/2013 EUR	2,115,000	3,182,574
General Electric Capital Corp., 7.625%, 12/10/2014 NZD	2,000,000	1,489,965

4,672,539

Insurance 0.5%

AIG SunAmerica, Inc., 5.625%, 02/01/2012 GBP	2,000,000	3,105,244
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Thriffs & Mortgage Finance 1.0%

Realkredit Danmark, 2.00%, 01/01/2013 DKK	34,520,000	6,631,649
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See Notes to Financial Statements

SCHEDULE OF INVESTMENTS continued

October 31, 2009

	Principal Amount	Value
FOREIGN BONDS – CORPORATE (PRINCIPAL AMOUNT DENOMINATED IN CURRENCY INDICATED) continued		
HEALTH CARE 0.3%		
Pharmaceuticals 0.3%		
Pfizer, Inc., 4.75%, 06/03/2016 EUR	1,200,000	\$1,872,591
INDUSTRIALS 0.8%		
Aerospace & Defense 0.3%		
Bombardier, Inc., 7.25%, 11/15/2016 EUR	1,430,000	2,146,550
Commercial Services & Supplies 0.2%		
Iron Mountain, Inc., 6.75%, 10/15/2018 EUR	600,000	874,161
Machinery 0.3%		
Harsco Corp., 7.25%, 10/27/2010 GBP	1,000,000	1,698,429
Savcio Holdings, Ltd., 8.00%, 02/15/2013 EUR	250,000	351,356
		2,049,785
MATERIALS 0.9%		
Chemicals 0.4%		
Huntsman, LLC, 6.875%, 11/15/2013 EUR	465,000	622,729
Nalco Holdings Co., 7.75%, 11/15/2011 EUR	600,000	887,405
Rockwood Specialties Group, Inc., 7.625%, 11/15/2014 EUR	800,000	1,197,924
		2,708,058
Containers & Packaging 0.3%		
Owens-Illinois European Group BV, 6.875%, 03/31/2017 EUR	900,000	1,297,996
Pregis Corp., FRN, 5.74%, 04/15/2013 EUR	300,000	400,105
		1,698,101
Metals & Mining 0.2%		
New World Resources NV, 7.375%, 05/15/2015 EUR	1,000,000	1,372,315
TELECOMMUNICATION SERVICES 1.2%		
Diversified Telecommunication Services 1.2%		
France Telecom:		
4.75%, 02/21/2017 EUR	2,000,000	3,108,174
7.25%, 01/28/2013 EUR	1,850,000	3,090,205

Nordic Telephone Co., 8.25%, 05/01/2016 EUR	900,000	1,403,955
		<hr/>
		7,602,334
		<hr/>
UTILITIES 1.1%		
Multi-Utilities 1.1%		
National Grid plc, 4.375%, 03/10/2020 EUR	3,000,000	4,292,199
Veolia Environnement SA, 4.00%, 02/12/2016 EUR	2,000,000	2,943,055
		<hr/>
		7,235,254
		<hr/>
<i>Total Foreign Bonds – Corporate (Principal Amount Denominated in Currency Indicated) (cost \$ 82,459,523)</i>		87,853,712
		<hr/>
See Notes to Financial Statements		

SCHEDULE OF INVESTMENTS continued

October 31, 2009

	Principal Amount	Value
FOREIGN BONDS – GOVERNMENT (PRINCIPAL AMOUNT DENOMINATED IN CURRENCY INDICATED) 17.4%		
Caisse d'Amortissement de la Dette Sociale, 4.125%, 04/25/2017 EUR	4,880,000	\$7,656,558
Canada, 4.25%, 06/01/2018 CAD	9,800,000	9,714,865
Denmark:		
4.00%, 11/15/2015 DKK	24,500,000	5,061,662
4.00%, 11/15/2017 DKK	24,750,000	5,079,954
France, 2.25%, 07/25/2020 EUR	6,511,080	10,229,044
Germany, 4.25%, 07/04/2039 EUR	5,850,000	8,993,445
Italy, 4.25%, 09/01/2019 EUR	2,400,000	3,632,393
Korea:		
5.25%, 09/10/2015 KRW	2,850,000,000	2,437,751
5.25%, 03/10/2027 KRW	4,635,000,000	3,791,220
Malaysia, 3.83%, 09/28/2011 MYR	20,900,000	6,270,882
Mexico, 9.50%, 12/18/2014 MXN	73,625,000	6,066,761
Netherlands:		
3.75%, 01/15/2023 EUR	1,475,000	2,143,117
4.00%, 01/15/2037 EUR	4,350,000	6,282,604
New Zealand, 6.00%, 12/15/2017 NZD	6,610,000	4,829,509
Norway, 4.25%, 05/19/2017 NOK	59,780,000	10,669,413
Poland, 5.25%, 04/25/2013 PLN	14,350,000	4,952,179
Slovenia, 4.625%, 09/09/2024 EUR	1,425,000	2,117,444
Spain, 4.80%, 01/31/2024 EUR	2,600,000	4,066,794
Sweden, 3.75%, 08/12/2017 SEK	70,000,000	10,295,905
<i>Total Foreign Bonds – Government (Principal Amount Denominated in Currency Indicated) (cost \$110,944,175)</i>		<u>114,291,500</u>
WHOLE LOAN MORTGAGE-BACKED PASS THROUGH SECURITIES 2.3%		
FIXED-RATE 0.9%		
Bear Stearns Securities Trust, Ser. 2007, Class AM, 5.92%, 06/11/2050	\$2,290,000	1,796,429
Countrywide Alternative Loan Trust, Inc., Ser. 2005-50CB, Class 1A1, 5.50%, 11/25/2035	859,616	691,644
Credit Suisse Comml. Mtge. Trust, Ser. 2007-C5, Class A4, 5.70%, 09/15/2040	1,415,000	1,173,538
Greenwich Capital Comml. Funding Corp., Ser. 2007-GG11, Class AM, 5.87%, 08/10/2017	2,920,000	2,277,267

5,938,878

FLOATING-RATE 1.4%

American Home Mtge. Assets:

Ser. 2006-2, Class 1A1, 1.72%, 09/25/2046	3,762,388	2,021,976
Ser. 2007-1, Class A1, 1.46%, 02/25/2047	757,927	350,776
Banc of America Comml. Mtge., Inc., Ser. 2007-04, Class A4, 5.94%, 02/10/2051	3,654,000	3,404,892
GSR Mtge. Loan Trust, Ser. 2007-AR1, Class 2A1, 5.96%, 03/25/2037	1,637,111	1,129,211

See Notes to Financial Statements

SCHEDULE OF INVESTMENTS continued

October 31, 2009

	Principal Amount	Value
WHOLE LOAN MORTGAGE-BACKED PASS THROUGH SECURITIES continued		
FLOATING-RATE continued		
Lehman XS Trust, Ser. 2006-18N, Class A5A, 0.41%, 12/25/2036	\$4,135,000	\$1,578,247
Washington Mutual, Inc. Mtge. Pass-Through Cert., Ser. 2006-AR09, Class 2A, 1.60%, 11/25/2046	1,267,044	551,848
		<u>9,036,950</u>
<i>Total Whole Loan Mortgage-Backed Pass Through Securities (cost \$14,949,976)</i>		<u>14,975,828</u>
YANKEE OBLIGATIONS – CORPORATE 9.4%		
CONSUMER DISCRETIONARY 0.1%		
Media 0.1%		
MDC Partners, Inc., 11.00%, 11/01/2016 144A	160,000	160,800
UPC Holdings BV, 9.875%, 04/15/2018 144A	20,000	21,250
Videotron, Ltd.:		
9.125%, 04/15/2018 144A	50,000	54,375
9.125%, 04/15/2018	85,000	92,438
		<u>328,863</u>
ENERGY 1.5%		
Oil, Gas & Consumable Fuels 1.5%		
Connacher Oil & Gas, Ltd.:		
10.25%, 12/15/2015 144A	1,695,000	1,466,175
11.75%, 07/15/2014 144A	625,000	684,375
Griffin Coal Mining Co., Ltd., 9.50%, 12/01/2016 144A	5,125,000	4,176,875
Mexichem SAB de CV, 8.75%, 11/06/2019	1,560,000	1,560,000
OPTI Canada, Inc.:		
7.875%, 12/15/2014	2,530,000	1,986,050
8.25%, 12/15/2014	415,000	327,850
		<u>10,201,325</u>
FINANCIALS 2.1%		
Commercial Banks 0.3%		
KfW Bankengruppe, 4.875%, 06/17/2019	2,000,000	2,177,352
Consumer Finance 0.7%		

Petrobras International Finance Co., 5.75%, 01/20/2020	2,150,000	2,164,223
Petroplus Finance, Ltd., 6.75%, 05/01/2014 144A	80,000	75,200
Virgin Media Finance plc, 9.125%, 08/15/2016	100,000	103,500
Wind Acquisition Finance SA, 11.75%, 07/15/2017 144A	1,965,000	2,230,275
		<hr/>
		4,573,198
		<hr/>

Diversified Financial Services 1.1%

Dexus Finance Property Group, Ltd., 7.125%, 10/15/2014 144A	1,060,000	1,061,864
FMG Finance Property, Ltd.:		
10.625%, 09/01/2016 144A	3,215,000	3,544,537
FRN, 4.36%, 09/01/2011 144A	545,000	545,681
See Notes to Financial Statements		

SCHEDULE OF INVESTMENTS continued

October 31, 2009

	Principal Amount	Value
YANKEE OBLIGATIONS – CORPORATE continued		
FINANCIALS continued		
Diversified Financial Services continued		
Preferred Term Securities XII, Ltd., FRN, 0.99%, 12/24/2033 • +	\$635,000	\$5,601
Ship Finance International, Ltd., 8.50%, 12/15/2013	2,225,000	2,124,875
		<hr/> 7,282,558 <hr/>
HEALTH CARE 0.0%		
Pharmaceuticals 0.0%		
Elan Corporation plc, 8.75%, 10/15/2016 144A	80,000	74,300
INDUSTRIALS 1.2%		
Road & Rail 1.2%		
Kansas City Southern de Mexico: 7.375%, 06/01/2014	4,875,000	4,631,250
12.50%, 04/01/2016 144A	480,000	541,200
Tfm de CV, 9.375%, 05/01/2012	2,215,000	2,270,375
		<hr/> 7,442,825 <hr/>
Transportation Infrastructure 0.0%		
Navios Maritime Holdings, Inc., 8.875%, 11/01/2017 144A	150,000	153,000
MATERIALS 3.0%		
Chemicals 0.1%		
NOVA Chemicals Corp.: 8.375%, 11/01/2016 144A	475,000	482,719
8.625%, 11/01/2019 144A	515,000	523,369
		<hr/> 1,006,088 <hr/>
Metals & Mining 1.8%		
ArcelorMittal SA, 9.85%, 06/01/2019	1,560,000	1,841,486
Evrax Group SA: 8.875%, 04/24/2013	480,000	466,800
8.875%, 04/24/2013 144A	1,380,000	1,357,575
Novelis, Inc., 7.25%, 02/15/2015	2,655,000	2,396,137
Teck Resources, Ltd.: 9.75%, 05/15/2014	885,000	997,838
10.75%, 05/15/2019	1,855,000	2,170,350

Vedanta Resources plc, 9.50%, 07/18/2018 144A	2,420,000	2,426,050
		<hr/>
		11,656,236
		<hr/>
Paper & Forest Products 1.1%		
Cascades, Inc., 7.25%, 02/15/2013	885,000	869,512
Fibria, 9.25%, 10/30/2019 144A	2,115,000	2,199,600
PE Paper Escrow GmbH, 12.00%, 08/01/2014 144A	685,000	751,439
Sappi, Ltd.:		
6.75%, 06/15/2012 144A	1,190,000	1,110,964
7.50%, 06/15/2032 144A	3,340,000	2,028,669
		<hr/>
		6,960,184
		<hr/>

See Notes to Financial Statements

SCHEDULE OF INVESTMENTS continued

October 31, 2009

	Principal Amount	Value
YANKEE OBLIGATIONS – CORPORATE continued		
TELECOMMUNICATION SERVICES 1.3%		
Wireless Telecommunication Services 1.3%		
Inmarsat, plc, Sr. Disc. Note, Step Bond, 10.375%, 11/15/2012 †	\$1,185,000	\$1,229,438
Intelsat, Ltd.:		
8.50%, 01/15/2013	2,495,000	2,516,831
8.50%, 11/01/2019 144A	850,000	854,250
8.875%, 01/15/2015 144A	105,000	105,919
8.875%, 01/15/2015	234,000	237,218
11.25%, 06/15/2016	240,000	256,800
Millicom International Cellular SA, 10.00%, 12/01/2013	260,000	270,075
Telesat Canada, Inc., 11.00%, 11/01/2015	905,000	986,450
Vimpel Communications:		
8.375%, 04/30/2013 144A	45,000	46,406
9.125%, 04/30/2018 144A	1,815,000	1,901,212
		<u>8,404,599</u>
UTILITIES 0.2%		
Electric Utilities 0.2%		
E.ON AG, 5.80%, 04/30/2018	1,000,000	1,094,653
InterGen NV, 9.00%, 06/30/2017 144A	185,000	193,325
		<u>1,287,978</u>
<i>Total Yankee Obligations – Corporate (cost \$54,751,434)</i>		<u>61,548,506</u>

	Shares	Value
COMMON STOCKS 0.4%		
CONSUMER DISCRETIONARY 0.4%		
Auto Components 0.4%		
Metaldyne Corp., Class A + o **	4,055	587,975
Metaldyne Corp., Class B + o **	14,273	2,426,410
<i>Total Common Stocks (cost \$4,361,359)</i>		<u>3,014,385</u>

	Principal Amount	Value
CONVERTIBLE DEBENTURES 0.1%		
INFORMATION TECHNOLOGY 0.1%		
Communications Equipment 0.1%		
Lucent Technologies, Inc., 2.875%, 06/15/2025 (cost \$270,223)	\$565,000	470,362
LOANS 5.7%		
CONSUMER DISCRETIONARY 1.5%		
Abitibi Consolidated, Inc., FRN, 11.00%, 03/30/2010 •	776,355	636,611
Cooper Standard Automotive, Ltd., N/A, 12/23/2011 • <	450,000	415,084
See Notes to Financial Statements		

SCHEDULE OF INVESTMENTS continued

October 31, 2009

	Principal Amount	Value
LOANS continued		
CONSUMER DISCRETIONARY continued		
Fontainebleau Resorts, LLC, FRN, 0.28%, 06/06/2014 •	\$861,924	\$244,803
Ford Motor Co., FRN, 3.25%-3.29%, 12/15/2013	1,279,141	1,128,599
Metaldyne Corp., FRN, 12.25%, 04/09/2014 <	2,219,999	2,226,726
MGM Mirage, N/A, 10/03/2011 <	760,693	685,316
Newsday, LLC, 9.75%, 07/15/2013	2,755,000	2,900,051
Sugarhouse HSP Gaming Properties, LP, FRN, 11.25%, 09/11/2014	1,215,000	1,192,656
Tower Automotive Holdings, FRN, 4.50%-4.625%, 07/31/2013	393,985	139,865
Tropicana Entertainment, LLC, FRN, 2.78%, 01/03/2012 •	1,970,000	640,270
		<hr/> 10,209,981 <hr/>
CONSUMER STAPLES 0.5%		
Merisant Co., FRN, 3.75%, 01/11/2010 •	3,678,264	3,200,126
ENERGY 0.6%		
Saint Acquisition Corp., FRN, 3.56%, 06/05/2014 <	986,921	844,893
Semgroup Energy Partners, FRN, 8.25%, 07/20/2012	2,925,000	2,861,937
		<hr/> 3,706,830 <hr/>
FINANCIALS 0.3%		
CIT Group, Inc., FRN, 13.00%, 01/18/2012	890,000	923,259
Realogy Corp., FRN: 3.25%, 09/01/2014	281,149	236,376
3.29%, 09/01/2014	1,044,268	877,969
		<hr/> 2,037,604 <hr/>
HEALTH CARE 0.1%		
HCA, Inc., FRN, 1.78%, 11/18/2012	785,680	729,716
INDUSTRIALS 0.5%		
Commercial Vehicle Group, Inc., 15.00%, 02/15/2013	2,246,048	2,104,322
Neff Corp., FRN: 3.78%, 11/30/2014	4,910,000	957,450
3.80%, 05/31/2013 <	613,750	490,485
		<hr/> 3,552,257 <hr/>

MATERIALS 1.8%

LyondellBasell, FRN:		
3.74%, 12/20/2013 <	554,250	312,925
3.99%, 12/22/2014 • <	336,453	189,759
5.80%-6.56%, 12/15/2009 <	6,376,878	6,026,213
7.00%, 12/20/2013 <	1,459,959	823,416
13.00%, 12/15/2009 <	4,183,581	4,307,039
		<hr/>
		11,659,352
		<hr/>

TELECOMMUNICATION SERVICES 0.3%

FairPoint Communications, Inc., FRN, 5.75%, 03/08/2015 •	2,075,398	1,735,303
		<hr/>

See Notes to Financial Statements

SCHEDULE OF INVESTMENTS continued

October 31, 2009

	Principal Amount	Value
LOANS continued		
UTILITIES 0.1%		
Scorpion Holding Co., Ltd., FRN, 7.78%, 05/08/2014	\$775,000	\$709,047
<i>Total Loans (cost \$39,858,364)</i>		<u>37,540,216</u>
<hr/>		
	Shares	Value
CLOSED END MUTUAL FUND SHARES 0.4%		
Dreyfus High Yield Strategies Fund, Inc.	216,382	750,845
Eaton Vance Limited Duration Income Trust	53,764	746,244
ING Prime Rate Trust	12,336	61,927
LMP Corporate Loan Fund, Inc.	16,391	157,026
New America High Income Fund, Inc.	99,690	830,418
<i>Total Closed End Mutual Fund Shares (cost \$1,623,072)</i>		<u>2,546,460</u>
SHORT-TERM INVESTMENTS 6.6%		
MUTUAL FUND SHARES 6.6%		
Evergreen Institutional Money Market Fund, Class I, 0.09% q ø ## (cost \$43,654,613)	43,654,613	43,654,613
Total Investments (cost \$849,154,618) 134.2%		<u>881,126,577</u>
Other Assets and Liabilities and Preferred Shares (34.2%)		<u>(224,722,546)</u>
Net Assets Applicable to Common Shareholders 100.0%		<u>\$656,404,031</u>

μ All or a portion of this security has been segregated as collateral for reverse repurchase agreements.
144A Security that may be sold to qualified institutional buyers under Rule 144A of the Securities Act of 1933, as amended. This security has been determined to be liquid under guidelines established by the Board of Trustees, unless otherwise noted.

