ATMOS ENERGY CORP
Form 10-Q
August 05, 2009

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

Form 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2009

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number 1-10042

Atmos Energy Corporation
(Exact name of registrant as specified in its charter)

Texas and Virginia *(State or other jurisdiction of incorporation or organization)*	**75-1743247** *(IRS employer identification no.)*
Three Lincoln Centre, Suite 1800 **5430 LBJ Freeway, Dallas, Texas** *(Address of principal executive offices)*	**75240** *(Zip code)*

(972) 934-9227
(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).* Yes o No o

* The registrant has not yet been phased into the interactive data requirements.

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

Large Accelerated Filer þ Accelerated Filer o Non-Accelerated Filer o Smaller Reporting Company o
(Do not check if a smaller reporting company)

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

Number of shares outstanding of each of the issuer s classes of common stock, as of July 31, 2009.

Class	Shares Outstanding
No Par Value	92,272,478

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GLOSSARY OF KEY TERMS

AEC	Atmos Energy Corporation
AEH	Atmos Energy Holdings, Inc.
AEM	Atmos Energy Marketing, LLC
AOCI	Accumulated other comprehensive income
APS	Atmos Pipeline and Storage, LLC
Bcf	Billion cubic feet
FASB	Financial Accounting Standards Board
Fitch	Fitch Ratings, Ltd.
FSP	FASB Staff Position
GRIP	Gas Reliability Infrastructure Program
LPSC	Louisiana Public Service Commission
Mcf	Thousand cubic feet
MMcf	Million cubic feet
MPSC	Mississippi Public Service Commission
Moody s	Moody s Investors Services, Inc.
NYMEX	New York Mercantile Exchange, Inc.
PPA	Pension Protection Act of 2006
RRC	Railroad Commission of Texas
RRM	Rate Review Mechanism
S&P	Standard & Poor s Corporation
SEC	United States Securities and Exchange Commission
SFAS	Statement of Financial Accounting Standards
WNA	Weather Normalization Adjustment

PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements***

ATMOS ENERGY CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2009 (Unaudited)	September 30, 2008
	(In thousands, except share data)	
ASSETS		
Property, plant and equipment	$ 5,963,098	$ 5,730,156
Less accumulated depreciation and amortization	1,623,734	1,593,297
Net property, plant and equipment	4,339,364	4,136,859
Current assets		
Cash and cash equivalents	125,735	46,717
Accounts receivable, net	241,582	477,151
Gas stored underground	317,275	576,617
Other current assets	111,420	184,619
Total current assets	796,012	1,285,104
Goodwill and intangible assets	738,615	739,086
Deferred charges and other assets	222,039	225,650
	$ 6,096,030	$ 6,386,699
CAPITALIZATION AND LIABILITIES		
Shareholders equity		
Common stock, no par value (stated at $.005 per share); 200,000,000 shares authorized; issued and outstanding: June 30, 2009 92,234,134 shares; September 30, 2008 90,814,683 shares	$ 461	$ 454
Additional paid-in capital	1,779,184	1,744,384
Retained earnings	451,856	343,601
Accumulated other comprehensive loss	(39,981)	(35,947)
Shareholders equity	2,191,520	2,052,492
Long-term debt	2,169,395	2,119,792
Total capitalization	4,360,915	4,172,284
Current liabilities		

Accounts payable and accrued liabilities	221,968	395,388
Other current liabilities	422,200	460,372
Short-term debt		350,542
Current maturities of long-term debt	131	785
Total current liabilities	644,299	1,207,087
Deferred income taxes	510,901	441,302
Regulatory cost of removal obligation	322,529	298,645
Deferred credits and other liabilities	257,386	267,381
	$ 6,096,030	$ 6,386,699

See accompanying notes to condensed consolidated financial statements

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ATMOS ENERGY CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended June 30	
	2009	2008
	(Unaudited) (In thousands, except per share data)	
Operating revenues		
Natural gas distribution segment	$ 386,985	$ 676,639
Regulated transmission and storage segment	49,345	46,286
Natural gas marketing segment	453,504	1,189,722
Pipeline, storage and other segment	8,226	3,880
Intersegment eliminations	(117,285)	(277,382)
	780,775	1,639,145
Purchased gas cost		
Natural gas distribution segment	195,303	476,711
Regulated transmission and storage segment		
Natural gas marketing segment	438,482	1,192,353
Pipeline, storage and other segment	4,212	706
Intersegment eliminations	(116,862)	(276,847)
	521,135	1,392,923
Gross profit	259,640	246,222
Operating expenses		
Operation and maintenance	110,895	117,822
Depreciation and amortization	54,181	50,356
Taxes, other than income	47,577	57,335
Asset impairments	3,304	
Total operating expenses	215,957	225,513
Operating income	43,683	20,709
Miscellaneous income	1,219	1,600
Interest charges	41,511	33,470
Income (loss) before income taxes	3,391	(11,161)
Income tax expense (benefit)	1,427	(4,573)
Net income (loss)	$ 1,964	$ (6,588)
Basic net income (loss) per share	$ 0.02	$ (0.07)

Diluted net income (loss) per share	$	0.02	$	(0.07)
Cash dividends per share	$	0.330	$	0.325
Weighted average shares outstanding:				
Basic		91,338		89,648
Diluted		92,002		89,648