When-issued or delayed delivery security

†† The rate shown is the stated rate at the current period end.

@ Security is currently paying interest in-kind.

† Security initially issued in zero coupon form which converts to coupon form at a specified rate and date. An effective interest rate is applied to recognize interest income daily for the bond. This rate is based on total expected interest to be earned over the life of the bond which consists of the aggregate

coupon-interest payments and discount at acquisition. The rate shown is the stated rate at the current period end.

- Security which has defaulted on payment of interest and/or principal. The Fund has stopped accruing interest on this security.
- + Security is deemed illiquid.
- o Security is valued at fair value as determined by the investment advisor in good faith, according to procedures approved by the Board of Trustees.
- ** Restricted security
- < All or a portion of the position represents an unfunded loan commitment.
- q Rate shown is the 7-day annualized yield at period end.
- ∅ Evergreen Investment Management Company, LLC is the investment advisor to both the Fund and the money market fund.
- ## All or a portion of this security has been segregated for when-issued, delayed delivery securities and/or unfunded loans.

See Notes to Financial Statements

SCHEDULE OF INVESTMENTS continued

October 31, 2009

Summary of Abbreviations

AUD	Australian Dollar
CAD	Canadian Dollar
DKK	Danish Krone
EUR	Euro
FHLB	Federal Home Loan Bank
FHLMC	Federal Home Loan Mortgage Corp.
FNMA	Federal National Mortgage Association
FRN	Floating Rate Note
GBP	Great British Pound
GNMA	Government National Mortgage Association
KRW	Republic of Korea Won
MXN	Mexican Peso
MYR	Malaysian Ringgit
NOK	Norwegian Krone
NZD	New Zealand Dollar
PLN	Polish Zloty
SEK	Swedish Krona

The following table shows the percentage of total long-term investments by geographic location as of October 31, 2009:

United States	71.2	%
France	3.2	%
Luxembourg	2.8	%
Canada	2.6	%
United Kingdom	2.3	%
Denmark	2.2	%
Mexico	1.8	%
Netherlands	1.6	%
Germany	1.4	%
Norway	1.3	%
Sweden	1.2	%
Spain	1.2	%
Australia	1.1	%
Cayman Islands	0.9	%
Bermuda	0.9	%
Malaysia	0.7	%
South Korea	0.7	%
Poland	0.6	%
New Zealand	0.6	%
Austria	0.5	%
Italy	0.4	%
Switzerland	0.3	%

Slovenia	0.3	%
Ireland	0.2	%
	<u>100.0</u>	%

The following table shows the percent of total bonds by credit quality based on Moody's and Standard & Poor's ratings as of October 31, 2009 (unaudited):

AAA	39.0	%
AA	2.6	%
A	5.0	%
BBB	9.1	%
BB	18.0	%
B	15.6	%
CCC	5.2	%
Less than CCC	3.0	%
NR	2.5	%
	<u>100.0</u>	%

The following table shows the percent of total bonds based on effective maturity as of October 31, 2009 (unaudited):

Less than 1 year	10.7	%
1 to 3 year(s)	10.8	%
3 to 5 years	26.4	%
5 to 10 years	42.5	%
10 to 20 years	6.7	%
20 to 30 years	2.8	%
Greater than 30 years	0.1	%
	<u>100.0</u>	%

See Notes to Financial Statements

STATEMENT OF ASSETS AND LIABILITIES

October 31, 2009

Assets

Investments in unaffiliated issuers, at value (cost \$805,500,005)	\$837,471,964
Investments in affiliated issuers, at value (cost \$43,654,613)	43,654,613
<hr/>	
Total investments	881,126,577
Cash	3,435,026
Segregated cash	1,070,000
Foreign currency, at value (cost \$2,009,271)	1,996,375
Receivable for securities sold	7,903,862
Principal paydown receivable	815,501
Interest receivable	14,527,602
Unrealized gains on credit default swap transactions	340,290
Unrealized gains on forward foreign currency exchange contracts	3,171,483
Premiums paid on credit default swap transactions	176,147
Prepaid structuring fee (See Note 4)	1,656,989
<hr/>	
Total assets	916,219,852

Liabilities

Dividends payable applicable to common shareholders	4,554,707
Payable for securities purchased	19,334,474
Unrealized losses on credit default swap transactions	377,722
Unrealized losses on forward foreign currency exchange contracts	1,868,740
Premiums received on credit default swap transactions	1,020,610
Payable for reverse repurchase agreements	100,280,782
Secured borrowing payable	49,978,610
Payable to investment advisor (See Note 4)	1,600,000
Advisory fee payable	123,835
Due to other related parties	31,418
Accrued expenses and other liabilities	609,865
<hr/>	
Total liabilities	179,780,763

Preferred shares at redemption value

\$25,000 liquidation value per share applicable to 3,200 shares, including dividends payable of \$35,058	80,035,058
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Net assets applicable to common shareholders	\$656,404,031
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Net assets applicable to common shareholders represented by

Paid-in capital	\$780,363,049
Overdistributed net investment income	(4,621,347)
Accumulated net realized losses on investments	(152,723,633)
Net unrealized gains on investments	33,385,962

Net assets applicable to common shareholders	\$656,404,031
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Net asset value per share applicable to common shareholders

Based on \$656,404,031 divided by 42,055,000 common shares issued and outstanding
(100,000,000 common shares authorized)

\$15.61

See Notes to Financial Statements

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STATEMENT OF OPERATIONS

Year Ended October 31, 2009

Investment income

Interest (net of foreign withholding taxes of \$13,075)	\$64,617,700
Income from affiliated issuers	354,216
Dividends	191,445
Securities lending	81,627

Total investment income	65,244,988
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Expenses

Advisory fee	4,618,701
Administrative services fee	419,882
Transfer agent fees	34,803
Trustees' fees and expenses	24,037
Printing and postage expenses	161,974
Custodian and accounting fees	271,582
Professional fees	159,250
Secured borrowing fees	8,755,400
Auction agent fees	203,447
Interest expense	2,672,587
Other	69,429

Total expenses	17,391,092
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Less: Fee waivers and expense reimbursements	(8,211,894)
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Net expenses	9,179,198
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Net investment income	56,065,790
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Net realized and unrealized gains or losses on investments

Net realized gains or losses on:	
Securities in unaffiliated issuers	(105,494,692)
Foreign currency related transactions	21,251,291
Futures contracts	(1,129,141)
Interest rate swap transactions	(19,026)
Credit default swap transactions	2,661,785

Net realized losses on investments	(82,729,783)
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Net change in unrealized gains or losses on:	
--	--

Securities in unaffiliated issuers	237,592,597
Foreign currency related transactions	(18,031,582)
Futures contracts	137,457
Interest rate swap transactions	18,968
Credit default swap transactions	(9,520)

Net change in unrealized gains or losses on investments	219,707,920
Net realized and unrealized gains or losses on investments	136,978,137
Dividends to preferred shareholders from net investment income	(1,398,858)
Net increase in net assets applicable to common shareholders resulting from operations	\$191,645,069

See Notes to Financial Statements

STATEMENTS OF CHANGES IN NET ASSETS

	Year Ended October 31,	
	2009	2008
Operations		
Net investment income	\$56,065,790	\$70,646,241
Net realized losses on investments	(82,729,783)	(15,060,613)
Net change in unrealized gains or losses on investments	219,707,920	(209,925,391)
Dividends to preferred shareholders from net investment income	(1,398,858)	(12,409,243)
Net increase (decrease) in net assets applicable to common shareholders resulting from operations	191,645,069	(166,749,006)
Distributions to common shareholders from		
Net investment income	(92,405,516)	(54,654,678)
Tax basis return of capital	(9,350,761)	0
Total distributions to common shareholders	(101,756,277)	(54,654,678)
Total increase (decrease) in net assets applicable to common shareholders	89,888,792	(221,403,684)
Net assets applicable to common shareholders		
Beginning of period	566,515,239	787,918,923
End of period	\$656,404,031	\$566,515,239
Undistributed (overdistributed) net investment income	\$(4,621,347)	\$26,192,133

See Notes to Financial Statements

STATEMENT OF CASH FLOWS

October 31, 2009

Cash flows from operating activities:

Net increase in net assets resulting from operations	\$ 191,645,069
Adjustments to reconcile net increase in net assets from operations to net cash provided by operating activities:	
Purchase of investment securities	(913,634,928)
Proceeds from sales of securities	1,068,450,094
Paydowns	35,748,359
Amortization	(9,857,568)
Swap payments received	2,732,101
Preferred Share distributions	1,398,858
Sale of short-term investment securities, net	(5,340,473)
Decrease in dividends and interest receivable	6,679,583
Decrease in receivable for securities sold	4,179,284
Decrease in principal paydown receivable	188,680
Decrease in receivable for daily variation margin on open futures contracts	23,984
Increase in premiums paid on credit default swap transactions	(176,147)
Amortization of prepaid structuring fee	1,063,743
Decrease in receivable for securities lending income	309
Increase in segregated cash	332,000
Decrease in other assets	18,225
Decrease in payable for securities purchased	(894,161)
Decrease in payable for securities on loan	(4,714,744)
Increase in premiums received on credit default swap transactions	640,167
Increase in advisory fee payable	87,956
Increase in due to other related parties	27,514
Increase in accrued expenses and other liabilities	84,645
Unrealized appreciation on securities	(237,592,597)
Unrealized appreciation on swaps	(9,448)
Unrealized appreciation on futures	(137,457)
Unrealized depreciation on foreign currency related transactions	18,031,582
Net realized gain on swaps	(2,642,759)
Net realized loss on securities	105,494,692
<hr/>	
Net cash provided by operating activities	261,826,563

Cash flows from financing activities:

Cash distributions paid on preferred shares	(1,471,589)
Cash distributions paid on common shares	(101,756,277)
Increase in reverse repurchase agreements	100,280,782
Decrease in payable to investment advisor for structuring fee	(1,066,667)
Decrease in secured borrowing	(250,984,720)
<hr/>	
Net cash used in financing activities	(254,998,471)

Net increase in cash	6,828,092
<hr/>	
Cash (including foreign currency):	
Beginning of period	\$(1,396,691)
<hr/>	
End of period	\$5,431,401
<hr/>	
Supplemental cash disclosure:	
Cash paid for interest	\$3,355,136
<hr/>	

See Notes to Financial Statements

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NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION

Evergreen Multi-Sector Income Fund (the “Fund”) was organized as a statutory trust under the laws of the state of Delaware on April 10, 2003 and is registered as a diversified closed-end management investment company under the Investment Company Act of 1940, as amended. The primary investment objective of the Fund is to seek a high level of current income consistent with its overall exposure to domestic interest rate risk.

2. SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements. The policies are in conformity with generally accepted accounting principles in the United States of America, which require management to make estimates and assumptions that affect amounts reported herein. Actual results could differ from these estimates. Management has considered the circumstances under which the Fund should recognize or make disclosures regarding events or transactions occurring subsequent to the balance sheet date through December 29, 2009 which represents the date the financial statements are issued. Adjustments or additional disclosures, if any, have been included in these financial statements.

a. Valuation of investments

Portfolio debt securities acquired with more than 60 days to maturity are fair valued using matrix pricing methods determined by an independent pricing service which takes into consideration such factors as similar security prices, yields, maturities, liquidity and ratings. Securities for which valuations are not readily available from an independent pricing service may be valued by brokers which use prices provided by market makers or estimates of fair market value obtained from yield data relating to investments or securities with similar characteristics.

Listed equity securities are usually valued at the last sales price or official closing price on the national securities exchange where the securities are principally traded. If there has been no sale, the securities are valued at the mean between bid and asked prices.

Short-term securities of sufficient credit quality with remaining maturities of 60 days or less at the time of purchase are valued at amortized cost, which approximates fair value.

Investments in open-end mutual funds are valued at net asset value. Securities for which market quotations are not readily available or not reflective of current fair value are valued at fair value as determined by the investment advisor in good faith, according to procedures approved by the Board of Trustees.

The valuation techniques used by the Fund to measure fair value are consistent with the market approach, income approach and/or cost approach, where applicable, for each security type.

NOTES TO FINANCIAL STATEMENTS continued

b. Reverse repurchase agreements

To obtain short-term financing, the Fund may enter into reverse repurchase agreements with banks and other financial institutions, which are deemed by the investment advisor to be creditworthy. At the time the Fund enters into a reverse repurchase agreement, it will establish a segregated account with the custodian containing qualified assets having a value not less than the repurchase price, including accrued interest. If the counterparty to the transaction is rendered insolvent, the Fund may be delayed or limited in the repurchase of the collateral securities.

c. Foreign currency translation

All assets and liabilities denominated in foreign currencies are translated into U.S. dollar amounts at the date of valuation. Purchases and sales of portfolio securities and income items denominated in foreign currencies are translated into U.S. dollar amounts on the respective dates of such transactions. The Fund does not separately account for that portion of the results of operations resulting from changes in foreign exchange rates on investments and the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gains or losses on investments.

d. Futures contracts

The Fund is subject to interest rate risk in the normal course of pursuing its investment objectives. The Fund may buy and sell futures contracts in order to gain exposure to, or protect against changes in, security values and interest rates. The primary risks associated with the use of futures contracts are the imperfect correlation between changes in market values of securities held by the Fund and the prices of futures contracts, and the possibility of an illiquid market.

Futures contracts are valued based upon their quoted daily settlement prices. The aggregate principal amounts of the contracts are not recorded in the financial statements. Fluctuations in the value of the contracts are recorded in the Statement of Assets and Liabilities as an asset or liability and in the Statement of Operations as unrealized gains or losses until the contracts are closed, at which point they are recorded as net realized gains or losses on futures contracts. With futures contracts, there is minimal counterparty risk to the Fund since futures are exchange traded and the exchange's clearinghouse, as counterparty to all exchange traded futures, guarantees the futures against default.

e. Forward foreign currency contracts

The Fund is subject to foreign currency exchange rate risk in the normal course of pursuing its investment objectives. A forward foreign currency contract is an agreement between two parties to purchase or sell a specific currency for an agreed-upon price at a future date. The Fund enters into forward foreign currency contracts to facilitate transactions in foreign-denominated securities and to attempt to minimize the risk to the Fund from adverse changes in the relationship between currencies. Forward foreign

NOTES TO FINANCIAL STATEMENTS continued

currency contracts are recorded at the forward rate and marked-to-market daily. When the contracts are closed, realized gains and losses arising from such transactions are recorded as realized gains or losses on foreign currency related transactions. The Fund could be exposed to risks if the counterparties to the contracts are unable to meet the terms of their contracts or if the value of the foreign currency changes unfavorably. The Fund's maximum risk of loss from counterparty credit risk is the unrealized gains or losses on the contracts. This risk is mitigated by having a master netting arrangement between the Fund and the counterparty.

f. When-issued and delayed delivery transactions

The Fund records when-issued or delayed delivery securities as of trade date and maintains security positions such that sufficient liquid assets will be available to make payment for the securities purchased. Securities purchased on a when-issued or delayed delivery basis are marked-to-market daily and begin earning interest on the settlement date. Losses may occur on these transactions due to changes in market conditions or the failure of counterparties to perform under the contract.

g. Loans

The Fund may purchase loans through an agent, by assignment from another holder of the loan or as a participation interest in another holder's portion of the loan. Loans are purchased on a when-issued or delayed delivery basis. Interest income is accrued based on the terms of the securities. Fees earned on loan purchasing activities are recorded as income when earned. Loans involve interest rate risk, liquidity risk and credit risk, including the potential default or insolvency of the borrower.

h. Securities lending

The Fund may lend its securities to certain qualified brokers in order to earn additional income. The Fund receives compensation in the form of fees or interest earned on the investment of any cash collateral received. The Fund also continues to receive interest and dividends on the securities loaned. The Fund receives collateral in the form of cash or securities with a market value at least equal to the market value of the securities on loan, including accrued interest. In the event of default or bankruptcy by the borrower, the Fund could experience delays and costs in recovering the loaned securities or in gaining access to the collateral. In addition, the investment of any cash collateral received may lose all or part of its value. The Fund has the right under the lending agreement to recover the securities from the borrower on demand.

i. Dollar roll transactions

The Fund may enter into dollar roll transactions with respect to mortgage-backed securities. In a dollar roll transaction, the Fund sells mortgage-backed securities to financial institutions and simultaneously agrees to accept substantially similar (same type, coupon and maturity) securities at a later date at an agreed upon price. The Fund will use the proceeds generated from the transactions to invest in short-term investments, which may enhance the Fund's current yield and total return. The Fund accounts for dollar roll

NOTES TO FINANCIAL STATEMENTS continued

transactions as purchases and sales. The Fund could be exposed to risks if the counterparty defaults on its obligation to perform under the terms of the agreement, if the Fund receives inferior securities in comparison to what was sold to the counterparty at redelivery or if there are variances in paydown speed between the mortgage-related pools.

j. Interest rate swaps

The Fund is subject to interest rate risk in the normal course of pursuing its investment objectives. The Fund may enter into interest rate swap contracts for hedging purposes to manage the Fund's exposure to interest rates. Interest rate swaps involve the exchange between the Fund and another party of their commitments to pay or receive interest based on a notional principal amount.

The value of the swap contract is marked-to-market daily based upon quotations from brokers which use prices provided by market makers and any change in value is recorded as an unrealized gain or loss. Payments made or received are recorded as realized gains or losses. The Fund could be exposed to risks if the counterparty defaults on its obligation to perform or if there are unfavorable changes in the fluctuation of interest rates. The Fund's maximum risk of loss from counterparty credit risk is the discounted net value of the cash flows to be received from the counterparty over the contract's remaining life. This risk is mitigated by having a master netting arrangement between the Fund and the counterparty and by having the counterparty post collateral to cover the Fund's exposure to the counterparty.

k. Credit default swaps

The Fund is subject to credit risk in the normal course of pursuing its investment objectives. The Fund may enter into credit default swap contracts for hedging or speculative purposes to provide or receive a measure of protection against default on a referenced entity, obligation or index. Credit default swaps involve an exchange of a stream of payments for protection against the loss in value of an underlying security or index. Under the terms of the swap, one party acts as a guarantor (referred to as the seller of protection) and receives a periodic stream of payments, provided that there is no credit event, from another party (referred to as the buyer of protection) that is a fixed percentage applied to a notional principal amount over the term of the swap. An index credit default swap references all the names in the index, and if a credit event is triggered, the credit event is settled based on that name's weight in the index. A credit event includes bankruptcy, failure to pay, obligation default, obligation acceleration, repudiation/moratorium, and restructuring. The Fund may enter into credit default swaps as either the seller of protection or the buyer of protection. As the seller of protection, the Fund is subject to investment exposure on the notional amount of the swap and has assumed the risk of default of the underlying security or index. As the buyer of protection, the Fund could be exposed to risks if the seller of the protection defaults on its obligation to perform, or if there are unfavorable changes in the fluctuation of interest rates or in the price of the underlying security or index. The maximum potential amount of future

NOTES TO FINANCIAL STATEMENTS continued

payments (undiscounted) that the Fund as the seller of protection could be required to make under the credit default swap contract would be an amount equal to the notional amount of the swap contract. The Fund's maximum risk of loss from counterparty risk, either as the protection seller or as the protection buyer, is the fair value of the contract. This risk is mitigated by having a master netting arrangement between the Fund and the counterparty and by having the counterparty post collateral to cover the Fund's exposure to the counterparty.

If the Fund is the seller of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Fund will pay to the buyer of protection the notional amount of the swap and take delivery of the referenced obligation or underlying securities comprising the referenced index. If the Fund is the buyer of protection and a credit event occurs, as defined under the terms of that particular swap agreement, the Fund will receive from the seller of protection the notional amount of the swap and deliver the referenced obligation or underlying securities comprising the referenced index.

Any premiums paid or received on the transactions are recorded as an asset or liability on the Statement of Assets and Liabilities and amortized. The value of the swap contract is marked-to-market daily based on quotations from an independent pricing service or market makers and any change in value is recorded as an unrealized gain or loss. Periodic payments made or received are recorded as realized gains or losses. In addition, payments received or made as a result of a credit event or termination of the contract are recognized as realized gains or losses.

Certain credit default swap contracts entered into by the Fund provide for conditions that result in events of default or termination that enable the counterparty to the agreement to cause an early termination of the transactions under those agreements. Any election by the counterparty to terminate early may impact the amounts reported on the financial statements.

I. Security transactions and investment income

Security transactions are recorded on trade date. Realized gains and losses are computed using the specific cost of the security sold. Interest income is recorded on the accrual basis and includes accretion of discounts and amortization of premiums. To the extent debt obligations are placed on non-accrual status, any related interest income may be reduced by writing off interest receivables when the collection of all or a portion of interest has become doubtful based on consistently applied procedures. If the issuer subsequently resumes interest payments or when the collectibility of interest is reasonably assured, the debt obligation is removed from non-accrual status. Dividend income is recorded on the ex-dividend date. Foreign income and capital gains realized on some securities may be subject to foreign taxes, which are accrued as applicable.

NOTES TO FINANCIAL STATEMENTS continued**m. Federal and other taxes**

The Fund intends to continue to qualify as a regulated investment company and distribute all of its taxable income, including any net capital gains (which have already been offset by available capital loss carryovers). Accordingly, no provision for federal taxes is required. The Fund's income and excise tax returns and all financial records supporting those returns for the prior three fiscal years are subject to examination by the federal, Massachusetts and Delaware revenue authorities.

n. Distributions

Distributions to shareholders from net investment income and net realized gains, if any, are recorded on the ex-dividend date. Such distributions are determined in conformity with income tax regulations, which may differ from generally accepted accounting principles.

Reclassifications have been made to the Fund's components of net assets to reflect income and gains available for distribution (or available capital loss carryovers, as applicable) under income tax regulations. The primary permanent differences causing such reclassifications are due to net realized foreign currency gains and losses, premium amortization, mortgage paydown gains and losses and consent fees. During the year ended October 31, 2009, the following amounts were reclassified:

Overdistributed net investment income	\$ 6,925,104
Accumulated net realized losses on investments	(6,925,104)

3. ADVISORY FEE AND OTHER TRANSACTIONS WITH AFFILIATES

Evergreen Investment Management Company, LLC ("EIMC"), a subsidiary of Wells Fargo & Company ("Wells Fargo"), is the investment advisor to the Fund and is paid an annual fee of 0.55% of the Fund's average daily total assets. Total assets consist of the net assets of the Fund plus borrowings or other leverage for investment purposes. For the year ended October 31, 2009, the advisory fee was equivalent to an annual rate of 0.82% of the Fund's average daily net assets applicable to common shareholders.

First International Advisers, LLC, an affiliate of EIMC and a majority-owned subsidiary of Wells Fargo, is the investment sub-advisor to the Fund and is paid by EIMC for its services to the Fund.

Tattersall Advisory Group, Inc., an affiliate of EIMC and an indirect, wholly-owned subsidiary of Wells Fargo, is an investment sub-advisor to the Fund and is paid by EIMC for its services to the Fund.

From time to time, EIMC may voluntarily or contractually waive its fee and/or reimburse expenses in order to limit operating expenses. During the year ended October 31, 2009, EIMC contractually waived its advisory fee in the amount of \$4,618,701 and contractually reimbursed other expenses in the amount of \$3,593,193. These contractual waivers and reimbursements were put in place to ensure the costs incurred by the Fund

NOTES TO FINANCIAL STATEMENTS continued

under the Facility (see Note 4) would not exceed the sum of the costs that would have been incurred if the Preferred Shares had not been redeemed minus 0.05% of the average outstanding borrowings under the Facility.

The Fund may invest in money market funds which are advised by EIMC. Income earned on these investments is included in income from affiliated issuers on the Statement of Operations.

EIMC also serves as the administrator to the Fund providing the Fund with facilities, equipment and personnel. EIMC is paid an annual administrative fee of 0.05% of the Fund's average daily total assets. For the year ended October 31, 2009, the administrative fee was equivalent to an annual rate of 0.07% of the Fund's average daily net assets applicable to common shareholders.

The Fund has placed a portion of its portfolio transactions with brokerage firms that are affiliates of Wells Fargo. During the year ended October 31, 2009, the Fund paid brokerage commissions of \$180 to broker-dealers affiliated with Wells Fargo.

4. CAPITAL SHARE TRANSACTIONS

The Fund has authorized capital of 100,000,000 common shares with no par value. For the year ended October 31, 2009 and the year ended October 31, 2008, the Fund did not issue any common shares.

The Fund currently has 3,200 shares of Auction Market Preferred Shares ("Preferred Shares") issued and outstanding consisting of five series, each with a liquidation value of \$25,000 plus accumulated but unpaid dividends (whether or not earned or declared). Dividends on each series of Preferred Shares are cumulative at a rate, which is reset based on the result of an auction. During the year ended October 31, 2009, the Preferred Shares experienced failed auctions and the Fund paid dividends to the holders of Preferred Shares based on the maximum rate allowed under the governing documents for the Preferred Shares. The annualized dividend rate of 1.75% during the year ended October 31, 2009 includes the maximum rate for the dates on which auctions failed. The Fund will not declare, pay or set apart for payment any dividend to its common shareholders unless the Fund has declared and paid or contemporaneously declares and pays full cumulative dividends on each series of Preferred Shares through its most recent dividend payment date.

Each series of Preferred Shares is redeemable, in whole or in part, at the option of the Fund on any dividend payment date at \$25,000 per share plus any accumulated or unpaid dividends (whether or not earned or declared). Each series of Preferred Shares is also subject to mandatory redemption at \$25,000 per share plus any accumulated or unpaid dividends (whether or not earned or declared) if the asset coverage with respect to the outstanding Preferred Shares fell below 200%.

NOTES TO FINANCIAL STATEMENTS continued

The holders of Preferred Shares have voting rights equal to the holders of the Fund's common shares and will vote together with holders of common shares as a single class. Holders of Preferred Shares, voting separately as a single class, have the right to elect at least two Trustees at all times. The remaining Trustees will be elected by holders of common shares and Preferred Shares, voting together as a single class.

The Fund had secured debt financing from a multi-seller commercial paper conduit administered by a major financial institution (the "Facility") in order to redeem a pro rata portion of each of its series of Preferred Shares. The Facility is available to the Fund until April 30, 2011. The Fund's borrowings under the Facility are generally charged interest at a rate based on the rates of the commercial paper notes issued by the Facility to fund the Fund's borrowings or at the London Interbank Offered Rate (LIBOR) plus 9.50%. Prior to December 29, 2008, the LIBOR rate was LIBOR plus 4%. During the year ended October 31, 2009 the Fund reduced its borrowing under the Facility from \$300,000,000 to \$50,000,000. During the year ended October 31, 2009, the Fund incurred an effective interest rate of 1.70% on the borrowings, which was based on the rates of the commercial paper notes issued by the Facility and paid interest of \$2,392,159, representing 0.42% of the Fund's average daily net assets applicable to common shareholders. The Fund has pledged its assets to secure borrowings under the Facility. The Fund pays, on a monthly basis, a liquidity fee at an annual rate of 2.75% of the total commitment amount and a program fee at an annual rate of 2.75% on the daily average outstanding principal amount of borrowings. The Fund had paid a liquidity fee at an annual rate of 0.50% until December 29, 2008 and a program fee at an annual rate of 0.75% until December 29, 2008. A structuring fee of \$3,200,000 was paid by EIMC on behalf of the Fund, which represents 1.00% of the financing available to the Fund under the Facility. This fee is being amortized over three years. During the year ended October 31, 2009, the Fund recognized amortization expense of \$1,063,743. The Fund will reimburse EIMC over the three year period.

5. INVESTMENT TRANSACTIONS

Cost of purchases and proceeds from sales of investment securities (excluding short-term securities) were as follows for the year ended October 31, 2009:

Cost of Purchases		Proceeds from Sales	
U.S. Government	Non-U.S. Government	U.S. Government	Non-U.S. Government
\$122,859,040	\$615,384,675	\$155,791,390	\$713,762,823

NOTES TO FINANCIAL STATEMENTS continued

Fair value measurements are determined within a framework that has established a fair value hierarchy based upon the various data inputs utilized in determining the value of the Fund's investments. These inputs are summarized into three broad levels as follows:

Level 1 – quoted prices in active markets for identical securities

Level 2 – other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.)

Level 3 – significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The inputs or methodologies used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

As of October 31, 2009, the inputs used in valuing the Fund's assets, which are carried at fair value, were as follows:

Investments in Securities	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Equity securities				
<i>Common stocks</i>	\$ 0	\$0	\$ 3,014,385	\$3,014,385
<i>Closed end mutual fund shares</i>	2,546,460	0	0	2,546,460
Mortgage-backed securities	0	205,381,267	0	205,381,267
Corporate debt securities	0	474,322,084	376,052	474,698,136
Loans	0	25,612,877	11,927,339	37,540,216
Debt securities issued by foreign governments	0	114,291,500	0	114,291,500
Short-term investments	43,654,613	0	0	43,654,613
	\$ 46,201,073	\$819,607,728	\$ 15,317,776	\$881,126,577

Further details on the major security types listed above can be found in the Schedule of Investments.

As of October 31, 2009, the inputs used in valuing the Fund's other financial instruments, which are carried at fair value, were as follows:

	Quoted Prices (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
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Other financial instruments*	\$ 0	\$ 420,848	\$ 0	\$420,848
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* Other financial instruments include forwards and swap. The value of swap contracts consists of unrealized gains/losses and premiums paid/received on swap contracts as reflected on the Statement of Assets and Liabilities.

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NOTES TO FINANCIAL STATEMENTS continued

The following is a reconciliation of assets in which significant unobservable inputs (Level 3) were used in determining fair value:

	Corporate debt securities	Common stocks	Loans	Total
Balance as of November 1, 2008	0	\$0	\$0	\$0
Realized gains or losses	0	0	0	0
Change in unrealized gains or losses	0	(1,346,974)	0	(1,346,974)
Net purchases (sales)	0	4,361,359	0	4,361,359
Transfers in and/or out of Level 3	376,052	0	11,927,339	12,303,391
Balance as of October 31, 2009	\$ 376,052	\$3,014,385	\$11,927,339	\$15,317,776
Change in unrealized gains or losses included in earnings relating to securities still held at October 31, 2009	\$ 0	\$(1,346,974)	\$0	\$(1,346,974)

As of October 31, 2009, the Fund had unfunded loan commitments of \$6,698,260.

During the year ended October 31, 2009, the Fund entered into reverse repurchase agreements that had an average daily balance outstanding of \$57,230,204 with a weighted average interest rate of 0.49% and paid interest of \$280,428, representing 0.05% of the Fund's average daily net assets applicable to common shareholders. The maximum amount outstanding under reverse repurchase agreements during the year ended October 31, 2009 was \$100,358,732 (including accrued interest). At October 31, 2009, reverse repurchase agreements outstanding were as follows:

Repurchase Amount	Counterparty	Interest Rate	Maturity Date
\$46,635,480	Credit Suisse	0.44%	11/20/2009
	Goldman		
39,495,023	Sachs	0.30%	11/20/2009
	Morgan		
14,150,279	Stanley	0.25%	11/20/2009

On October 31, 2009, the aggregate cost of securities for federal income tax purposes was \$856,269,842. The gross unrealized appreciation and depreciation on securities based on tax cost was \$47,709,873 and \$22,853,138, respectively, with a net unrealized appreciation of \$24,856,735.

As of October 31, 2009, the Fund had \$145,619,630 in capital loss carryovers for federal income tax purposes expiring as follows:

Expiration

2014	2015	2016	2017
\$10,962,010	\$7,365,369	\$37,840,778	\$89,451,473

6. DERIVATIVE TRANSACTIONS

During the year ended October 31, 2009, the Fund entered into futures contracts, interest rate swaps and forward foreign currency exchange contracts for hedging purposes.

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NOTES TO FINANCIAL STATEMENTS continued

As of October 31, 2009, the Fund did not have any open futures contracts but had an average contract amount of \$18,431,001 in futures contracts during the year ended October 31, 2009.

At October 31, 2009, the Fund had forward foreign currency exchange contracts outstanding as follows:

Forward Foreign Currency Exchange Contracts to Buy:

Exchange Date	Contracts to Receive	U.S. Value at October 31, 2009	In Exchange for U.S. \$	Unrealized Gain (Loss)
11/09/2009	3,625,000,000 JPY	\$ 40,272,099	\$ 38,131,805	\$ 2,140,294
11/27/2009	792,500,000 JPY	8,805,127	8,362,969	442,158
11/27/2009	95,235,000 JPY	1,058,116	1,056,137	1,979

Exchange Date	Contracts to Receive	U.S. Value at October 31, 2009	In Exchange for	U.S. Value at October 31, 2009	Unrealized Gain (Loss)
11/25/2009	947,100,000 JPY	\$ 10,522,713	12,000,000 AUD	\$ 10,779,605	\$ (256,892)
11/27/2009	17,252,820 EUR	25,388,747	2,340,000,000 JPY	25,998,734	(609,987)
11/27/2009	559,500,000 JPY	6,216,364	4,226,150 EUR	6,219,079	(2,715)
11/30/2009	542,611,785 JPY	6,028,819	82,270,000 MXN	6,209,713	(180,894)
12/02/2009	3,906,548 EUR	5,748,697	6,145,000 CAD	5,679,140	69,557
12/07/2009	1,000,000,000 JPY	11,111,204	7,040,023 GBP	11,551,950	(440,746)
12/07/2009	668,569 GBP	1,097,053	95,235,000 JPY	1,058,176	38,877
01/13/2010	1,019,766,250 JPY	11,333,709	15,725,000 NZD	11,226,855	106,854

Forward Foreign Currency Exchange Contracts to Sell:

Exchange Date	Contracts to Deliver	U.S. Value at October 31, 2009	In Exchange for U.S. \$	Unrealized Gain (Loss)
11/09/2009	282,150,000 JPY	\$ 3,134,558	\$ 3,194,416	\$ 59,858
11/16/2009	540,094 EUR	794,806	755,348	(39,458)
11/16/2009	611,914 EUR	900,498	855,144	(45,354)
12/01/2009	7,380,000 EUR	10,860,095	10,584,839	(275,256)
12/01/2009	970,000 EUR	1,427,411	1,409,973	(17,438)
12/01/2009	14,460,000 EUR	21,278,722	21,558,414	279,692
04/15/2010	1,848,700 EUR	2,718,541	2,750,755	32,214

The Fund had average market values of \$138,045,566 and \$55,711,932 in forward foreign currency exchange

contracts to buy and forward foreign currency exchange contracts to sell, respectively, during the year ended October 31, 2009.

The Fund enters into credit default swap contracts as a substitute for taking a position in the underlying security or basket of securities or to potentially enhance the Fund's total

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NOTES TO FINANCIAL STATEMENTS continued

return. At October 31, 2009, the Fund had the following credit default swap contracts outstanding:

Credit default swaps on debt obligations – Buy protection

Expiration	Counterparty	Reference Debt Obligation	Rating of Reference Debt Obligation*	Notional Amount	Fixed Payments Made by the Fund	Frequency of Payments Made	Market Value	Upfront Premiums Paid/ (Received)	Unrealized Gain/ (Loss)
06/20/2014	Goldman Sachs	Motorola, Inc., 6.50%, 09/01/2025 #	BB+	\$1,070,000	1.00%	Quarterly	\$14,433	\$97,160	\$
06/20/2014	Goldman Sachs	Expedia, Inc., 7.46%, 08/15/2018 #	BBB-	975,000	5.00%	Quarterly	(174,511)	(82,921)	
06/20/2014	JPMorgan	Motorola, Inc., 6.50%, 09/01/2025 #	BB+	1,275,000	1.00%	Quarterly	17,198	78,987	
06/20/2014	UBS	Expedia, Inc., 7.46%, 08/18/2018 #	BBB-	940,000	5.00%	Quarterly	(168,247)	(26,631)	

Credit default swaps on an index – Sell protection

Expiration	Counterparty	Reference Index	Rating of Reference Index* @	Notional Amount	Fixed Payments Received by the Fund	Frequency of Payments Received	Market Value	Upfront Premiums Paid/ (Received)	Unrealized Gain/ (Loss)
12/13/2049	Credit Suisse	Markit CMBX North America AAA.3 Index #	AAA	\$1,015,000	0.08%	Monthly	\$(208,767)	\$(275,786)	\$6
12/13/2049	Goldman Sachs	Markit CMBX North America AAA.3	AAA	1,760,000	0.08%	Monthly	(362,001)	(635,272)	2

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* Reflects the ratings of a nationally recognized ratings agency at period end. A rating of D would most likely indicate a trigger event of default has occurred although circumstances including bankruptcy, failure to pay, obligation default, obligation acceleration, repudiation/moratorium and restructuring may also cause a credit event to take place.