See accompanying notes to condensed consolidated financial statements

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ATMOS ENERGY CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Nine Months Ended June 30 2009	2008
	(Unaudited) (In thousands, except per share data)	
Operating revenues		
Natural gas distribution segment	$ 2,673,373	$ 3,126,672
Regulated transmission and storage segment	163,261	142,772
Natural gas marketing segment	1,949,657	3,159,092
Pipeline, storage and other segment	36,946	20,629
Intersegment eliminations	(504,724)	(668,525)
	4,318,513	5,780,640
Purchased gas cost		
Natural gas distribution segment	1,816,227	2,296,020
Regulated transmission and storage segment		
Natural gas marketing segment	1,881,068	3,099,428
Pipeline, storage and other segment	9,771	1,773
Intersegment eliminations	(503,456)	(666,835)
	3,203,610	4,730,386
Gross profit	1,114,903	1,050,254
Operating expenses		
Operation and maintenance	365,312	359,064
Depreciation and amortization	160,757	147,659
Taxes, other than income	150,028	153,170
Asset impairments	5,382	
Total operating expenses	681,479	659,893
Operating income	433,424	390,361
Miscellaneous income (expense)	(647)	2,974
Interest charges	116,035	103,803
Income before income taxes	316,742	289,532
Income tax expense	109,812	110,783
Net income	$ 206,930	$ 178,749
Basic net income per share	$ 2.28	$ 2.00

Diluted net income per share	$	2.26	$	1.99
Cash dividends per share	$	0.990	$	0.975
Weighted average shares outstanding:				
Basic		90,940		89,281
Diluted		91,590		89,937

See accompanying notes to condensed consolidated financial statements

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ATMOS ENERGY CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended June 30 2009	2008
	(Unaudited) (In thousands)	
Cash Flows From Operating Activities		
Net income	$ 206,930	$ 178,749
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization:		
Charged to depreciation and amortization	160,757	147,659
Charged to other accounts	60	106
Deferred income taxes	62,658	77,864
Other	23,009	12,767
Net assets/liabilities from risk management activities	53,711	(78,524)
Net change in operating assets and liabilities	317,469	78,760
Net cash provided by operating activities	824,594	417,381
Cash Flows From Investing Activities		
Capital expenditures	(342,326)	(312,878)
Other, net	(6,094)	(4,303)
Net cash used in investing activities	(348,420)	(317,181)
Cash Flows From Financing Activities		
Net decrease in short-term debt	(366,449)	(35,721)
Net proceeds from debt offering	445,623	
Settlement of Treasury lock agreement	1,938	
Repayment of long-term debt	(407,287)	(9,945)
Cash dividends paid	(90,909)	(87,821)
Issuance of common stock	19,928	19,063
Net cash used in financing activities	(397,156)	(114,424)
Net increase (decrease) in cash and cash equivalents	79,018	(14,224)
Cash and cash equivalents at beginning of period	46,717	60,725
Cash and cash equivalents at end of period	$ 125,735	$ 46,501

See accompanying notes to condensed consolidated financial statements

ATMOS ENERGY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
June 30, 2009

1. Nature of Business

Atmos Energy Corporation (Atmos Energy or the Company) and our subsidiaries are engaged primarily in the regulated natural gas distribution and transmission and storage businesses as well as certain other nonregulated businesses. Through our natural gas distribution business, we deliver natural gas through sales and transportation arrangements to approximately 3.2 million residential, commercial, public authority and industrial customers through our six regulated natural gas distribution divisions in the service areas described below:

Division	Service Area
Atmos Energy Colorado-Kansas Division	Colorado, Kansas, Missouri[1]
Atmos Energy Kentucky/Mid-States Division	Georgia[1], Illinois[1], Iowa[1], Kentucky, Missouri[1], Tennessee, Virginia[1]
Atmos Energy Louisiana Division	Louisiana
Atmos Energy Mid-Tex Division	Texas, including the Dallas/Fort Worth metropolitan area
Atmos Energy Mississippi Division	Mississippi
Atmos Energy West Texas Division	West Texas

(1) Denotes states where we have more limited service areas.

In addition, we transport natural gas for others through our distribution system. Our natural gas distribution business is subject to federal and state regulation and/or regulation by local authorities in each of the states in which our natural gas distribution divisions operate. Our corporate headquarters and shared-services function are located in Dallas, Texas and our customer support centers are located in Amarillo and Waco, Texas.

Our regulated transmission and storage business consists of the regulated operations of our Atmos Pipeline Texas Division. The Atmos Pipeline Texas Division transports natural gas to our Mid-Tex Division, transports natural gas for third parties and manages five underground storage reservoirs in Texas. We also provide ancillary services customary to the pipeline industry including parking arrangements, lending services and sales of inventory on hand. Parking arrangements provide short-term interruptible storage of gas on our pipeline. Lending services provide short-term interruptible loans of natural gas from our pipeline to meet market demands.

Our nonregulated businesses operate primarily in the Midwest and Southeast and include our natural gas marketing operations and pipeline, storage and other operations. These businesses are operated through various wholly-owned subsidiaries of Atmos Energy Holdings, Inc. (AEH), which is wholly owned by the Company and based in Houston, Texas.

Our natural gas marketing operations are conducted through Atmos Energy Marketing, LLC (AEM), which is wholly owned by AEH. AEM provides a variety of natural gas management services to municipalities, natural gas utility systems and industrial natural gas customers, primarily in the Southeast and Midwest and to our Colorado-Kansas, Kentucky/Mid-States and Louisiana divisions. These services consist primarily of furnishing natural gas supplies at fixed and market-based prices, contract negotiation and administration, load forecasting, gas storage acquisition and management services, transportation services, peaking sales and balancing services, capacity utilization strategies and gas price hedging through the use of financial instruments.

ATMOS ENERGY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Our pipeline, storage and other segment consists primarily of the operations of Atmos Pipeline and Storage, LLC (APS). APS owns and operates a 21 mile pipeline located in New Orleans, Louisiana. This pipeline is used primarily to aggregate gas supply for our regulated natural gas distribution division in Louisiana and for AEM, but also provides limited third party transportation services.

APS also engages in asset optimization activities whereby it seeks to maximize the economic value associated with the storage and transportation capacity it owns or controls. Certain of these arrangements are asset management plans with regulated affiliates of the Company which have been approved by applicable state regulatory commissions. Generally, these asset management plans require APS to share with our regulated customers a portion of the profits earned from these arrangements.

Further, APS owns or has an interest in underground storage fields in Kentucky and Louisiana that are used to reduce the need of our natural gas distribution divisions to contract for pipeline capacity to meet customer demand during peak periods. Finally, APS manages our natural gas gathering operations, which were limited in nature as of June 30, 2009.

2. Unaudited Interim Financial Information

In the opinion of management, all material adjustments (consisting of normal recurring accruals) necessary for a fair presentation have been made to the unaudited consolidated interim-period financial statements. These consolidated interim-period financial statements are condensed as permitted by the instructions to Form 10-Q and should be read in conjunction with the audited consolidated financial statements of Atmos Energy Corporation included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2008. Because of seasonal and other factors, the results of operations for the nine-month period ended June 30, 2009 are not indicative of our results of operations for the full 2009 fiscal year, which ends September 30, 2009.

Significant accounting policies

Our accounting policies are described in Note 2 to the financial statements in our Annual Report on Form 10-K for the fiscal year ended September 30, 2008 and there have been no changes to those policies. However, during the nine months ended June 30, 2009, we recognized a non-recurring $7.8 million increase in gross profit associated with a one-time update to our estimate for gas delivered to customers but not yet billed, resulting from base rate changes in several jurisdictions.

During the second quarter of fiscal 2009, we updated the tax rates used to record deferred taxes. The one-time tax benefit resulted in a favorable impact to net income of $11.3 million.

Additionally, during the second quarter of fiscal 2009, we completed our annual goodwill impairment assessment. Based on the assessment performed, we determined that our goodwill was not impaired.

Effective October 1, 2008, the Company adopted Statement of Financial Accounting Standards (SFAS) 157, *Fair Value Measurements*, the measurement date requirements of SFAS 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106, and 132(R),* SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement*

No. 115 and SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133.* Effective April 1, 2009, the Company adopted FASB Staff Position (FSP) FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments,* FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments,* FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* and SFAS 165, *Subsequent Events.* Except for the adoption of these accounting pronouncements, which are further discussed below, there were no significant changes to our accounting policies during the nine months ended June 30, 2009.

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ATMOS ENERGY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

SFAS 157 defines fair value, establishes a framework for measuring fair value and enhances disclosure on fair value measurements required under other accounting pronouncements but does not change existing guidance as to whether or not an instrument is carried at fair value. The adoption of this standard did not materially impact our financial position, results of operations or cash flows. The new disclosures required by this standard are presented in Note 4.

Effective October 1, 2008, the Company adopted the measurement date requirements of SFAS 158 using the remeasurement approach. Under this approach, the Company remeasured our projected benefit obligation, fair value of plan assets and our fiscal 2009 net periodic cost. In accordance with the transition rules of SFAS 158, the impact of changing the measurement date from June 30, 2008 to September 30, 2008 decreased retained earnings by $7.8 million, net of tax, decreased the unrecognized actuarial loss by $9.0 million and increased our postretirement liabilities by $3.5 million during the first quarter of fiscal 2009.

SFAS 159 permits an entity to measure certain financial assets and financial liabilities at fair value. The objective of the standard is to improve financial reporting by allowing entities to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. Entities that elect the fair value option will report unrealized gains and losses in earnings at each subsequent reporting date. The fair value option may be elected on an instrument-by-instrument basis. The fair value option is irrevocable, unless a new election date occurs. The adoption of this standard did not impact our financial position, results of operations or cash flows.

SFAS 161 expands the disclosure requirements for derivative instruments and hedging activities. This statement requires specific disclosures regarding how and why an entity uses derivative instruments; the accounting for derivative instruments and related hedged items; and how derivative instruments and related hedged items affect an entity s financial position, results of operations and cash flows. Since SFAS 161 only requires additional disclosures concerning derivatives and hedging activities, this standard did not have an impact on our financial position, results of operations or cash flows. The new disclosures required by this standard are presented in Note 3.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. This FSP requires companies to disclose the fair value of financial instruments for which it is practicable to estimate the value and the methods and significant assumptions used to estimate the fair value. The disclosure is required for interim and annual reports. The disclosure requirements of this FSP are presented in Note 4.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. This FSP amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. In addition, FSP FAS 115-2 and FAS 124-2 expands the existing disclosure requirements about debt and equity securities to interim reporting as well as provides new disclosure requirements. We adopted the provisions of this FSP for the quarter ended June 30, 2009. The adoption of FSP FAS 115-2 and FAS 124-2 did not impact our financial position, results of operations or cash flows. The disclosure requirements of this FSP are presented in Note 7.