@ Rating represents an average rating for the underlying securities within the index.

The Fund entered into the swap contract for speculative purposes.

The Fund had an average notional balance on credit default swaps of \$17,752,492 during the year ended October 31, 2009.

Certain of the Fund's derivative transactions may contain provisions for early termination in the event the net assets of the Fund declines below specific levels identified by the counterparty. If these levels are triggered, the counterparty may terminate the transaction and seek payment or request full collateralization of the derivative transaction in net liability positions. On October 31, 2009, the aggregate fair value of all derivative instruments with net asset contingent features that were in a liability positions amounted to \$913,526. As of October 31, 2009, the Fund had segregated \$1,070,000 as cash collateral for outstanding swap transactions.

NOTES TO FINANCIAL STATEMENTS continued

As of October 31, 2009, the Fund did not have any open interest rate swap contracts but had an average contract amount of \$8,088,889 in interest rate swap contracts during the year ended October 31, 2009.

A summary of derivative instruments by primary risk exposure is outlined in the following tables.

The fair value of derivative instruments as of October 31, 2009 was as follows:

Derivatives not accounted for as hedging instruments	Asset Derivatives		Liability Derivatives	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Forward foreign currency contracts	Unrealized gains on forward foreign currency exchange contracts, Net assets – Net unrealized gains on investments	\$3,171,483	Unrealized losses on forward foreign currency exchange contracts, Net assets – Net unrealized gains on investments	\$1,868,740
Credit contracts	Unrealized gains on credit default swap transactions, Net assets – Net unrealized gains on investments	340,290	Unrealized losses on credit default swap transactions, Net assets – Net unrealized gains on investments	377,722
	Premiums paid on credit default swap transactions	176,147	Premiums received on credit default swap transactions	1,020,610
		\$3,687,920		\$3,267,072

The effect of derivative instruments on the Statement of Operations for the year ended October 31, 2009 was as follows:

Derivatives not accounted for as hedging instruments	Amount of Realized Gains or Losses on Derivatives				
	Futures	Forward Currency Contracts	Interest Rate Swaps	Credit Default Swaps	Total
Interest rate contracts	\$(1,129,141)	\$0	\$(19,026)	\$0	\$(1,148,167)
Forward foreign currency contracts	0	23,172,825	0	0	23,172,825
Credit contracts	0	0	0	2,661,785	2,661,785
	\$(1,129,141)	\$23,172,825	\$(19,026)	\$2,661,785	\$24,686,443

Change in Unrealized Gains or Losses on Derivatives

Derivatives not accounted for as hedging instruments	Futures	Forward Currency Contracts	Interest Rate Swaps	Credit Default Swaps	Total
Interest rate contracts	\$137,457	\$0	\$18,968	\$0	\$156,425
Forward foreign currency contracts	0	(17,931,426)	0	0	(17,931,426)
Credit contracts	0	0	0	(9,520)	(9,520)
	\$137,457	\$(17,931,426)	\$18,968	\$(9,520)	\$(17,784,521)

NOTES TO FINANCIAL STATEMENTS continued**7. DISTRIBUTIONS TO SHAREHOLDERS**

As of October 31, 2009, the components of distributable earnings on a tax basis were as follows:

Unrealized Appreciation	Capital Loss Carryovers	Temporary Book/Tax Differences
\$26,319,077	\$145,619,630	\$(4,658,465)

The differences between the components of distributable earnings on a tax basis and the amounts reflected in the Statement of Assets and Liabilities are primarily due to wash sales, premium amortization and swap contracts. The temporary book/tax differences are a result of timing differences between book and tax recognition of income and/or expenses.

The tax character of distributions paid was as follows:

	Year Ended October 31,	
	2009	2008
Ordinary Income	\$93,804,374	\$67,063,921
Return of Capital	9,350,761	0

8. DEFERRED TRUSTEES' FEES

Each Trustee of the Fund may defer any or all compensation related to performance of his or her duties as a Trustee. The Trustees' deferred balances are allocated to deferral accounts, which are included in the accrued expenses for the Fund. The investment performance of the deferral accounts is based on the investment performance of certain Evergreen funds. Any gains earned or losses incurred in the deferral accounts are reported in the Fund's Trustees' fees and expenses. At the election of the Trustees, the deferral account will be paid either in one lump sum or in quarterly installments for up to ten years.

9. REGULATORY MATTERS AND LEGAL PROCEEDINGS

The Evergreen funds, EIMC and certain of EIMC's affiliates are involved in various legal actions, including private litigation and class action lawsuits, and are and may in the future be subject to regulatory inquiries and investigations.

EIMC and Evergreen Investment Services, Inc. ("EIS") have reached final settlements with the Securities and Exchange Commission ("SEC") and the Securities Division of the Secretary of the Commonwealth of Massachusetts ("Commonwealth") primarily relating to the liquidation of Evergreen Ultra Short Opportunities Fund ("Ultra Short Fund"). The claims settled include the following: first, that during the period February 2007 through Ultra Short Fund's liquidation on June 18, 2008, Ultra Short Fund's former portfolio management team failed to properly take into account readily-available

NOTES TO FINANCIAL STATEMENTS continued

information in valuing certain non-agency residential mortgage-backed securities held by the Ultra Short Fund, resulting in the Ultra Short Fund's net asset value ("NAV") being overstated during the period; second, that EIMC and EIS acted inappropriately when, in an effort to explain the decline in Ultra Short Fund's NAV, certain information regarding the decline was communicated to some, but not all, shareholders and financial intermediaries; third, that the Ultra Short Fund portfolio management team did not adhere to regulatory requirements for affiliated cross trades in executing trades with other Evergreen funds; and finally, that from at least September 2007 to August 2008, EIS did not preserve certain text and instant messages transmitted via personal digital assistant devices. In settling these matters, EIMC and EIS have agreed to payments totaling \$41,125,000, up to \$40,125,000 of which will be distributed to eligible shareholders of Ultra Short Fund pursuant to a methodology and plan approved by the regulators. EIMC and EIS neither admitted nor denied the regulators' conclusions.

Three purported class actions have also been filed in the U.S. District Court for the District of Massachusetts relating to the same events; defendants include various Evergreen entities, including EIMC and EIS, and Evergreen Fixed Income Trust and its Trustees. The cases generally allege that investors in the Ultra Short Fund suffered losses as a result of (i) misleading statements in Ultra Short Fund's registration statement and prospectus, (ii) the failure to accurately price securities in the Ultra Short Fund at different points in time and (iii) the failure of the Ultra Short Fund's risk disclosures and description of its investment strategy to inform investors adequately of the actual risks of the fund.

EIMC does not expect that any of the legal actions, inquiries or settlement of regulatory matters will have a material adverse impact on the financial position or operations of the Fund to which these financial statements relate. Any publicity surrounding or resulting from any legal actions or regulatory inquiries involving EIMC or its affiliates or any of the Evergreen Funds could result in reduced sales or increased redemptions of Evergreen fund shares, which could increase Evergreen fund transaction costs or operating expenses or have other adverse consequences on the Evergreen funds, including the Fund.

10. SUBSEQUENT DISTRIBUTIONS

The Fund declared the following distributions to common shareholders:

Declaration Date	Record Date	Payable Date	Net Investment Income
October 16, 2009	November 16, 2009	December 1, 2009	\$0.1083
November 20, 2009	December 15, 2009	January 4, 2010	\$0.1083
December 11, 2009	January 19, 2010	February 1, 2010	\$0.1083

These distributions are not reflected in the accompanying financial statements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Trustees and Shareholders

Evergreen Multi-Sector Income Fund

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of the Evergreen Multi-Sector Income Fund as of October 31, 2009 and the related statement of operations for the year then ended, statements of changes in net assets for each of the years in the two-year period then ended, statement of cash flows for the year then ended, and the financial highlights for each of the years in the five-year period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of October 31, 2009 by correspondence with the custodian and brokers, or by other appropriate auditing procedures where replies from brokers were not received. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the Evergreen Multi-Sector Income Fund as of October 31, 2009, the results of its operations, changes in its net assets, its cash flows and the financial highlights for each of the years described above, in conformity with U.S. generally accepted accounting principles.

Boston, Massachusetts

December 29, 2009

ADDITIONAL INFORMATION (unaudited)

FEDERAL TAX DISTRIBUTIONS

The Fund paid total distributions of \$103,155,135 during the year ended October 31, 2009 of which 90.94% was from ordinary taxable income and 9.06% was from a non-taxable return of capital. Shareholders of the Fund will receive in early 2010 a Form 1099-DIV that will inform them of the tax character of this distribution as well as all other distributions made by the Fund in calendar year 2009.

ADDITIONAL INFORMATION (unaudited) continued

INFORMATION ABOUT THE REVIEW AND APPROVAL OF THE FUND'S INVESTMENT ADVISORY AGREEMENT

Each year, as required by law, the Fund's Board of Trustees determines whether to approve the continuation of the Fund's investment advisory agreements. At an in person meeting on September 23-24, 2009, the Trustees, including a majority of the Trustees who are not "interested persons" (as that term is defined in the 1940 Act) of the Fund, Tattersall Advisory Group, Inc. ("TAG"), First International Advisers, LLC (together with TAG, the "Sub-Advisors"), or EIMC (the "independent Trustees"), approved the continuation of the Fund's investment advisory agreements. (References below to the "Fund" are to Evergreen Multi-Sector Income Fund; references to the "funds" are to the Evergreen funds generally.)

At the same time, the Trustees considered the continuation of the investment advisory agreements for all of the Evergreen funds. The description below refers in many cases to the Trustees' process for considering, and conclusions regarding, all of the funds' agreements. In all of their deliberations, the Board of Trustees and the independent Trustees were advised by independent counsel to the independent Trustees and counsel to the funds.

The review process. In connection with its review of the funds' investment advisory agreements, the Board of Trustees requests and evaluates, and EIMC and any sub-advisors are required to furnish, such information as the Trustees consider to be reasonably necessary in the circumstances. Over the course of the year preceding their September 2009 meeting, the Trustees regularly reviewed information regarding the investment performance of all of the funds. As part of their ongoing review of investment performance, the Trustees monitored for changes in performance and for the results of any changes in a fund's investment process or investment team. The Trustees paid particular attention to funds whose performance since September 2008 (when the Trustees completed their 2008 review of the funds' investment advisory agreements) indicated short-term or longer-term performance issues and to funds that they had identified during their 2008 review process as having short- or longer-term performance issues.

In spring 2009, a committee of the Board of Trustees (the "Committee"), working with EIMC management, determined generally the types of information the Trustees would review as part of the 2009 review process and set a timeline detailing the information required and the dates for its delivery to the Trustees. The Board engaged the independent data provider Keil Fiduciary Strategies LLC ("Keil") to provide fund-specific and industry-wide data containing information of a nature and in a format generally prescribed by the Committee, and the Committee worked with Keil and EIMC to develop appropriate groups of peer funds for each fund. The Committee also identified a number of expense, performance, and other areas of review and requested specific information as to those areas of review.

ADDITIONAL INFORMATION (unaudited) continued

The Trustees formed small groups to review individual funds in greater detail. They reviewed, with the assistance of an independent industry consultant that they retained, the information that EIMC, the Sub-Advisors, and Keil provided. In addition, the Trustees considered information regarding, among other things, the funds' brokerage practices, the funds' use of derivatives, analyst and research support available to the portfolio management teams, risk management practices, and certain fall-out benefits received directly and indirectly by EIMC and its affiliates from the funds. The Trustees requested and received additional information following that review.

In December 2008 Wells Fargo & Company ("Wells Fargo") acquired Wachovia Corporation ("Wachovia"), EIMC's parent company. Wells Fargo and EIMC have taken steps to combine the operations of Wells Fargo's investment management affiliates and EIMC during the past year and have proposed to the Trustees the combination of the mutual fund families managed by them. During the course of the year, and during their review, the Trustees requested and received information about Wells Fargo and its advisory and broker-dealer operations, the status of efforts to combine the Wells Fargo and Evergreen investment management operations, and the effects on the funds and on the services provided by EIMC and its affiliates to the funds. In their deliberations, the Trustees were mindful that it was possible that the proposed combination of the two fund families might be effected during the coming 12-month period.

The Committee met several times by telephone during the 2009 review process to consider the information provided to it. The Committee then met with representatives of EIMC and its affiliates, including Wells Fargo. In addition, during the course of their review, the Trustees discussed the continuation of the funds' advisory agreements with representatives of EIMC, and in meetings with independent legal counsel in multiple private sessions at which no personnel of EIMC were present. At a meeting of the full Board of Trustees held on September 23-24, 2009, the Committee reported the results of its discussions with EIMC. The full Board met with representatives of EIMC and its affiliates and engaged in further review of the materials provided to it, after which the independent Trustees and the full Board approved the continuation of each of the advisory and sub-advisory agreements.

The Trustees' determination to approve the continuation of the advisory and sub-advisory agreements was based on a comprehensive evaluation of all of the information provided to them. In considering the continuation of the agreements, the Trustees did not identify any particular information or consideration that was all-important or controlling, and each Trustee attributed different weights to various factors. The Trustees evaluated information provided to them both in terms of the funds generally and with respect to each fund, including the Fund, specifically as they considered appropriate. Although the Trustees considered the continuation of the agreements for each of the funds as part of the larger process of considering the continuation of the advisory contracts for all of the funds,

ADDITIONAL INFORMATION (unaudited) continued

their determination to continue the advisory agreements for each of the funds was ultimately made on a fund-by-fund basis.

This summary describes a number of the most important, but not necessarily all, of the factors considered by the Board and the independent Trustees.

Information reviewed. The Board of Trustees and committees of the Board of Trustees met periodically during the course of the year. EIMC presented a wide variety of information at those meetings regarding the services it provides for the funds, the investment performance of the funds, and other aspects of the business and operations of the funds. At those meetings, and in the process of considering the continuation of the agreements, the Trustees considered information regarding, for example, the funds' investment results; the portfolio management teams for the funds and the experience of the members of the teams, and any recent changes in the membership of the teams; portfolio trading practices; compliance by the funds, EIMC, and the Sub-Advisors with applicable laws and regulations and with the funds' and EIMC's compliance policies and procedures; risk evaluation and oversight procedures at EIMC; services provided by affiliates of EIMC to the funds and shareholders of the funds; and other information relating to the nature, extent, and quality of services provided by EIMC and the Sub-Advisors. The Trustees considered a number of changes in portfolio management personnel at EIMC and its advisory affiliates in the year since September 2008. The Trustees also considered changes in personnel at the funds and EIMC, including the appointment of a new President of the funds, who also serves as President and Chief Operating Officer of EIMC, and a new Chief Investment Officer of EIMC in August of 2008.

The Trustees considered the rates at which the funds pay investment advisory fees, and the efforts generally by EIMC and its affiliates as sponsors of the funds. The data provided by Keil showed the management fees paid by each fund in comparison to the management fees of other peer mutual funds, in addition to data regarding the investment performance of the funds in comparison to other peer mutual funds. The Trustees were assisted by an independent industry consultant in reviewing the information presented to them.

The Trustees noted that, in certain cases, EIMC and/or its affiliates provide advisory services to other clients that are comparable to the advisory services they provide to certain funds. The Trustees considered the information EIMC provided regarding the rates at which those other clients pay advisory fees to EIMC. Fees charged to those other clients were generally lower than those charged to the respective funds. In respect of these other accounts, EIMC noted that the compliance, reporting, and other legal burdens of providing investment advice to mutual funds generally exceed those required to provide advisory services to non-mutual fund clients such as retirement or pension plans.

The Trustees considered the transfer agency fees paid by the funds to an affiliate of EIMC. They reviewed information presented to them showing that the transfer agency fees charged to the funds were generally consistent with industry norms.

ADDITIONAL INFORMATION (unaudited) continued

The Trustees also considered that EIMC serves as administrator to the funds and receives a fee for its services as administrator. In their comparison of fees paid by the funds with those paid by other mutual funds, the Trustees considered administrative fees paid by the funds and those other mutual funds. They considered that EIS, an affiliate of EIMC, would serve as distributor to the funds until January 3, 2010, and that Wells Fargo Funds Distributor, LLC, also an affiliate of EIMC, would serve as distributor to the funds beginning on January 4, 2010, and noted that the distributor receives fees from the funds for those services. The Trustees also considered other so-called “fall-out” benefits to EIMC and its affiliates due to their other relationships with the funds, including, for example, soft-dollar services received by EIMC attributable to transactions entered into by EIMC on behalf of the funds and brokerage commissions received by Wells Fargo Advisors, LLC (“Wells Fargo Advisors”) (formerly Wachovia Securities, LLC), an affiliate of EIMC, from transactions effected by it for the funds. The Trustees noted that the funds (other than the closed-end funds) pay sub-transfer agency fees to various financial institutions that hold fund shares in omnibus accounts, that Wells Fargo Advisors and its affiliates receive such payments from the funds in respect of client accounts they hold in omnibus arrangements, and that an affiliate of EIMC receives fees for administering the sub-transfer agency payment program. In reviewing the services provided by an affiliate of EIMC, the Trustees noted that the affiliate of EIMC that provides transfer agency services to the funds had won recognition from Dalbar customer service each year since 1998, and also won recognition from National Quality Review for customer service and for accuracy in processing transactions in 2008. They also considered that Wells Fargo Advisors and its affiliates receive distribution-related fees and shareholder servicing payments (including amounts derived from payments under the funds’ Rule 12b-1 plans) in respect of shares sold or held through them and that an affiliate of EIMC receives compensation for serving as a securities lending agent for a number of the funds.