In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. This FSP provides further guidance for estimating fair value in accordance with SFAS 157 when there has been a significant decrease in market activity for a financial asset and also identifies circumstances that indicate a transaction is not orderly. The adoption of this FSP did not impact our financial position, results of operations or cash flows.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*. SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before the date the financial statements are issued or available to be issued. SFAS 165 requires companies to reflect in their financial statements the effects of subsequent events that provide additional evidence about conditions at the balance-sheet date. Subsequent events that provide evidence about conditions that arose after the balance-sheet date should be disclosed if the financial statements would otherwise be misleading. We adopted the provisions of SFAS 165 for quarter ended June 30, 2009. We have evaluated subsequent events from the balance sheet date through the date these financial statements were filed with the Securities and Exchange Commission. No events have occurred subsequent to the balance sheet date that would require recognition or disclosure in the financial statements.

Regulatory assets and liabilities

We record certain costs as regulatory assets in accordance with SFAS 71, *Accounting for the Effects of Certain Types of Regulation,* when future recovery through customer rates is considered probable. Regulatory liabilities are recorded when it is probable that revenues will be reduced for amounts that will be credited to customers through the ratemaking process. Substantially all of our regulatory assets are recorded as a component of deferred charges and other assets and substantially all of our regulatory liabilities are recorded as a component of deferred credits and other liabilities. Deferred gas costs are recorded either in other current assets or liabilities and the regulatory cost of removal obligation is reported separately.

Significant regulatory assets and liabilities as of June 30, 2009 and September 30, 2008 included the following:

	June 30, 2009	September 30, 2008
	(In thousands)	
Regulatory assets:		
Pension and postretirement benefit costs	$ 88,472	$ 100,563
Merger and integration costs, net	7,268	7,586
Deferred gas costs	24,355	55,103
Environmental costs	685	980
Rate case costs	7,640	12,885
Deferred franchise fees	577	651
Deferred income taxes, net	343	343
Other	7,085	8,120
	$ 136,425	$ 186,231
Regulatory liabilities:		
Deferred gas costs	$ 97,495	$ 76,979
Regulatory cost of removal obligation	336,737	317,273
Other	5,429	5,639

	$ 439,661	$ 399,891

Currently, our authorized rates do not include a return on certain of our merger and integration costs; however, we recover the amortization of these costs. Merger and integration costs, net, are generally amortized on a straight-line basis over estimated useful lives ranging up to 20 years. Environmental costs have been deferred to be included in future rate filings in accordance with rulings received from various state regulatory commissions.

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ATMOS ENERGY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Comprehensive income

The following table presents the components of comprehensive income (loss), net of related tax, for the three-month and nine-month periods ended June 30, 2009 and 2008:

	Three Months Ended June 30		Nine Months Ended June 30	
	2009	2008	2009	2008
	(In thousands)			
Net income (loss)	$ 1,964	$ (6,588)	$ 206,930	$ 178,749
Unrealized holding gains (losses) on investments, net of tax expense (benefit) of $1,282 and $531 for the three months ended June 30, 2009 and 2008 and of $(2,477) and $(140) for the nine months ended June 30, 2009 and 2008	2,086	866	(4,209)	(231)
Other than temporary impairment of investments, net of tax expense of $1,222 and $2,012 for the three and nine months ended June 30, 2009	2,082		3,370	
Amortization and unrealized gain on interest rate hedging transactions, net of tax expense of $320 and $482 for the three months ended June 30, 2009 and 2008 and $2,155 and $1,446 for the nine months ended June 30, 2009 and 2008	543	787	3,184	2,361
Net unrealized gains (losses) on commodity hedging transactions, net of tax expense (benefit) of $16,582 and $1,850 for the three months ended June 30, 2009 and 2008 and $(4,759) and $9,047 for the nine months ended June 30, 2009 and 2008	25,936	3,018	(6,379)	14,761
Comprehensive income (loss)	$ 32,611	$ (1,917)	$ 202,896	$ 195,640

Accumulated other comprehensive loss, net of tax, as of June 30, 2009 and September 30, 2008 consisted of the following unrealized gains (losses):

	June 30, 2009	September 30, 2008
	(In thousands)	
Accumulated other comprehensive loss:		
Unrealized holding gains on investments	$ 71	$ 910
Treasury lock agreements	(7,920)	(11,104)

Cash flow hedges	(32,132)	(25,753)
	$ (39,981)	$ (35,947)

3. Financial Instruments

We currently use financial instruments to mitigate commodity price risk. Additionally, we periodically utilize financial instruments to manage interest rate risk. The objectives and strategies for using financial instruments have been tailored to our regulated and nonregulated businesses. The accounting for these financial instruments is fully described in Note 2 to the financial statements in our Annual Report on Form 10-K for the fiscal year ended September 30, 2008. Currently, we utilize financial instruments in our natural gas distribution, natural gas marketing and pipeline, storage and other segments. However, our pipeline, storage and other segment uses financial instruments acquired from AEM on the same terms that AEM received from

ATMOS ENERGY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

an independent counterparty. On a consolidated basis, these financial instruments are reported in the natural gas marketing segment. We currently do not manage commodity price risk with financial instruments in our regulated transmission and storage segment.