The Trustees considered regulatory actions taken against EIMC or its affiliates in the past year, and on-going reviews of the operations of EIMC and its affiliates as they might affect the funds. They considered the findings of the regulators, the cooperation of EIMC and its affiliates with those regulators and with the Trustees in respect of those actions and reviews, and the remedial steps EIMC and its affiliates have taken in response. They also considered the scope and nature of on-going reviews being conducted by EIMC and its affiliates, and communications to the Trustees relating to those reviews.

Nature and quality of the services provided. The Trustees considered that EIMC and its affiliates generally provide a comprehensive investment management service to the funds. They noted that EIMC and the Sub-Advisors formulate and implement an investment program for the Fund. They noted that EIMC makes its personnel available to serve as officers of the funds, and concluded that the reporting and management functions provided by EIMC with respect to the funds were generally satisfactory. The Trustees considered the investment philosophy of the Fund’s portfolio management team and the

ADDITIONAL INFORMATION (unaudited) continued

in-house research capabilities of EIMC and its affiliates, as well as other resources available to EIMC, including research services available to it from third parties.

The Trustees considered the managerial and financial resources available to EIMC and its affiliates and the commitment that the Evergreen/Wells Fargo organization has made to the funds generally. They considered assurances from representatives of Wells Fargo that the merger of Wells Fargo and Wachovia and the integration of those firms' advisory and broker-dealer operations was not expected to result in any adverse effect on the funds, on the quality and level of services that EIMC provides to the funds, or on the resources available to the funds and to EIMC, and that Wells Fargo is committed to continue providing the funds with high-quality services.

The Trustees noted the resources EIMC and its affiliates have committed to the regulatory, compliance, accounting, tax and oversight of tax reporting, and shareholder servicing functions, and the number and quality of staff committed to those functions, which they concluded were appropriate and generally in line with EIMC's responsibilities to the Fund and to the funds generally. The Board and the independent Trustees concluded, within the context of their overall conclusions regarding the funds' advisory agreements, that they were generally satisfied with the nature, extent, and quality of the services provided by the Sub-Advisors and EIMC, including services provided by EIMC under its administrative services agreements with the funds. They determined that the nature and scope of the services provided by EIMC and the Sub-Advisors were consistent with EIMC's and the Sub-Advisors' respective duties under the investment advisory agreements and appropriate and consistent with the investment programs and best interests of the funds.

Investment performance. The Trustees considered the investment performance of each fund, both by comparison to other comparable mutual funds and to broad market indices. The Trustees noted that, for the one-, three-, and five-year periods ended December 31, 2008, the total return performance of the Fund (measured at net asset value) was below that of the broad-based securities index against which the Trustees compared the Fund's performance, and in the third quintile of the non-Evergreen funds against which the Trustees compared the Fund's performance.

The Trustees discussed each fund's performance with representatives of EIMC. In each instance where a fund experienced a substantial period of underperformance relative to its benchmark index and/or the non-Evergreen fund peers against which the Trustees compared the fund's performance, the Trustees considered EIMC's explanation of the reasons for the relative underperformance and the steps being taken to address the relative underperformance. The Trustees emphasized that the continuation of the investment advisory agreement for a fund should not be taken as any indication that the Trustees did not believe investment performance for any specific fund might not be improved, and they noted that they would continue to monitor closely the investment performance of the funds going forward.

ADDITIONAL INFORMATION (unaudited) continued

Advisory and administrative fees. The Trustees recognized that EIMC does not seek to provide the lowest cost investment advisory service, but to provide a high quality, full-service investment management product at a reasonable price. They also noted that EIMC has in many cases sought to set its investment advisory fees at levels consistent with industry norms. The Trustees noted that, in certain cases, a fund's management fees were higher than many or most other mutual funds in the same Keil peer group. However, in each case, the Trustees determined on the basis of the information presented that the level of management fees was not excessive. The Trustees noted that the management fee paid by the Fund was higher than the management fee paid by most of the non-Evergreen mutual funds against which the Trustees compared the Fund's management fee, and that the level of profitability realized by EIMC in respect of the fee did not appear excessive.

Economies of scale. The Trustees considered that, in light of the fact that the Fund was not making a continuous offering of its shares, the likelihood of economies of scale following the Fund's initial offering was relatively low, although they determined to continue to monitor the Fund's expense ratio and the profitability of the investment advisory agreements to EIMC in light of future growth of the Fund.

Profitability. The Trustees considered information provided to them regarding the profitability to the EIMC organization of the investment advisory, administration, and transfer agency (with respect to the open-end funds only) fees paid to EIMC and its affiliates by each of the funds. They considered that the information provided to them was necessarily estimated, and that the profitability information provided to them, especially on a fund-by-fund basis, did not necessarily provide a definitive tool for evaluating the appropriateness of each fund's advisory fee. They noted that the levels of profitability of the funds to EIMC varied widely, depending on, among other things, the size and type of fund. They considered the profitability of the funds in light of such factors as, for example, the information they had received regarding the relation of the fees paid by the funds to those paid by other mutual funds, the investment performance of the funds, and the amount of revenues involved. In light of these factors, the Trustees concluded that the profitability to EIMC of the services provided to any of the funds, individually or in the aggregate, should not prevent the Trustees from approving the continuation of the agreements.

AUTOMATIC DIVIDEND REINVESTMENT PLAN (unaudited)

All common shareholders are eligible to participate in the Automatic Dividend Reinvestment Plan (“the Plan”). Pursuant to the Plan, unless a common shareholder is ineligible or elects otherwise, all cash dividends and capital gains distributions are automatically reinvested by Computershare Trust Company, N.A., as agent for shareholders in administering the Plan (“Plan Agent”), in additional common shares of the Fund. Whenever the Fund declares an ordinary income dividend or a capital gain dividend (collectively referred to as “dividends”) payable either in shares or in cash, nonparticipating the Plan will receive cash, and participants in the Plan will receive the equivalent in shares of common shares. The shares are acquired by the Plan Agent for the participant’s account, depending upon the circumstances described below, either (i) through receipt of additional unissued but authorized common shares from the Fund (“newly issued common shares”) or (ii) by purchase of outstanding common shares on the open-market (open-market purchases) on the NYSE Amex or elsewhere. If, on the payment date for any dividend or distribution, the net asset value per share of the common shares is equal to or less than the market price per common share plus estimated brokerage commissions (“market premium”), the Plan Agent will invest the amount of such dividend or distribution in newly issued shares on behalf of the participant. The number of newly issued common shares to be credited to the participant’s account will be determined by dividing the dollar amount of the dividend by the net asset value per share on the date the shares are issued, provided that the maximum discount from the then current market price per share on the date of issuance may not exceed 5%. If on the dividend payment date the net asset value per share is greater than the market value or market premium (“market discount”), the Plan Agent will invest the dividend amount in shares acquired on behalf of the participant in open-market purchases. There will be no brokerage charges with respect to shares issued directly by the Fund as a result of dividends or capital gains distributions payable either in shares or in cash. However, each participant will pay a pro rata share of brokerage commissions incurred with respect to the Plan Agent’s open-market purchases in connection with the reinvestment of dividends. The automatic reinvestment of dividends and distributions will not relieve participants of any federal, state or local income tax that may be payable (or required to be withheld) on such dividends. All correspondence concerning the Plan should be directed to the Plan Agent at P.O. Box 43010, Providence, Rhode Island 02940-3010 or by calling 1-800-730-6001.

TRUSTEES AND OFFICERS**TRUSTEES¹**

Charles A. Austin III Investment Counselor, Anchor Capital Advisors, LLC. (investment advice); Director, Trustee The Andover Companies (insurance); Trustee, Arthritis Foundation of New England; DOB: 10/23/1934 Former Director, The Francis Ouimet Society (scholarship program); Former Director, Term of office since: Executive Vice President and Treasurer, State Street Research & Management Company (investment advice) 1991
Other directorships:
None

K. Dun Gifford Chairman and President, Oldways Preservation and Exchange Trust (education); Trustee Trustee, Member of the Executive Committee, Former Chairman of the Finance Committee, and Former Treasurer, Cambridge College DOB: 10/23/1938
Term of office since: 1974
Other directorships:
None

Dr. Leroy Keith, Jr. Managing Director, Almanac Capital Management (commodities firm); Trustee, Trustee Phoenix Fund Complex; Director, Diversapack Co. (packaging company); Former DOB: 2/14/1939 Partner, Stonington Partners, Inc. (private equity fund); Former Director, Obagi Term of office since: Medical Products Co.; Former Director, Lincoln Educational Services 1983
Other directorships:
Trustee,
Phoenix Fund
Complex
(consisting of 50
portfolios
as of 12/31/2008)

Carol A. Kosel Former Consultant to the Evergreen Boards of Trustees; Former Vice President and Trustee Senior Vice President, Evergreen Investments, Inc.; Former Treasurer, Evergreen DOB: 12/25/1963 Funds; Former Treasurer, Vestaur Securities Fund
Term of office since: 2008
Other directorships:
None

Gerald M. McDonnell Former Manager of Commercial Operations, CMC Steel (steel producer) Trustee DOB: 7/14/1939
Term of office since: 1988
Other directorships:
None

Patricia B. Norris President and Director of Buckleys of Kezar Lake, Inc. (real estate company); Former Trustee
Trustee
DOB: 4/9/1948 President and Director of Phillips Pond Homes Association (home community);
Former Partner, PricewaterhouseCoopers, LLP (independent registered public
Term of office since: accounting firm)
2006
Other directorships:
None

William Walt Pettit² Partner and Vice President, Kellam & Pettit, P.A. (law firm); Director, Superior Trustee
Trustee
DOB: 8/26/1955 Packaging Corp. (packaging company); Member, Superior Land, LLC (real estate holding company), Member, K&P Development, LLC (real estate development);
Term of office since: Former Director, National Kidney Foundation of North Carolina, Inc. (non-profit organization)
1988
Other directorships:
None

David M. Richardson President, Richardson, Runden LLC (executive recruitment advisory services); Director, J&M Cumming Paper Co. (paper merchandising); Former Trustee, NDI Trustee
Trustee
DOB: 9/19/1941 Technologies, LLP (communications); Former Consultant, AESC (The Association of Executive Search Consultants)
Term of office since:
1982
Other directorships:
None

Russell A. Salton III, MD President/CEO, AccessOne MedCard, Inc.
Trustee
DOB: 6/2/1947
Term of office since:
1984
Other directorships:
None

TRUSTEES AND OFFICERS continued

Michael S. Scofield Retired Attorney, Law Offices of Michael S. Scofield; Former Director and Chairman, Trustee, Branded Media Corporation (multi-media branding company)
 Trustee
 DOB: 2/20/1943
 Term of office since: 1984
 Other directorships: None

Richard J. Shima Independent Consultant; Director, Hartford Hospital; Trustee, Greater Hartford YMCA; Trustee, Former Director, Trust Company of CT; Former Trustee, Saint Joseph College (CT)
 Trustee
 DOB: 8/11/1939
 Term of office since: 1993
 Other directorships: None

Richard K. Wagoner, CFA³ Member and Former President, North Carolina Securities Traders Association; Member, Financial Analysts Society
 Trustee
 DOB: 12/12/1937
 Term of office since: 1999
 Other directorships: None

OFFICERS

W. Douglas Munn⁴ Principal occupations: Chief Operating Officer, Wells Fargo Funds Management, LLC; President and Chief Operating Officer, Evergreen Investment Company, Inc.
 President
 DOB: 4/21/1963
 Term of office since: 2009

Kasey Phillips⁴ Principal occupations: Senior Vice President, Evergreen Investment Management Company, LLC; Former Vice President, Evergreen Investment Services, Inc.
 Treasurer
 DOB: 12/12/1970
 Term of office since: 2005

Michael H. Koonce⁴ Principal occupations: Senior Vice President and General Counsel, Evergreen Investment Services, Inc.; Secretary, Senior Vice President and General Counsel, Evergreen Investment Management Company, LLC and Evergreen Service Company, LLC
 Secretary
 DOB: 4/20/1960
 Term of office since: 2000

Robert Guerin⁴ Principal occupations: Chief Compliance Officer, Evergreen Funds and Senior Vice President of Evergreen Investment Company, Inc.; Former Managing Director and
 Chief Compliance

Officer	Senior Compliance Officer, Babson Capital Management LLC; Former Principal and
DOB: 9/20/1965	Director, Compliance and Risk Management, State Street Global Advisors; Former
Term of office since: 2007	Vice President and Manager, Sales Practice Compliance, Deutsche Asset Management

- 1 The Board of Trustees is classified into three classes of which one class is elected annually. Each Trustee serves a three-year term concurrent with the class from which the Trustee is elected. Each Trustee oversaw 77 Evergreen funds as of December 31, 2008. Correspondence for each Trustee may be sent to Evergreen Board of Trustees, P.O. Box 20083, Charlotte, NC 28202.
- 2 It is possible that Mr. Pettit may be viewed as an “interested person” of the Evergreen funds, as defined in the 1940 Act, because of his law firm’s previous representation of affiliates of Wells Fargo & Company (“Wells Fargo”), the parent to the Evergreen funds’ investment advisor, EIMC. The Trustees are treating Mr. Pettit as an interested trustee for the time being.
- 3 Mr. Wagoner is an “interested person” of the Evergreen funds because of his ownership of shares in Wells Fargo & Company, the parent to the Evergreen funds’ investment advisor.
- 4 The address of the Officer is 200 Berkeley Street, Boston, MA 02116.

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Item 2 - Code of Ethics

(a) The Registrant has adopted a code of ethics that applies to the Registrant's principal executive officer and principal financial officer.

(b) During the period covered by this report, there were no amendments to the provisions of the code of ethics adopted in 2.(a) above.

(c) During the period covered by this report, there were no implicit or explicit waivers to the provisions of the code of ethics adopted in 2.(a) above.

Item 3 - Audit Committee Financial Expert

Charles A. Austin III and Patricia B. Norris have been determined by the Registrant's Board of Trustees to be audit committee financial experts within the meaning of Section 407 of the Sarbanes-Oxley Act. These financial experts are independent of management.

Items 4 – Principal Accountant Fees and Services

The following table represents fees for professional audit services rendered by KPMG LLP, for the audits of the Registrant's annual financial statements for the fiscal years ended October 31, 2009 and October 31, 2008, and fees billed for other services rendered by KPMG LLP.

	<u>2009</u>	<u>2008</u>
Audit fees	\$61,650	\$53,175
Audit-related fees	\$0	\$0
Tax fees ⁽¹⁾	\$10,000	\$727
Non-audit fees ⁽²⁾	\$480,000	\$912,374
All other fees	\$0	\$0

(1) Tax fees consists of fees for tax consultation, tax compliance and tax review.

(2) Non-audit fees consists of the aggregate fees for non-audit services rendered to the Fund, EIMC (not including any sub-advisor whose role is primarily portfolio management and is subcontracted with or overseen by another investment advisor) and EIS.

Evergreen Funds

Evergreen Global Dividend Opportunity Fund

Evergreen Income Advantage Fund

Evergreen International Balanced Income Fund

Evergreen Multi-Sector Income Fund

Evergreen Utilities and High Income Fund

Audit and Non-Audit Services Pre-Approval Policy

I. Statement of Principles

Under the Sarbanes-Oxley Act of 2002 (the “Act”), the Audit Committee of the Board of Trustees/Directors is responsible for the appointment, compensation and oversight of the work of the independent auditor. As part of this responsibility, the Audit Committee is required to pre-approve the audit and non-audit services performed by the independent auditor for the Funds, as well as non-audit services performed by the independent auditor for the Funds’ investment adviser or any of its control affiliates that relates directly to the Funds’ operations and financial reporting, in order to assure that they do not impair the auditor’s independence from the Funds. To implement these provisions of the Act, the Securities and Exchange Commission (the “SEC”) has issued rules specifying the types of services that an independent auditor may not provide to its audit client, as well as regarding the audit committee’s administration of the engagement of the independent auditor. Accordingly, the Audit Committee has adopted, and the Board of Trustees has ratified, the Audit and Non-Audit Services Pre Approval Policy (the “Policy”), which sets forth the procedures and the conditions pursuant to which services proposed to be performed by the independent auditor may be pre-approved.

The SEC’s rules establish two different approaches to pre-approving services, which the SEC considers to be equally valid. Proposed services either: may be pre-approved by the Audit Committee pursuant to detailed pre-approval policies and procedures that describe the types of services for which the independent auditor may be engaged (“general pre-approval”); or may be expressly pre-approved by the Audit Committee (“specific pre-approval”). The Audit Committee believes that the combination of these two approaches expressed in this Policy will result in an effective and efficient procedure to pre-approve services performed by the independent auditor. As set forth in this Policy, unless a type of service has received general pre-approval, it will require specific pre-approval by the Audit Committee if it is to be provided by the independent auditor.

For both types of pre-approval, the Audit Committee will consider whether such services are consistent with the SEC’s rules on auditor independence. The Audit Committee will also consider whether the independent auditor is best positioned to provide the most effective and efficient service, for reasons such as its familiarity with the Funds’ business people, culture, accounting systems, risk profile and other factors, and whether the service might enhance the Funds’ ability to manage or control risk or improve audit quality. All such factors will be considered as a whole, and no one factor should necessarily be determinative.

The Audit Committee is also mindful of the relationship between fees for audit and non-audit services in deciding whether to pre-approve any such services and may determine, for each fiscal year, the ratio between the total amount of fees for Audit, Audit-related and Tax services and the total amount of fees for certain permissible non-audit services classified as All Other services.

The appendices to this Policy describe the Audit, Audit-related, Tax and All Other services that have the general pre-approval of the Audit Committee. The term of any general pre-approval is 12 months from the date of pre-approval, unless the Audit Committee considers a different period and states otherwise. The Audit Committee will annually review and pre-approve the services that may be provided by the independent auditor without obtaining specific pre-approval from the Audit Committee. The Audit Committee will add or subtract to the list of general pre-approved services from time to time, based on subsequent determinations.

The purpose of this Policy is to set forth the procedures by which the Audit Committee intends to fulfill its responsibilities. It does not delegate the Audit Committee's responsibilities to pre-approve services performed by the independent auditor to management.

The independent auditor has reviewed this Policy and believes that implementation of the policy will not adversely affect the auditor's independence.

II. Delegation

As provided in the Act and the SEC's rules, the Audit Committee may delegate either type of pre-approval authority to one or more of its members. The member to whom such authority is delegated must report, for informational purposes only, any pre-approval decisions to the Audit Committee at its next scheduled meeting.

III. Audit Services

The annual Audit services engagement terms and fees will be subject to the specific pre-approval of the Audit Committee. Audit services include the annual financial statement audit and other procedures required to be performed by the independent auditor to be able to form an opinion on the Funds' financial statements. These other procedures include information systems and procedural reviews and testing performed in order to understand and place reliance on the systems of internal control, and consultations relating to the audit. Audit services also include the attestation engagement for the independent auditor's report on management's report on internal controls for financial reporting. The Audit Committee will monitor the Audit services engagement as necessary, but on no less than on a quarterly basis, and will also approve, if necessary, any changes in terms, conditions and fees resulting from changes in audit scope, Fund service providers or other items.

In addition to the annual Audit services engagement approved by the Audit Committee, the Audit Committee may grant general pre-approval for other Audit services, which are those services that only the independent auditor reasonably can provide. Other Audit services may include services associated with SEC registration statements, periodic reports and other documents filed with the SEC or other documents issued in connection with mergers or acquisitions.

The Audit Committee has pre-approved the Audit services in Appendix A. All other audit services not listed in Appendix A must be specifically pre-approved by the Audit Committee.

IV. Audit-related Services

Audit-related services are assurance and related services that are reasonably related to the performance of the audit or review of the Funds' financial statements or that are traditionally performed by the independent auditor. Because the Audit Committee believes that the provision of Audit-related services does not impair the independence of the auditor and is consistent with SEC's rules on auditor independence, the Audit Committee may grant general pre-approval for Audit-related services. Audit-related services include, among others, due diligence services pertaining to potential business acquisitions/dispositions; accounting consultations related to accounting, financial reporting or disclosure matters not classified as "Audit services"; assistance with understanding and implementing new accounting and financial reporting guidance from rulemaking authorities; agreed-upon or expanded audit procedures related to

accounting records required to respond to or comply with financial, accounting or regulatory reporting matters; and assistance with internal control reporting requirements.

The Audit Committee has pre-approved the Audit-related services in Appendix B. All other Audit-related services not listed in appendix B must be specifically pre-approved by the Audit Committee.

V. Tax Services

The Audit Committee believes that the independent auditor can provide Tax services to the Funds such as tax compliance, tax planning and tax advice without impairing the auditor's independence, and the SEC has stated that the independent auditor may provide such services. Hence, the Audit Committee believes it may grant general pre-approval to those Tax services that have historically been provided by the auditor, that the Audit Committee has reviewed and believes would not impair the independence of the auditor, and that are consistent with the SEC's rules on auditor independence. The Audit Committee will not permit the retention of the independent auditor in connection with a transaction initially recommended by the independent auditor, the sole business purpose of which may be tax avoidance and the tax treatment of which may not be supported in the Internal Revenue Code and related regulations. The Audit Committee will consult with the Director of Fund Administration, the Senior Vice President of Tax Services or outside counsel to determine that the tax planning and reporting positions are consistent with this policy.

Pursuant to the preceding paragraph, the Audit Committee has pre-approved the Tax services in Appendix C. All Tax services involving large and complex transactions not listed in Appendix C must be specifically pre-approved by the Audit Committee, including: tax services proposed to be provide by the independent auditor to any executive officer or director of the Funds, in his or her individual capacity, where such services are paid for by the Funds or the investment advisor.

VI. All Other Services

The Audit Committee believes, based on the SEC's rules prohibiting the independent auditor from providing specific non-audit services, that other types of non-audit services are permitted. Accordingly, the Audit Committee believes it may grant general pre-approval to those permissible non-audit services classified as All Other services that it believes are routine and recurring services, would not impair the independence of the auditor and are consistent with the SEC's rules on auditor independence.

The Audit Committee has pre-approved the All Other services in Appendix C. Permissible All Other services not listed in Appendix C must be specifically pre-approved by the Audit Committee.

A list of the SEC's prohibited non-audit services is attached to this policy as Exhibit 1. The SEC's rules and relevant guidance should be consulted to determine the precise definitions of these services and the applicability of exceptions to certain of the prohibitions.

VII. Pre-Approval Fee Levels or Budgeted Amounts

Fee levels or budgeted amounts for all services to be provided by the independent auditor subject to general pre-approval will be established annually by the Audit Committee. Fee levels or budgeted amounts for services to be provided by the independent auditor subject to specific pre-approval will be established at the time of the specific pre-approval. Any proposed fees exceeding these levels or amounts will require specific pre-approval by the Audit Committee. The Audit Committee is mindful of the overall relationship of fees for audit and non-audit services in

determining whether to pre-approve any such services. For each fiscal year, the Audit Committee may determine to ratio between the total amount of fees for Audit, Audit-related and Tax services, and the total amount of fees for services classified as All Other services.

VIII. Procedures

All requests or applications for services to be provided by the independent auditor that do not require specific approval by the Audit Committee will be submitted to the Director of Fund Administration or Assistant Director of Fund Administration and must include a detailed description of the services to be rendered. The Director/Assistant Director of Fund Administration will determine whether such services are included within the list of services that have received the general pre-approval of the Audit Committee. The Audit Committee will be informed on a quarterly basis (or more frequent if requested by the Audit Committee) of any such services rendered by the independent auditor.

Requests or applications to provide services that require specific approval by the Audit Committee will be submitted to the Audit Committee by both the independent auditor and the Director/Assistant Director of Fund Administration, and must include a joint statement as to whether, in their view, the request or application is consistent with the SEC's rules on auditor independence.

The Director/Assistant Director of Fund Administration will report to the Audit Committee at each of its regular meetings regarding all services provided by the independent auditor that are subject to this policy since the last such report was rendered, including: (1) a general description of the services; (2) actual billed and projected fees; and (3) the means by which such services were pre-approved by the Audit Committee, as well as the date of approval and any related fee level or budgeted amount to which the services are subject.

The Audit Committee has designated the Chief Compliance Officer to monitor the performance of all services provided by the independent auditor and to determine whether such services are in compliance with this policy. The Chief Compliance Officer will report to the Audit Committee on a periodic basis on the results of its monitoring. Both the Chief Compliance Officer and management will immediately report to the chairman of the Audit Committee any breach of this policy that comes to the attention of the Chief Compliance Officer or any member of management.

IX. Additional Requirements

The Audit Committee has determined to take additional measures on an annual basis to meet its responsibility to oversee the work of the independent auditor and to assure the auditor's independence from the Funds, such as reviewing a formal written statement from the independent auditor delineating all relationships between the independent auditor and the Funds, the Funds' investment advisor and related parties of the investment advisor, consistent with Independence Standards Board Standard No. 1, and discussing with the independent auditor its methods and procedures for ensuring independence.

Items 5 – Audit Committee of Listed Registrants

The Fund has a separately designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934. The audit committee of the Fund is comprised of Russell A. Salton, III, Charles A. Austin III and the Chair of the Committee, Patricia B. Norris, each of whom is an Independent Trustee.

Item 6 – Schedule of Investments

Please see schedule of investments contained in the Report to Stockholders included under Item 1 of this Form N-CSR.

Item 7 – Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.

The Registrant has delegated the voting of proxies relating to its voting securities to its investment advisor, Evergreen Investment Management Company, LLC (the “Advisor”).

Proxy Voting Policy and Procedures

Evergreen Investment Management Company, LLC — February 1, 2007

Statement of Principles

Evergreen Investment Management Company (Evergreen) recognizes it has a fiduciary duty to vote proxies on behalf of clients who have delegated such responsibility to Evergreen, and that in all cases proxies should be voted in a manner reasonably believed to be in the clients' best interest.

Proxy Committee

Evergreen has established a proxy committee (Committee) which is a sub-committee of Evergreen's Investment Policy Committee. The Committee is responsible for approving Evergreen's proxy voting policies, procedures and guidelines, for overseeing the proxy voting process, and for reviewing proxy voting on a regular basis. The Committee will meet quarterly to review reports of all proxies voted for the prior period and to conduct other business as required.

Share Blocking

Evergreen does not vote global proxies, with share blocking restrictions, requiring shares to be prohibited from sale.

Conflicts of Interest

Evergreen recognizes that under certain circumstances it may have a conflict of interest in voting proxies on behalf of its clients. Such circumstances may include, but are not limited to, situations where Evergreen or one or more of its affiliates has a client or customer relationship with the issuer of the security that is the subject of the proxy vote.

In most cases, structural and informational barriers within Evergreen and Wachovia Corporation will prevent Evergreen from becoming aware of the relationship giving rise to the potential conflict of interest. In such circumstances, Evergreen will vote the proxy according to its standard guidelines and procedures described above.

If persons involved in proxy voting on behalf of Evergreen become aware of a potential conflict of interest, the Committee shall consult with Evergreen's Legal Department and consider whether to implement special procedures with respect to the voting of that proxy, including whether an independent third party should be retained to vote the proxy.

Concise Domestic Proxy Voting GuidelinesThe following is a concise summary of the Evergreen Investments Management Company LLC proxy voting policy guidelines for 2007.

1. Auditors

Ratifying Auditors

Vote FOR proposals to ratify auditors, unless:

- . An auditor has a financial interest in or association with the company, and is therefore not independent;
- . There is reason to believe that the independent auditor has rendered an opinion which is neither accurate nor indicative of the company's financial position; or
- . Fees for non-audit services are excessive.

2. Board of Directors

Voting on Director Nominees in Uncontested Elections

Vote CASE-BY-CASE on director nominees, examining, but not limited to, the following factors:

- . Composition of the board and key board committees;
- . Attendance at board and committee meetings;
- . Corporate governance provisions and takeover activity;
- . Disclosures under Section 404 of the Sarbanes-Oxley Act;
- . Long-term company performance relative to a market and peer index;
- . Extent of the director's investment in the company;
- . Existence of related party transactions;
- . Whether the chairman is also serving as CEO;

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- . Whether a retired CEO sits on the board;
- . Number of outside boards at which a director serves.
- . Majority vote standard for director elections without a provision to allow for plurality voting when there are more nominees than seats.

WITHHOLD from individual directors who:

- . Attend less than 75 percent of the board and committee meetings without a valid excuse (such as illness, service to the nation, work on behalf of the company);
- . Sit on more than six public company boards;
- . Are CEOs of public companies who sit on the boards of more than two public companies besides their own (withhold only at their outside boards).

WITHHOLD from the entire board (except for new nominees, who should be considered on a CASE-BY-CASE basis) if:

- . The company's proxy indicates that not all directors attended 75% of the aggregate of their board and committee meetings, but fails to provide the required disclosure of the names of the directors involved. If this information cannot be obtained, withhold from all incumbent directors;
- . The company's poison pill has a dead-hand or modified dead-hand feature. Withhold every year until this feature is removed;
- . The board adopts or renews a poison pill without shareholder approval since the beginning of 2005, does not commit to putting it to shareholder vote within 12 months of adoption or reneges on a commitment to put the pill to a vote and has not yet been withheld from for this issue;
- . The board failed to act on a shareholder proposal that received approval by a majority of the shares outstanding the previous year;
- . The board failed to act on a shareholder proposal that received approval of the majority of shares cast for the previous two consecutive years;
- . The board failed to act on takeover offers where the majority of the shareholders tendered their shares;
- . At the previous board election, any director received more than 50 percent withhold votes of the shares cast and the company has failed to address the issue(s) that caused the high withhold rate;
- . The company is a Russell 3000 company that underperformed its industry group (GICS group) under the criteria discussed in the section "Performance Test for Directors".

WITHHOLD from inside directors and affiliated outside directors when:

- . The inside or affiliated outside director serves on any of the three key committees: audit, compensation, or nominating;
- . The company lacks an audit, compensation, or nominating committee so that the full board functions as that committee;
- . The company lacks a formal nominating committee, even if board attests that the independent directors fulfill the functions of such a committee;
- . The full board is less than majority independent.

WITHHOLD from the members of the Audit Committee if:

- . The non-audit fees paid to the auditor are excessive;
- . A material weakness identified in the Section 404 disclosures rises to a level of serious concern; there are chronic internal control issues and an absence of established effective control mechanisms.
- . There is persuasive evidence that the audit committee entered into an inappropriate indemnification agreement with its auditor that limits the ability of the company, or its shareholders, to pursue legitimate legal recourse against the audit firm.

WITHHOLD from the members of the Compensation Committee if:

- . There is a negative correlation between chief executive pay and company performance;
- . The company reprices underwater options for stock, cash or other consideration without prior shareholder approval, even if allowed in their equity plan;
- . The company fails to submit one-time transfers of stock options to a shareholder vote;
- . The company fails to fulfill the terms of a burn rate commitment they made to shareholders;
- . The company has backdated options (see "Options Backdating" policy);
- . The company has poor compensation practices (see "Poor Pay Practices" policy). Poor pay practices may warrant withholding votes from the CEO and potentially the entire board as well.

WITHHOLD from directors, individually or the entire board, for egregious actions or failure to replace management as appropriate.

Classification/Declassification of the Board

Vote AGAINST proposals to classify the board. Vote FOR proposals to repeal classified boards and to elect all directors annually.

Independent Chair (Separate Chair/CEO)

Generally vote FOR shareholder proposals requiring the position of chair be filled by an independent director unless there are compelling reasons to recommend against the proposal, such as a counterbalancing governance structure. This should include all of the following:

- . Designated lead director, elected by and from the independent board members with clearly delineated and comprehensive duties. (The role may alternatively reside with a presiding director, vice chairman, or rotating lead director; however the director must serve a minimum of one year in order to qualify as a lead director.) At a minimum these should include:

- o Presiding at all meetings of the board at which the chairman is not present, including executive sessions of the independent directors,
- o Serving as liaison between the chairman and the independent directors,
- o Approving information sent to the board,
- o Approving meeting agendas for the board,
- o Approves meetings schedules to assure that there is sufficient time for discussion of all agenda items,
- o Having the authority to call meetings of the independent directors,
- o If requested by major shareholders, ensuring that he is available for consultation and direct communication;
- . Two-thirds independent board;
- . All-independent key committees;
- . Established governance guidelines;
- . The company does not under-perform its peers.

Majority Vote Shareholder Proposals

Generally vote FOR precatory and binding resolutions requesting that the board change the company's bylaws to stipulate that directors need to be elected with an affirmative majority of votes cast, provided it does not conflict with the state law where the company is incorporated. Binding resolutions need to allow for a carve-out for a plurality vote standard when there are more nominees than board seats. Companies are strongly encouraged to also adopt a post-election policy (also know as a director resignation policy) that will provide guidelines so that the company will promptly address the situation of a holdover director.

3. Proxy Contests

Voting for Director Nominees in Contested Elections

Vote CASE-BY-CASE on the election of directors in contested elections, considering the following factors:

- . Long-term financial performance of the target company relative to its industry;
- . Management's track record;
- . Background to the proxy contest;
- . Qualifications of director nominees (both slates);
- . Strategic plan of dissident slate and quality of critique against management;
- . Likelihood that the proposed goals and objectives can be achieved (both slates);
- . Stock ownership positions.

Reimbursing Proxy Solicitation Expenses

Vote CASE-BY-CASE on proposals to reimburse proxy solicitation expenses. When voting in conjunction with support of a dissident slate, vote FOR the reimbursement of all appropriate proxy solicitation expenses associated with the election.

4. Takeover Defenses

Poison Pills

Vote FOR shareholder proposals requesting that the company submit its poison pill to a shareholder vote or redeem it UNLESS the company has:

(1) A shareholder approved poison pill in place; or

(2) The company has adopted a policy concerning the adoption of a pill in the future specifying that the board will only adopt a shareholder rights plan if either:

- . Shareholders have approved the adoption of the plan;
or
- . The board, in its exercise of its fiduciary responsibilities, determines that it is in the best interest of shareholders under the circumstances to adopt a pill without the delay in adoption that would result from seeking stockholder approval (i.e. the “fiduciary out” provision). A poison pill adopted under this fiduciary out will be put to a shareholder ratification vote within twelve months of adoption or expire. If the pill is not approved by a majority of the votes cast on this issue, the plan will immediately terminate.

Vote FOR shareholder proposals calling for poison pills to be put to a vote within a time period of less than one year after adoption. If the company has no non-shareholder approved poison pill in place and has adopted a policy with the provisions outlined above, vote AGAINST the proposal. If these conditions are not met, vote FOR the proposal, but with the caveat that a vote within twelve months would be considered sufficient.

Vote CASE-by-CASE on management proposals on poison pill ratification, focusing on the features of the shareholder rights plan. Rights plans should contain the following attributes:

- . No lower than a 20 percent trigger, flip-in or flip-over;
- . A term of no more than three years;
- . No dead-hand, slow-hand, no-hand or similar feature that limits the ability of a future board to redeem the pill;
- . Shareholder redemption feature (qualifying offer clause); if the board refuses to redeem the pill 90 days after a qualifying offer is announced, ten percent of the shares may call a special meeting or seek a written consent to vote on rescinding the pill.

Supermajority Vote Requirements

Vote AGAINST proposals to require a supermajority shareholder vote.

Vote FOR proposals to lower supermajority vote requirements.