Our financial instruments do not contain any credit-risk-related or other contingent features that could cause accelerated payments when our financial instruments are in net liability positions.

Regulated Commodity Risk Management Activities

In our natural gas distribution segment, our customers are exposed to the effect of volatile natural gas prices. We manage this exposure through a combination of physical storage, fixed-price forward contracts and financial instruments, primarily over-the-counter swap and option contracts, in an effort to minimize the impact of natural gas price volatility on our customers during the winter heating season.

Our natural gas distribution gas supply department is responsible for executing this segment s commodity risk management activities in conformity with regulatory requirements. In jurisdictions where we are permitted to mitigate commodity price risk through financial instruments, the relevant regulatory authorities may establish the level of heating season gas purchases that can be hedged. If the regulatory authority does not establish this level, we typically seek to hedge between 25 and 50 percent of anticipated heating season gas purchases using financial instruments. For the 2008-2009 heating season, in the jurisdictions where we are permitted to utilize financial instruments, we hedged approximately 27 percent, or 24.3 Bcf of the winter flowing gas requirements. We have not designated these financial instruments as hedges pursuant to SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*.

The costs associated with and the gains and losses arising from the use of financial instruments to mitigate commodity price risk are included in our purchased gas adjustment mechanisms in accordance with regulatory requirements. Therefore, changes in the fair value of these financial instruments are initially recorded as a component of deferred gas costs and recognized in the consolidated statement of income as a component of purchased gas cost when the related costs are recovered through our rates and recognized in revenue in accordance with SFAS 71. Accordingly, there is no earnings impact to our natural gas distribution segment as a result of the use of financial instruments.

Nonregulated Commodity Risk Management Activities

Our natural gas marketing segment, through AEM, aggregates and purchases gas supply, arranges transportation and/or storage logistics and ultimately delivers gas to our customers at competitive prices. To facilitate this process, we utilize proprietary and customer-owned transportation and storage assets to provide the various services our customers request.

We also perform asset optimization activities in both our natural gas marketing segment and pipeline, storage and other segment. Through asset optimization activities, we seek to maximize the economic value associated with the storage and transportation capacity we own or control. We attempt to meet this objective by engaging in natural gas storage transactions in which we seek to find and profit from pricing differences that occur over time. We purchase physical natural gas and then sell financial instruments at advantageous prices to lock in a gross profit margin. We also seek to participate in transactions in which we combine the natural gas commodity and transportation costs to minimize costs incurred to serve our customers by identifying the lowest cost alternative within the natural gas supplies, transportation and markets to which we have access. Through the use of transportation and storage services and financial instruments, we also seek to capture gross profit margin through the arbitrage of pricing differences that exist in various locations and by recognizing pricing differences that occur over time. Over time, gains and losses on the sale of storage gas inventory will be offset by gains and losses on the financial instruments, resulting in the realization of the economic gross profit margin we anticipated at the time we structured the original transaction.

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ATMOS ENERGY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As a result of these activities, our nonregulated operations are exposed to risks associated with changes in the market price of natural gas. We manage our exposure to such risks through a combination of physical storage and financial instruments, including futures, over-the-counter and exchange-traded options and swap contracts with counterparties. Futures contracts provide the right to buy or sell the commodity at a fixed price in the future. Option contracts provide the right, but not the requirement, to buy or sell the commodity at a fixed price. Swap contracts require receipt of payment for the commodity based on the difference between a fixed price and the market price on the settlement date.

We use financial instruments, designated as cash flow hedges of anticipated purchases and sales at index prices, to mitigate the commodity price risk in our natural gas marketing segment associated with deliveries under fixed-priced forward contracts to deliver gas to customers. These financial instruments have maturity dates ranging from one to 43 months. The effective portion of the unrealized gains and losses arising from the use of cash flow hedges is recorded as a component of accumulated other comprehensive income (AOCI) on the balance sheet. Amounts associated with cash flow hedges recognized in the income statement include (i) the amount of unrealized gain or loss that has been reclassified from AOCI when the hedged volumes are sold and (ii) the amount of ineffectiveness associated with these hedges in the period the ineffectiveness arises.

We use financial instruments, designated as fair value hedges, to hedge the exposure to changes in the fair value of our natural gas inventory used in our asset optimization activities in our natural gas marketing and pipeline, storage and other segments. Therefore, gains and losses arising from these financial instruments should offset the changes in the fair value of the hedged item to the extent the hedging relationship is effective. Ineffectiveness is recognized in the income statement in the period the ineffectiveness arises.

Our natural gas marketing segment also uses storage swaps and futures to capture additional storage arbitrage opportunities that arise subsequent to the execution of the original fair value hedge associated with our physical natural gas inventory, basis swaps to insulate and protect the economic value of our fixed price and storage books and various over-the-counter and exchange-traded options. These financial instruments have not been designated as hedges pursuant to SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*.

Our nonregulated risk management activities are controlled through various risk management policies and procedures. Our Audit Committee has oversight responsibility for our nonregulated risk management limits and policies. A risk committee, comprised of corporate and business unit officers, is responsible for establishing and enforcing our nonregulated risk management policies and procedures.