5. Mergers and Corporate Restructurings

For mergers and acquisitions, review and evaluate the merits and drawbacks of the proposed transaction, balancing various and sometimes countervailing factors including:

- *Valuation* - Is the value to be received by the target shareholders (or paid by the acquirer) reasonable? While the fairness opinion may provide an initial starting point for assessing valuation reasonableness, emphasis is placed on the offer premium, market reaction and strategic rationale.
- *Market reaction* - How has the market responded to the proposed deal? A negative market reaction should cause closer scrutiny of a deal.
- *Strategic rationale* - Does the deal make sense strategically? From where is the value derived? Cost and revenue synergies should not be overly aggressive or optimistic, but reasonably achievable. Management should also have a favorable track record of successful integration of historical acquisitions.
- *Negotiations and process* - Were the terms of the transaction negotiated at arm's-length? Was the process fair and equitable? A fair process helps to ensure the best price for shareholders. Significant negotiation "wins" can also signify the deal makers' competency. The comprehensiveness of the sales process (e.g., full auction, partial auction, no auction) can also affect shareholder value.
- *Conflicts of interest* - Are insiders benefiting from the transaction disproportionately and inappropriately as compared to non-insider shareholders? As the result of potential conflicts, the directors and officers of the company may be more likely to vote to approve a merger than if they did not hold these interests. Consider whether these interests may have influenced these directors and officers to support or recommend the merger.
- *Governance* - Will the combined company have a better or worse governance profile than the current governance profiles of the respective parties to the transaction? If the governance profile is to change for the worse, the burden is on the company to prove that other issues (such as valuation) outweigh any deterioration in governance.

6. State of Incorporation

Reincorporation Proposals

Vote CASE-BY-CASE on proposals to change a company's state of incorporation, taking into consideration both financial and corporate governance concerns, including the reasons for reincorporating, a comparison of the governance provisions, comparative economic benefits, and a comparison of the jurisdictional laws.

Vote FOR reincorporation when the economic factors outweigh any neutral or negative governance changes.

7. Capital Structure

Common Stock Authorization

Vote CASE-BY-CASE on proposals to increase the number of shares of common stock authorized for issuance.

Vote FOR proposals to approve increases beyond the allowable increase when a company's shares are in danger of being de-listed or if a company's ability to continue to operate as a going concern is uncertain. In addition, for capital requests less than or equal to 300 percent of the current authorized shares that marginally fail the calculated allowable cap (i.e., exceed the allowable cap by no more than 5 percent), on a CASE-BY-CASE basis, vote FOR the increase based on the company's performance and whether the company's ongoing use of shares has shown prudence.

Issue Stock for Use with Rights Plan

Vote AGAINST proposals that increase authorized common stock for the explicit purpose of implementing a non-shareholder approved shareholder rights plan (poison pill).

Preferred Stock

Vote AGAINST proposals authorizing the creation of new classes of preferred stock with unspecified voting, conversion, dividend distribution, and other rights ("blank check" preferred stock).

Vote AGAINST proposals to increase the number of blank check preferred stock authorized for issuance when no shares have been issued or reserved for a specific purpose.

Vote FOR proposals to create "de-clawed" blank check preferred stock (stock that cannot be used as a takeover defense).

Vote FOR proposals to authorize preferred stock in cases where the company specifies the voting, dividend, conversion, and other rights of such stock and the terms of the preferred stock appear reasonable.

Vote CASE-BY-CASE on proposals to increase the number of blank check preferred shares after analyzing the number of preferred shares available for issue given a company's industry and performance in terms of shareholder returns.

8. Executive and Director Compensation

Poor Pay Practices

WITHHOLD from compensation committee members, CEO, and potentially the entire board, if the company has poor compensation practices, such as:

- . Egregious employment contracts (e.g., those containing multi-year guarantees for bonuses and grants);
- . Excessive perks that dominate compensation (e.g., tax gross-ups for personal use of corporate aircraft);
- . Huge bonus payouts without justifiable performance linkage or proper disclosure;
- . Performance metrics that are changed (e.g., canceled or replaced during the performance period without adequate explanation of the action and the link to performance);
- . Egregious pension/SERP (supplemental executive retirement plan) payouts (e.g., the inclusion of additional years of service not worked or inclusion of performance-based equity awards in the pension calculation);
- . New CEO awarded an overly generous new hire package (e.g., including excessive “make whole” provisions or any of the poor pay practices listed in this policy);
- . Excessive severance provisions (e.g., including excessive change in control payments);
- . Change in control payouts without loss of job or substantial diminution of job duties;
- . Internal pay disparity;
- . Options backdating (covered in a separate policy);
- and

Equity Compensation Plans

Vote CASE-BY-CASE on equity-based compensation plans. Vote AGAINST the plan if:

- . The total cost of the company’s equity plans is unreasonable;
- . The plan expressly permits the repricing of stock options without prior shareholder approval;
- . There is a disconnect between CEO pay and the company’s performance;
- . The company’s three year burn rate exceeds the greater of 2 percent and the mean plus 1 standard deviation of its industry group; or
- . The plan is a vehicle for poor pay practices.

Director Compensation

Vote CASE-BY-CASE on compensation plans for non-employee directors, based on the cost of the plans against the company’s allowable cap. Vote for the plan if ALL of the following qualitative factors in the board’s compensation plan are met and disclosed in the proxy statement:

- . Stock ownership guidelines with a minimum of three times the annual cash retainer.
- . Vesting schedule or mandatory holding/deferral period:
 - o A minimum vesting of three years for stock options or restricted stock; or
 - o Deferred stock payable at the end of a three-year deferral period.
- . A balanced mix between cash and equity. If the mix is heavier on equity, the vesting schedule or deferral period should be more stringent, with the lesser of five years or the term of directorship.
- . No retirement/benefits and perquisites for non-employee directors; and
- . A table with a detailed disclosure of the cash and equity compensation for each non-employee director for the most recent fiscal year.

Employee Stock Purchase Plans--Qualified Plans

Vote CASE-BY-CASE on qualified employee stock purchase plans. Vote FOR plans if:

- . Purchase price is at least 85 percent of fair market value;
- . Offering period is 27 months or less; and
- . The number of shares allocated to the plan is ten percent or less of the outstanding shares.

Employee Stock Purchase Plans--Non-Qualified Plans

Vote CASE-by-CASE on nonqualified employee stock purchase plans. Vote FOR plans with:

- . Broad-based participation (i.e., all employees with the exclusion of individuals with 5 percent or more of beneficial ownership of the company);
- . Limits on employee contribution (a fixed dollar amount or a percentage of base salary);
- . Company matching contribution up to 25 percent of employee's contribution, which is effectively a discount of 20 percent from market value;
- . No discount on the stock price on the date of purchase since there is a company matching contribution.

Options Backdating

In cases where a company has practiced options backdating, WITHHOLD on a CASE-BY-CASE basis from the members of the compensation committee, depending on the severity of the practices and the subsequent corrective actions on the part of the board. WITHHOLD from the compensation committee members who oversaw the questionable options grant practices or from current compensation committee members who fail to respond to the issue proactively, depending on several factors, including, but not limited to:

- . Reason and motive for the options backdating issue, such as inadvertent vs. deliberate grant date changes;

- . Length of time of options backdating;
- . Size of restatement due to options backdating;
- . Corrective actions taken by the board or compensation committee, such as canceling or repricing backdated options, or recouping option gains on backdated grants;
- . Adoption of a grant policy that prohibits backdating, and creation of a fixed grant schedule or window period for equity grants going forward.

Severance Agreements for Executives/Golden Parachutes

Vote FOR shareholder proposals to require golden parachutes or executive severance agreements to be submitted for shareholder ratification, unless the proposal requires shareholder approval prior to entering into employment contracts.

Vote on a CASE-BY-CASE basis on proposals to ratify or cancel golden parachutes. An acceptable parachute should include:

- . A trigger beyond the control of management;
- . The amount should not exceed three times base amount (defined as the average annual taxable W-2 compensation during the five years prior to the year in which the change of control occurs);
- . Change-in-control payments should be double-triggered, i.e., (1) after a change in the company's ownership structure has taken place, and (2) termination of the executive as a result of the change in control.

9. Corporate Responsibility

Animal Rights

Generally vote AGAINST proposals to phase out the use of animals in product testing unless:

- . The company is conducting animal testing programs that are unnecessary or not required by regulation;
- . The company is conducting animal testing when suitable alternatives are accepted and used at peer firms;
- . The company has been the subject of recent, significant controversy related to its testing programs.

Generally vote FOR proposals seeking a report on the company's animal welfare standards.

Drug Pricing and Re-importation

Generally vote AGAINST proposals requesting that companies implement specific price restraints on pharmaceutical products unless the company fails to adhere to legislative guidelines or industry norms in its product pricing.

Vote CASE-BY-CASE on proposals requesting that the company evaluate their product pricing considering:

- . The existing level of disclosure on pricing policies;
- . Deviation from established industry pricing norms;
- . The company's existing initiatives to provide its products to needy consumers;
- . Whether the proposal focuses on specific products or geographic regions.

Generally vote FOR proposals requesting that companies report on the financial and legal impact of their policies regarding prescription drug re-importation unless such information is already publicly disclosed.

Generally vote AGAINST proposals requesting that companies adopt specific policies to encourage or constrain prescription drug re-importation.

Genetically Modified Foods

Vote AGAINST proposals asking companies to voluntarily label genetically engineered (GE) ingredients in their products or alternatively to provide interim labeling and eventually eliminate GE ingredients due to the costs and feasibility of labeling and/or phasing out the use of GE ingredients.

Tobacco

Most tobacco-related proposals (such as on second-hand smoke, advertising to youth and spin-offs of tobacco-related business) should be evaluated on a CASE-BY-CASE basis.

Toxic Chemicals

Generally vote FOR resolutions requesting that a company discloses its policies related to toxic chemicals.

Vote CASE-BY-CASE on resolutions requesting that companies evaluate and disclose the potential financial and legal risks associated with utilizing certain chemicals.

Generally vote AGAINST resolutions requiring that a company reformulate its products within a certain timeframe unless such actions are required by law in specific markets.

Arctic National Wildlife Refuge

Generally vote AGAINST request for reports outlining potential environmental damage from drilling in the Arctic National Wildlife Refuge (ANWR) unless:

- . New legislation is adopted allowing development and drilling in the ANWR region;
- . The company intends to pursue operations in the ANWR; and
- . The company has not disclosed an environmental risk report for its ANWR operations.

Concentrated Area Feeding Operations (CAFOs)

Vote FOR resolutions requesting that companies report to shareholders on the risks and liabilities associated with CAFOs unless:

- . The company has publicly disclosed guidelines for its corporate and contract farming operations, including compliance monitoring; or
- . The company does not directly source from CAFOs.

Global Warming and Kyoto Protocol Compliance

Generally vote FOR proposals requesting a report on greenhouse gas emissions from company operations and/or products unless this information is already publicly disclosed or such factors are not integral to the company's line of business. Generally vote AGAINST proposals that call for reduction in greenhouse gas emissions by specified amounts or within a restrictive time frame unless the company lags industry standards and has been the subject of recent, significant fines or litigation resulting from greenhouse gas emissions.

Generally vote FOR resolutions requesting that companies outline their preparations to comply with standards established by Kyoto Protocol signatory markets unless:

- . The company does not maintain operations in Kyoto signatory markets;
- . The company already evaluates and substantially discloses such information; or,

Greenhouse gas emissions do not significantly impact the company's core businesses.

Political Contributions

Vote CASE-BY-CASE on proposals to improve the disclosure of a company's political contributions considering: any recent significant controversy or litigation related to the company's political contributions or governmental affairs; and the public availability of a policy on political contributions.

Vote AGAINST proposals barring the company from making political contributions.

Link Executive Compensation to Social Performance

Vote CASE-BY-CASE on proposals to review ways of linking executive compensation to social factors, such as corporate downsizings, customer or employee satisfaction, community involvement, human rights, environmental performance, predatory lending, and executive/employee pay disparities.

Outsourcing/Offshoring

Vote CASE-BY-CASE on proposals calling for companies to report on the risks associated with outsourcing, considering: the risks associated with certain international markets; the utility of such a report; and the existence of a publicly available code of corporate conduct that applies to international operations.

Human Rights Reports

Vote CASE-BY-CASE on requests for reports detailing the company's operations in a particular country and on proposals to implement certain human rights standards at company facilities or those of its suppliers and to commit to outside, independent monitoring.

10. Mutual Fund Proxies

Election of Directors

Vote CASE-BY-CASE on the election of directors and trustees, following the same guidelines for uncontested directors for public company shareholder meetings. However, mutual fund boards do not usually have compensation committees, so do not withhold for the lack of this committee.

Converting Closed-end Fund to Open-end Fund

Vote CASE-BY-CASE on conversion proposals, considering the following factors:

- Past performance as a closed-end fund;
- Market in which the fund invests;
- Measures taken by the board to address the discount; and
- Past shareholder activism, board activity, and votes on related proposals.

Establish Director Ownership Requirement

Generally vote AGAINST shareholder proposals that mandate a specific minimum amount of stock that directors must own in order to qualify as a director or to remain on the board.

Reimburse Shareholder for Expenses Incurred

Vote CASE-BY-CASE on shareholder proposals to reimburse proxy solicitation expenses. When supporting the dissidents, vote FOR the reimbursement of the solicitation expenses.

Concise Global Proxy Voting Guidelines

Following is a concise summary of general policies for voting global proxies. In addition, country- and market-specific policies, which are not captured below.

Financial Results/Director and Auditor Reports

Vote FOR approval of financial statements and director and auditor reports, unless:

·

there are concerns about the accounts presented or audit procedures used;
or

- . the company is not responsive to shareholder questions about specific items that should be publicly disclosed.

Appointment of Auditors and Auditor Compensation

Vote FOR the reelection of auditors and proposals authorizing the board to fix auditor fees, unless:

- . there are serious concerns about the accounts presented or the audit procedures used;
- . the auditors are being changed without explanation;
or
- . nonaudit-related fees are substantial or are routinely in excess of standard annual audit fees.

Vote AGAINST the appointment of external auditors if they have previously served the company in an executive capacity or can otherwise be considered affiliated with the company.

Appointment of Internal Statutory Auditors

Vote FOR the appointment or reelection of statutory auditors, unless:

- . there are serious concerns about the statutory reports presented or the audit procedures used;
- . questions exist concerning any of the statutory auditors being appointed;
or
- . the auditors have previously served the company in an executive capacity or can otherwise be considered affiliated with the company.

Allocation of Income

Vote FOR approval of the allocation of income, unless:

- . the dividend payout ratio has been consistently below 30 percent without adequate explanation;
or
- . the payout is excessive given the company's financial position.

Stock (Scrip) Dividend Alternative

Vote FOR most stock (scrip) dividend proposals.

Vote AGAINST proposals that do not allow for a cash option unless management demonstrates that the cash option is harmful to shareholder value.

Amendments to Articles of Association

Vote amendments to the articles of association on a CASE-BY-CASE basis.

Change in Company Fiscal Term

Vote FOR resolutions to change a company's fiscal term unless a company's motivation for the change is to postpone its AGM.

Lower Disclosure Threshold for Stock Ownership

Vote AGAINST resolutions to lower the stock ownership disclosure threshold below five percent unless specific reasons exist to implement a lower threshold.

Amend Quorum Requirements

Vote proposals to amend quorum requirements for shareholder meetings on a CASE-BY-CASE basis.

Transact Other Business

Vote AGAINST other business when it appears as a voting item.

Director Elections

Vote FOR management nominees in the election of directors, unless:

- . Adequate disclosure has not been met in a timely fashion;
- . There are clear concerns over questionable finances or restatements;
- . There have been questionable transactions with conflicts of interest;
- . There are any records of abuses against minority shareholder interests; and
- . The board fails to meet minimum corporate governance standards.

Vote FOR individual nominees unless there are specific concerns about the individual, such as criminal wrongdoing or breach of fiduciary responsibilities.

Vote AGAINST shareholder nominees unless they demonstrate a clear ability to contribute positively to board deliberations.

Vote AGAINST individual directors if repeated absences at board meetings have not been explained (in countries where this information is disclosed).

Vote AGAINST labor representatives if they sit on either the audit or compensation committee, as they are not required to be on those committees.

Director Compensation

Vote FOR proposals to award cash fees to nonexecutive directors unless the amounts are excessive relative to other companies in the country or industry.

Vote nonexecutive director compensation proposals that include both cash and share-based components on a CASE-BY-CASE basis.

Vote proposals that bundle compensation for both nonexecutive and executive directors into a single resolution on a CASE-BY-CASE basis.

Vote AGAINST proposals to introduce retirement benefits for nonexecutive directors.

Discharge of Board and Management

Vote FOR discharge of the board and management, unless:

- . there are serious questions about actions of the board or management for the year in question; or
- . legal action is being taken against the board by other shareholders.

Vote AGAINST proposals to remove approval of discharge of board and management from the agenda.

Director, Officer, and Auditor Indemnification and Liability Provisions

Vote proposals seeking indemnification and liability protection for directors and officers on a CASE-BY-CASE basis.

Vote AGAINST proposals to indemnify auditors.

Board Structure

Vote FOR proposals to fix board size.

Vote AGAINST the introduction of classified boards and mandatory retirement ages for directors.

Vote AGAINST proposals to alter board structure or size in the context of a fight for control of the company or the board.

Share Issuance Requests

General Issuances

Vote FOR issuance requests with preemptive rights to a maximum of 100 percent over currently issued capital.

Vote FOR issuance requests without preemptive rights to a maximum of 20 percent of currently issued capital.

Specific Issuances

Vote on a CASE-BY-CASE basis on all requests, with or without preemptive rights.

Increases in Authorized Capital

Vote FOR nonspecific proposals to increase authorized capital up to 100 percent over the current authorization unless the increase would leave the company with less

than 30 percent of its new authorization outstanding.

Vote FOR specific proposals to increase authorized capital to any amount, unless:

- the specific purpose of the increase (such as a share-based acquisition or merger) does not meet established guidelines for the purpose being proposed; or
- the increase would leave the company with less than 30 percent of its new authorization outstanding after adjusting for all proposed issuances

Vote AGAINST proposals to adopt unlimited capital authorizations.

Reduction of Capital

Vote FOR proposals to reduce capital for routine accounting purposes unless the terms are unfavorable to shareholders.

Vote proposals to reduce capital in connection with corporate restructuring on a CASE-BY-CASE basis.

Capital Structures

Vote FOR resolutions that seek to maintain or convert to a one share, one vote capital structure.

Vote AGAINST requests for the creation or continuation of dual class capital structures or the creation of new or additional supervoting shares.

Preferred Stock

Vote FOR the creation of a new class of preferred stock or for issuances of preferred stock up to 50 percent of issued capital unless the terms of the preferred stock would adversely affect the rights of existing shareholders.

Vote FOR the creation/issuance of convertible preferred stock as long as the maximum number of common shares that could be issued upon conversion meets established guidelines on equity issuance requests.