Under our risk management policies, we seek to match our financial instrument positions to our physical storage positions as well as our expected current and future sales and purchase obligations to maintain no open positions at the end of each trading day. The determination of our net open position as of any day, however, requires us to make assumptions as to future circumstances, including the use of gas by our customers in relation to our anticipated storage and market positions. Because the price risk associated with any net open position at the end of each day may increase if the assumptions are not realized, we review these assumptions as part of our daily monitoring activities. Our operations can also be affected by intraday fluctuations of gas prices, since the price of natural gas purchased or sold for future delivery earlier in the day may not be hedged until later in the day. At times, limited net open positions related to our existing and anticipated commitments may occur. At the close of business on June 30, 2009, AEH had net open positions (including existing storage) of 0.3 Bcf.

Interest Rate Risk Management Activities

In March 2009, we entered into a Treasury lock agreement to fix the Treasury yield component of the interest cost associated with our $450 million 8.50% senior notes (the Senior Notes Offering), which was completed on March 26, 2009. The Senior Notes Offering is discussed in Note 5. We designated this Treasury

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

lock as a cash flow hedge of an anticipated transaction. This Treasury lock was settled on March 23, 2009 with the receipt of $1.9 million from the counterparty due to an increase in the 10 year Treasury rates between inception of the Treasury lock and settlement. Because the Treasury lock was effective, the net $1.2 million unrealized gain was recorded as a component of accumulated other comprehensive income and will be recognized as a component of interest expense over the 10 year life of the senior notes.

In prior years, we similarly managed interest rate risk by entering into Treasury lock agreements to fix the Treasury yield component of the interest cost associated with anticipated financings. These Treasury locks were settled at various times at a net loss. These realized gains and losses were recorded as a component of accumulated other comprehensive income (loss) and are being recognized as a component of interest expense over the life of the associated notes from the date of settlement. The remaining amortization periods for these Treasury locks extend through fiscal 2035. However, the majority of the remaining amounts of these Treasury locks will be recognized through fiscal 2019.

Quantitative Disclosures Related to Financial Instruments

The following tables present detailed information concerning the impact of financial instruments on our condensed consolidated balance sheet and income statements.

As of June 30, 2009, our financial instruments were comprised of both long and short commodity positions. A long position is a contract to purchase the commodity, while a short position is a contract to sell the commodity. As of June 30, 2009, we had net long/(short) commodity contracts outstanding in the following quantities:

Contract Type	Hedge Designation	Natural Gas Distribution	Natural Gas Marketing	Pipeline, Storage and Other
			Quantity (MMcf)	
Commodity contracts	Fair Value		(22,905)	(2,050)
	Cash Flow		31,993	(4,118)
	Not designated	21,702	84,606	(51)
		21,702	93,694	(6,219)

Financial Instruments on the Balance Sheet

The following tables present the fair value and balance sheet classification of our financial instruments by operating segment as of June 30, 2009 and September 30, 2008. As required by SFAS 161, the fair value amounts below are presented on a gross basis and do not reflect the netting of asset and liability positions permitted under the terms of our master netting arrangements. Further, the amounts below do not include $20.6 million and $56.6 million of cash held on deposit in margin accounts as of June 30, 2009 and September 30, 2008 to collateralize certain financial instruments. Therefore, these gross balances are not indicative of either our actual credit exposure or net economic exposure. Additionally, the amounts below will

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not be equal to the amounts presented on our condensed consolidated balance sheet, nor will they be equal to the fair value information presented for our financial instruments in Note 4.

	Balance Sheet Location	Natural Gas Distribution	Natural Gas Marketing[1]	Total
			(In thousands)	
June 30, 2009:				
Designated As Hedges:				
Asset Financial Instruments				
Current commodity contracts	Other current assets	$	$ 71,992	$ 71,992
Noncurrent commodity contracts	Deferred charges and other assets		6,383	6,383
Liability Financial Instruments				
Current commodity contracts	Other current liabilities		(71,878)	(71,878)
Noncurrent commodity contracts	Deferred credits and other liabilities		(1,150)	(1,150)
Total			5,347	5,347
Not Designated As Hedges:				
Asset Financial Instruments				
Current commodity contracts	Other current assets	1,233	28,887	30,120
Noncurrent commodity contracts	Deferred charges and other assets		6,381	6,381
Liability Financial Instruments				
Current commodity contracts	Other current liabilities	(22,945)	(20,428)	(43,373)
Noncurrent commodity contracts	Deferred credits and other liabilities	(316)	(1,743)	(2,059)
Total		(22,028)	13,097	(8,931)
Total Financial Instruments		$ (22,028)	$ 18,444	$ (3,584)

(1) Our pipeline, storage and other segment uses financial instruments acquired from AEM on the same terms that AEM received from an independent counterparty. On a consolidated basis, these financial instruments are reported in the natural gas marketing segment; however, the underlying hedged item is reported in the pipeline, storage and other segment.

	Balance Sheet Location	Natural Gas Distribution	Natural Gas Marketing[1]	Total
			(In thousands)	

September 30, 2008:				
Designated As Hedges:				
Asset Financial Instruments				
Current commodity contracts	Other current assets	$	$ 101,191	$ 101,191
Noncurrent commodity contracts	Deferred charges and other assets		4,984	4,984
Liability Financial Instruments				
Current commodity contracts	Other current liabilities		(89,397)	(89,397)
Noncurrent commodity contracts	Deferred credits and other liabilities		(206)	(206)
Total			16,572	16,572
Not Designated As Hedges:				
Asset Financial Instruments				
Current commodity contracts	Other current assets		20,010	20,010
Noncurrent commodity contracts	Deferred charges and other assets		1,093	1,093
Liability Financial Instruments				
Current commodity contracts	Other current liabilities	(58,566)	(20,145)	(78,711)
Noncurrent commodity contracts	Deferred credits and other liabilities	(5,111)	(988)	(6,099)
Total		(63,677)	(30)	(63,707)
Total Financial Instruments		$ (63,677)	$ 16,542	$ (47,135)

(1) Our pipeline, storage and other segment uses financial instruments acquired from AEM on the same terms that AEM received from an independent counterparty. On a consolidated basis, these financial instruments are reported in the natural gas marketing segment; however, the underlying hedged item is reported in the pipeline, storage and other segment.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Impact of Financial Instruments on the Income Statement

The following tables present the impact that financial instruments had on our condensed consolidated income statement, by operating segment, as applicable, for the three and nine months ended June 30, 2009 and 2008.

Hedge ineffectiveness for our natural gas marketing and pipeline storage and other segments is recorded as a component of unrealized gross profit and primarily results from differences in the location and timing of the derivative instrument and the hedged item. Hedge ineffectiveness could materially affect our results of operations for the reported period. For the three months ended June 30, 2009 and 2008 we recognized a gain (loss) arising from fair value and cash flow hedge ineffectiveness of $0.2 million and $(4.7) million. For the nine months ended June 30, 2009 and 2008 we recognized a gain arising from fair value and cash flow hedge ineffectiveness of $24.7 million and $40.6 million. Additional information regarding ineffectiveness recognized in the income statement is included in the tables below.

Fair Value Hedges

The impact of commodity contracts designated as fair value hedges and the related hedged item on our condensed consolidated income statement for the three and nine months ended June 30, 2009 and 2008 is presented below.

	Three Months Ended June 30, 2009		
	Natural Gas Marketing	Pipeline, Storage and Other	Consolidated
	(In thousands)		
Commodity contracts	$ 2,710	$ 1,390	$ 4,100
Fair value adjustment for natural gas inventory designated as the hedged item	3,929	(741)	3,188
Total impact on revenue	$ 6,639	$ 649	$ 7,288
The impact on revenue is comprised of the following:			
Basis ineffectiveness	$ 678	$	$ 678
Timing ineffectiveness	5,961	649	6,610
	$ 6,639	$ 649	$ 7,288

	Three Months Ended June 30, 2008	
	Natural Gas	Pipeline, Storage and

	Marketing		Other (In thousands)		Consolidated	
Commodity contracts	$	(50,391)	$	(2,049)	$	(52,440)
Fair value adjustment for natural gas inventory designated as the hedged item		46,765		1,431		48,196
Total impact on revenue	$	(3,626)	$	(618)	$	(4,244)
The impact on revenue is comprised of the following:						
Basis ineffectiveness	$	(2,402)	$		$	(2,402)
Timing ineffectiveness		(1,224)		(618)		(1,842)
	$	(3,626)	$	(618)	$	(4,244)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Nine Months Ended June 30, 2009		
	Natural Gas Marketing	Pipeline, Storage and Other	Consolidated
		(In thousands)	
Commodity contracts	$ 48,263	$ 7,435	$ 55,698
Fair value adjustment for natural gas inventory designated as the hedged item	(26,493)	(2,731)	(29,224)
Total impact on revenue	$ 21,770	$ 4,704	$ 26,474
The impact on revenue is comprised of the following:			
Basis ineffectiveness	$ 4,958	$	$ 4,958
Timing ineffectiveness	16,812	4,704	21,516
	$ 21,770	$ 4,704	$ 26,474

	Nine Months Ended June 30, 2008		
	Natural Gas Marketing	Pipeline, Storage and Other	Consolidated
		(In thousands)	
Commodity contracts	$ (66,612)	$ (662)	$ (67,274)
Fair value adjustment for natural gas inventory designated as the hedged item	104,288	3,841	108,129
Total impact on revenue	$ 37,676	$ 3,179	$ 40,855
The impact on revenue is comprised of the following:			
Basis ineffectiveness	$ (1,185)	$	$ (1,185)
Timing ineffectiveness	38,861	3,179	42,040
	$ 37,676	$ 3,179	$ 40,855

Basis ineffectiveness arises from natural gas market price differences between the locations of the hedged inventory and the delivery location specified in the hedge instruments. Timing ineffectiveness arises due to changes in the difference between the spot price and the futures price, as well as the difference between the timing of the settlement of the futures and the valuation of the underlying physical commodity. As the commodity contract nears the settlement date, spot to forward price differences should converge, which should reduce or eliminate the impact of this ineffectiveness on revenue.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Cash Flow Hedges

The impact of cash flow hedges on our condensed consolidated income statements for the three and nine months ended June 30, 2009 and 2008 is presented below. Note that this presentation does not reflect the financial impact arising from the hedged physical transaction. Therefore, this presentation is not indicative of the economic gross profit we realized when the underlying physical and financial transactions were settled.