Vote AGAINST the creation of a new class of preference shares that would carry superior voting rights to the common shares.

Vote AGAINST the creation of blank check preferred stock unless the board clearly states that the authorization will not be used to thwart a takeover bid.

Vote proposals to increase blank check preferred authorizations on a CASE-BY-CASE basis.

Debt Issuance Requests

Vote nonconvertible debt issuance requests on a CASE-BY-CASE basis, with or without preemptive rights.

Vote FOR the creation/issuance of convertible debt instruments as long as the maximum number of common shares that could be issued upon conversion meets established guidelines on equity issuance requests.

Vote FOR proposals to restructure existing debt arrangements unless the terms of the restructuring would adversely affect the rights of shareholders.

Pledging of Assets for Debt

Vote proposals to approve the pledging of assets for debt on a CASE-BY-CASE basis.

Increase in Borrowing Powers

Vote proposals to approve increases in a company's borrowing powers on a CASE-BY-CASE basis.

Share Repurchase Plans

Vote FOR share repurchase plans, unless:

- . clear evidence of past abuse of the authority is available;
or
- . the plan contains no safeguards against selective buybacks.

Reissuance of Shares Repurchased

Vote FOR requests to reissue any repurchased shares unless there is clear evidence of abuse of this authority in the past.

Capitalization of Reserves for Bonus Issues/Increase In Par Value

Vote FOR requests to capitalize reserves for bonus issues of shares or to increase par value.

Reorganizations/Restructurings

Vote reorganizations and restructurings on a CASE-BY-CASE basis.

Mergers and Acquisitions

Vote CASE-BY-CASE on mergers and acquisitions taking into account the following:

For every M&A analysis, we review publicly available information as of the date of the report and evaluates the merits and drawbacks of the proposed transaction, balancing various and sometimes countervailing factors including:

- Valuation - Is the value to be received by the target shareholders (or paid by the acquirer) reasonable? While the fairness opinion may provide an initial starting point for assessing valuation reasonableness, we place emphasis on the offer premium, market reaction, and strategic rationale.
- Market reaction - How has the market responded to the proposed deal? A negative market reaction will cause more scrutiny.
- Strategic rationale - Does the deal make sense strategically? From where is the value derived? Cost and revenue synergies should not be overly aggressive or optimistic, but reasonably achievable. Management should also have a favorable track record of successful integration of historical acquisitions.
- Conflicts of interest - Are insiders benefiting from the transaction disproportionately and inappropriately as compared to non-insider shareholders? We will consider whether any special interests may have influenced these directors and officers to support or recommend the merger.
- Governance - Will the combined company have a better or worse governance profile than the current governance profiles of the respective parties to the transaction? If the governance profile is to change for the worse, the burden is on the company to prove that other issues (such as valuation) outweigh any deterioration in governance.

Vote AGAINST if the companies do not provide sufficient information upon request to make an informed voting decision.

Mandatory Takeover Bid Waivers

Vote proposals to waive mandatory takeover bid requirements on a CASE-BY-CASE basis.

Reincorporation Proposals

Vote reincorporation proposals on a CASE-BY-CASE basis.

Expansion of Business Activities

Vote FOR resolutions to expand business activities unless the new business takes the company into risky areas.

Related-Party Transactions

Vote related-party transactions on a CASE-BY-CASE basis.

Compensation Plans

Vote compensation plans on a CASE-BY-CASE basis.

Antitakeover Mechanisms

Vote AGAINST all antitakeover proposals unless they are structured in such a way that they give shareholders the ultimate decision on any proposal or offer.

Shareholder Proposals

Vote all shareholder proposals on a CASE-BY-CASE basis.

Vote FOR proposals that would improve the company's corporate governance or business profile at a reasonable cost.

Vote AGAINST proposals that limit the company's business activities or capabilities or result in significant costs being incurred with little or no benefit.

Item 8 – Portfolio Managers of Closed-End Management Investment Companies.

PORTFOLIO MANAGER

Michael William Lee is the Director of Trading and Senior Portfolio Manager for Evergreen International Advisors. He is one of four senior member of the investment team that forms the Investment Strategy Committee. Michael has been with Evergreen or one of its predecessor firms since 1992.

Tony Norris is Managing Director, Chief Investment Officer and Senior Portfolio Manager with Evergreen International Advisors. Tony has been with Evergreen or one of its predecessor firms since 1990.

Alex Perrin is the Director of Research and Senior Portfolio Manager with Evergreen International Advisors. He is one of four senior member of the investment team that forms the Investment Strategy Committee. Alex has been with Evergreen or one of its predecessor firms since 1992.

Peter Wilson is Managing Director, Chief Operating Officer and Senior Portfolio Manager with Evergreen International Advisors. Peter is one of four senior member of the investment team that forms the Investment Strategy Committee. Peter has been with Evergreen or one of its predecessor firms since 1989.

Richard Applebach, CFA is a Director and Senior Portfolio Specialist for Tattersall Advisory Group. He has been with Tattersall Advisory Group or an affiliate firm since 2005. Prior to joining Tattersall, he served as an Institutional Client Manager for Evergreen (2002-2005) and as a Fixed Income Portfolio Manager with INVESCO (2000-2002).

Christopher Kauffman, CFA is an Associate Director and Senior Portfolio Manager with the Multi-Strategy Fixed Income team of Tattersall Advisory Group. He has been with Tattersall Advisory Group or an affiliate firm since 2003. Previously, he served as Investment Officer for NISA Investment Advisors (1997-2003).

OTHER FUNDS AND ACCOUNTS MANAGED

The following table provides information about the registered investment companies and other pooled investment vehicles and accounts managed by the portfolio manager of the Fund as of the Fund's most recent period ended October 31, 2009.

Portfolio Manager	(Assets in thousands)
Peter Wilson	
Assets of registered investment companies managed	
Evergreen Core Plus Bond Fund*	\$170,532
Evergreen International Bond Fund	1,291,953
Evergreen Multi Sector Income Fund Total*	892,672
Evergreen International Balanced Income Fund*	187,895
TOTAL	\$2,543,052
Those subject to performance fee	\$0
Number of other pooled investment vehicles managed	8
Assets of other pooled investment vehicles managed	\$894,746
Number of those subject to performance fee	0
Assets of those subject to performance fee	\$0
Number of other accounts managed	21
Assets of other accounts managed	\$3,566,145
Number of those subject to performance fee	0
Assets of those subject to performance fee	\$0
* Mr. Wilson is not fully responsible for the management of the entire portfolios of Evergreen Core Plus Bond Fund, Evergreen Multi Sector Income Fund and Evergreen International Balanced	

Income Fund. As of October 31, 2009, he was responsible only for approximately \$303.0 million of the \$1,251.1 million in assets in these funds.

<u>Portfolio Manager</u>		<u>(Assets in thousands)</u>
Anthony J. Norris	Assets of registered investment companies managed	
	Evergreen Core Plus Bond Fund*	\$170,532
	Evergreen International Bond Fund	1,291,953
	Evergreen Multi Sector Income Fund Total*	892,672
	Evergreen International Balanced Income Fund*	187,895
	TOTAL	\$2,543,052
	Those subject to performance fee	\$0
	Number of other pooled investment vehicles managed	8
	Assets of other pooled investment vehicles managed	\$894,746
	Number of those subject to performance fee	0
	Assets of those subject to performance fee	\$0
	Number of other accounts managed	21
	Assets of other accounts managed	\$3,566,145
	Number of those subject to performance fee	0
	Assets of those subject to performance fee	\$0
	* Mr. Norris is not fully responsible for the management of the entire portfolios of Evergreen Core Plus Bond Fund, Evergreen Multi Sector Income Fund and Evergreen International Balanced Income Fund. As of October 31, 2009, he was responsible only for approximately \$303.0 million of the \$1,251.1 million in assets in these funds.	

<u>Portfolio Manager</u>		<u>(Assets in thousands)</u>
Alex Perrin	Assets of registered investment companies managed	
	Evergreen Core Plus Bond Fund*	\$170,532
	Evergreen International Bond Fund	1,291,953
	Evergreen Multi Sector Income Fund Total*	892,672
	Evergreen International Balanced Income Fund*	187,895
	TOTAL	\$2,543,052
	Those subject to performance fee	\$0
	Number of other pooled investment vehicles managed	8
	Assets of other pooled investment vehicles managed	\$894,746
	Number of those subject to performance fee	0
	Assets of those subject to performance fee	\$0
	Number of other accounts managed	21
	Assets of other accounts managed	\$3,566,145
	Number of those subject to performance fee	0
	Assets of those subject to performance fee	\$0

* Mr. Perrin is not fully responsible for the management of the entire portfolios of Evergreen Core Plus Bond Fund, Evergreen Multi Sector Income Fund and Evergreen International Balanced Income Fund. As of October 31, 2009, he was responsible only for approximately \$303.0 million of the \$1,251.1 million in assets in these funds.

Michael Lee	Assets of registered investment companies managed	
	Evergreen Core Plus Bond Fund*	\$170,532
	Evergreen International Bond Fund	1,291,953
	Evergreen Multi Sector Income Fund Total*	892,672
	Evergreen International Balanced Income Fund*	187,895
	TOTAL	\$2,543,052
	Those subject to performance fee	\$0
	Number of other pooled investment vehicles managed	8
	Assets of other pooled investment vehicles managed	\$894,746
	Number of those subject to performance fee	0
	Assets of those subject to performance fee	\$0
	Number of other accounts managed	21
	Assets of other accounts managed	\$3,566,145
	Number of those subject to performance fee	0
	Assets of those subject to performance fee	\$0

* Mr. Lee is not fully responsible for the management of the entire portfolios of Evergreen Core Plus Bond Fund, Evergreen Multi Sector Income Fund and Evergreen International Balanced Income Fund. As of October 31, 2009, he was responsible only for approximately \$303.0 million of the \$1,251.1 million in assets in these funds.

Richard Applebach	Assets of registered investment companies managed	
	Evergreen Adjustable Rate Fund	\$1,192,249
	Evergreen Multi Sector Income Fund Total*	892,672
	Evergreen U.S. Government Fund	474,213
	TOTAL	\$2,559,134
	Those subject to performance fee	\$0
	Number of other pooled investment vehicles managed	0
	Assets of other pooled investment vehicles managed	\$0
	Number of those subject to performance fee	0
	Assets of those subject to performance fee	\$0
	Number of other accounts managed	1
	Assets of other accounts managed	\$109,686
	Number of those subject to performance fee	0
	Assets of those subject to performance fee	\$0

* Mr. Applebach is not fully responsible for the management of the entire portfolios of Evergreen Multi Sector Income Fund. As of October 31, 2009, he was responsible only for approximately \$289.4 million of the \$887.0 million in assets in this fund.

Chris Kauffman	Assets of registered investment companies managed	
	Evergreen Adjustable Rate Fund	\$1,192,249

Evergreen Multi Sector Income Fund Total*	892,672
Evergreen U.S. Government Fund	474,213
TOTAL	\$2,559,134
Those subject to performance fee	\$0
Number of other pooled investment vehicles managed	0
Assets of other pooled investment vehicles managed	\$0
Number of those subject to performance fee	0
Assets of those subject to performance fee	\$0
Number of other accounts managed	0
Assets of other accounts managed	\$0
Number of those subject to performance fee	0
Assets of those subject to performance fee	\$0

* Mr. Kauffman is not fully responsible for the management of the entire portfolios of Evergreen Multi Sector Income Fund. As of October 31, 2009, he was responsible only for approximately \$289.4 million of the \$887.0 million in assets in this fund.

CONFLICTS OF INTEREST

EIMC, TAG. Portfolio managers generally face two types of conflicts of interest: (1) conflicts between and among the interests of the various accounts they manage, and (2) conflicts between the interests of the accounts they manage and their own personal interests. The policies of EIMC require that portfolio managers treat all accounts they manage equitably and fairly in the face of such real or potential conflicts.

The management of multiple Funds and other accounts may require the portfolio manager to devote less than all of his or her time to a Fund, particularly if the Funds and accounts have different objectives, benchmarks and time horizons. The portfolio manager may also be required to allocate his or her investment ideas across multiple Funds and accounts. In addition, if a portfolio manager identifies a limited investment opportunity, such as an initial public offering, that may be suitable for more than one Fund or other account, a Fund may not be able to take full advantage of that opportunity due to an allocation of that investment across all eligible Funds and accounts. Further, security purchase and sale orders for multiple accounts often are aggregated for purpose of execution. Although such aggregation generally benefits clients, it may cause the price or brokerage costs to be less favorable to a particular client than if similar transactions were not being executed concurrently for other accounts. It may also happen that a Fund's advisor or sub-advisor will determine that it would be in the best interest, and consistent with the investment policies, of another account to sell a security (including by means of a short sale) that a Fund holds long, potentially resulting in a decrease in the market value of the security held by the Fund.

Neither EIMC or TAG receives a performance fee for its management of the Funds, other than Evergreen Enhanced S&P 500® Fund. EIMC and/or a portfolio manager may have an incentive to allocate favorable or limited opportunity investments or structure the timing of investments to favor accounts other than the Funds – for instance, those that pay a higher advisory fee and/or have a performance fee. The policies of EIMC, however, require that portfolio managers treat all accounts they manage equitably and fairly.

As noted above, portfolio managers may also experience certain conflicts between the interests of the accounts they manage and their own personal interests (which may include interests in advantaging EIMC or a sub-advisor). The structure of a portfolio manager's or an investment advisor's compensation may create an incentive for the manager or advisor to favor accounts whose performance has a greater impact on such compensation. The portfolio manager may, for example, have an incentive to allocate favorable or limited opportunity investments or structure the timing of investments to favor such accounts. Similarly, if a portfolio manager holds a larger personal investment in one Fund

than he or she does in another, the portfolio manager may have an incentive to favor the Fund in which he or she holds a larger stake.

The Evergreen funds may engage in cross trades, in which one Evergreen fund sells a particular security to another Evergreen fund or account (potentially saving transaction costs for both accounts). Cross trades may pose a potential conflict of interest if, for example, one account sells a security to another account at a higher price than an independent third party would pay.

In general, EIMC and TAG have policies and procedures to address the various potential conflicts of interest described above. Each advisor has policies and procedures designed to ensure that portfolio managers have sufficient time and resources to devote to the various accounts they manage. Similarly, each advisor has policies and procedures designed to ensure that investments and investment opportunities are allocated fairly across accounts, and that the interests of client accounts are placed ahead of a portfolio manager's personal interests. However, there is no guarantee that such procedures will detect or address each and every situation where a conflict arises.

COMPENSATION

The compensation structure for EIMC's portfolio managers includes a competitive fixed base salary plus variable incentives (EIMC utilizes investment management compensation surveys as confirmation). Incentive bonuses are typically tied to pre-tax relative investment performance of all accounts under his or her management within acceptable risk parameters. Relative investment performance is generally evaluated for 1, 3, and 5 year performance results versus the relevant benchmarks and/or peer groups consistent with the investment style. This evaluation takes into account relative performance of the accounts to each account's individual benchmark and/or the relative composite performance of all accounts to one or more relevant benchmarks consistent with the overall investment style. In the case of each Fund, the benchmark(s) against which the performance of the Fund's portfolio may be compared for these purposes generally are indicated in the "Performance" sections of the Prospectuses.

FUND HOLDINGS

The table below presents the dollar range of investment each portfolio manager beneficially holds in each Fund he or she manages as well as the dollar range of total exposure to the Evergreen family of funds (including both open-end and closed-end funds) as of the Funds' fiscal year ended October 31, 2008. Total exposure equals the sum of (i) the portfolio manager's beneficial ownership in direct Evergreen fund holdings, plus (ii) the portfolio manager's Evergreen fund holdings through the Wells Fargo 401(k) plan, plus (iii) the portfolio manager's Wells Fargo deferred compensation plan exposure to Evergreen funds.

Evergreen Multi Sector Income Fund

Michael Lee	None
Tony Norris	None

Alex Perrin	None
Peter Wilson	None
Richard Applebach	None
Christopher Kauffman	None

Evergreen Family of Funds

Michael Lee	None
Tony Norris	None
Alex Perrin	None
Peter Wilson	None
Richard Applebach	\$100,001 - \$500,000
Christopher Kauffman	None

Item 9 – Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers.

If applicable/not applicable at this time.

Item 10 – Submission of Matters to a Vote of Security Holders

There have been no material changes to the procedures by which shareholders may recommend nominees to the Registrant's board of trustees that have been implemented since the Registrant last provided disclosure in response to the requirements of this Item.

Item 11 - Controls and Procedures

(a) The Registrant's principal executive officer and principal financial officer have evaluated the Registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940) within 90 days of this filing and have concluded that the Registrant's disclosure controls and procedures were effective, as of that date, in ensuring that information required to be disclosed by the Registrant in this Form N-CSR was recorded, processed, summarized, and reported timely.

(b) There has been no changes in the Registrant's internal controls over financial reporting (as defined in Rule 30a-3(d) under the Investment Company Act of 1940) that occurred during the second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to affect, the Registrant's internal control over financial reporting .

Item 12 - Exhibits

File the exhibits listed below as part of this Form. Letter or number the exhibits in the sequence indicated.

(a) Any code of ethics, or amendment thereto, that is the subject of the disclosure required by Item 2, to the extent that the registrant intends to satisfy the Item 2 requirements through filing of an exhibit.

(b)(1) Separate certifications for the Registrant's principal executive officer and principal financial officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002 and Rule 30a-2(a) under the Investment Company Act of 1940, are attached as EX99.CERT.

(b)(2) Separate certifications for the Registrant's principal executive officer and principal financial officer, as required by Section 1350 of Title 18 of United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and Rule 30a-2(b) under the Investment Company Act of 1940, are attached as EX99.906CERT. The certifications furnished pursuant to this paragraph are not deemed to be "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liability of that section. Such certifications are not deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the Registrant specifically incorporates them by reference.

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Evergreen Multi-Sector Income Fund

By: /s/ W. Douglas Munn
W. Douglas Munn
Principal Executive Officer

Date: February 10, 2010

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: /s/ W. Douglas Munn
W. Douglas Munn
Principal Executive Officer

Date: February 10, 2010

By: /s/ Kasey Phillips
Kasey Phillips
Principal Financial Officer

Date: February 10, 2010