	Three Months Ended June 30, 2009			
	Natural Gas Distribution	Natural Gas Marketing	Pipeline, Storage and Other	Consolidated
	(In thousands)			
Loss reclassified from AOCI into revenue for effective portion of commodity contracts	$	$ (36,669)	$ (2,503)	$ (39,172)
Loss arising from ineffective portion of commodity contracts		(7,120)		(7,120)
Total impact on revenue		(43,789)	(2,503)	(46,292)
Net loss on settled Treasury lock agreements reclassified from AOCI into interest expense	(863)			(863)
Total Impact from Cash Flow Hedges	$ (863)	$ (43,789)	$ (2,503)	$ (47,155)

	Three Months Ended June 30, 2008			
	Natural Gas Distribution	Natural Gas Marketing	Pipeline, Storage and Other	Consolidated
	(In thousands)			
Gain reclassified from AOCI into revenue for effective portion of commodity contracts	$	$ 10,040	$ 57	$ 10,097
Loss arising from ineffective portion of commodity contracts		(406)		(406)
Total impact on revenue		9,634	57	9,691
Net loss on settled Treasury lock agreements reclassified from AOCI into interest expense	(1,269)			(1,269)
Total Impact from Cash Flow Hedges	$ (1,269)	$ 9,634	$ 57	$ 8,422

	Nine Months Ended June 30, 2009			
	Natural Gas Distribution	Natural Gas Marketing	Pipeline, Storage and Other	Consolidated
	(In thousands)			
Gain (loss) reclassified from AOCI into revenue for effective portion of commodity contracts	$	$ (142,986)	$ 25,213	$ (117,773)
Loss arising from ineffective portion of commodity contracts		(1,748)		(1,748)
Total impact on revenue		(144,734)	25,213	(119,521)
Net loss on settled Treasury lock agreements reclassified from AOCI into interest expense	(3,401)			(3,401)
Total Impact from Cash Flow Hedges	$ (3,401)	$ (144,734)	$ 25,213	$ (122,922)

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Nine Months Ended June 30, 2008			
	Natural Gas Distribution	Natural Gas Marketing	Pipeline, Storage and Other	Consolidated
	(In thousands)			
Gain (loss) reclassified from AOCI into revenue for effective portion of commodity contracts	$	$ (3,744)	$ 9,334	$ 5,590
Loss arising from ineffective portion of commodity contracts		(281)		(281)
Total impact on revenue		(4,025)	9,334	5,309
Net loss on settled Treasury lock agreements reclassified from AOCI into interest expense	(3,807)			(3,807)
Total Impact from Cash Flow Hedges	$ (3,807)	$ (4,025)	$ 9,334	$ 1,502

The following table summarizes the gains and losses arising from hedging transactions that were recognized as a component of other comprehensive income (loss), net of taxes, for the three and nine months ended June 30, 2009 and 2008. The amounts included in the table below exclude gains and losses arising from ineffectiveness because these amounts are immediately recognized in the income statement as incurred.

	Three Months Ended June 30		Nine Months Ended June 30	
	2009	2008	2009	2008
	(In thousands)			
Increase (decrease) in fair value:				
Treasury lock agreements	$	$	$ 1,221	$
Forward commodity contracts	2,041	9,278	(78,220)	18,227
Recognition of (gains) losses in earnings due to settlements:				
Treasury lock agreements	543	787	1,963	2,361
Forward commodity contracts	23,895	(6,260)	71,841	(3,466)
Total other comprehensive income (loss) from hedging, net of tax[(1)]	$ 26,479	$ 3,805	$ (3,195)	$ 17,122

(1) Utilizing an income tax rate of approximately 37 percent comprised of the effective rates in each taxing jurisdiction.

The following amounts, net of deferred taxes, represent the expected recognition in earnings of the deferred losses recorded in AOCI associated with our financial instruments, based upon the fair values of these financial instruments as of June 30, 2009:

	Treasury Lock Agreements	Commodity Contracts	Total
		(In thousands)	
Next twelve months	$ (1,687)	$ (30,303)	$ (31,990)
Thereafter	(6,233)	(1,829)	(8,062)
Total[1]	$ (7,920)	$ (32,132)	$ (40,052)

[1] Utilizing an income tax rate of approximately 37 percent comprised of the effective rates in each taxing jurisdiction.

ATMOS ENERGY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Financial Instruments Not Designated as Hedges

The impact of financial instruments that have not been designated as hedges on our condensed consolidated income statements for the three and nine months ended June 30, 2009 and 2008 is presented below. Note that this presentation does not reflect the expected gains or losses arising from the underlying physical transactions associated with these financial instruments. Therefore, this presentation is not indicative of the economic gross profit we realized when the underlying physical and financial transactions were settled.

As discussed above, financial instruments used in our natural gas distribution segment are not designated as hedges. However, there is no earnings impact to our natural gas distribution segment as a result of the use of these financial instruments because the gains and losses arising from the use of these financial instruments are recognized in the consolidated statement of income as a component of purchased gas cost when the related costs are recovered through our rates and recognized in revenue. Accordingly, the impact of these financial instruments is excluded from this presentation.

	Three Months Ended June 30		Nine Months Ended June 30	
	2009	2008	2009	2008
	(In thousands)			
Natural gas marketing commodity contracts	$ 6,167	$ (12,786)	$ 12,928	$ (26,580)
Pipeline, storage and other commodity contracts	(6,853)	2,594	(6,753)	1,705
Total impact on revenue	$ (686)	$ (10,192)	$ 6,175	$ (24,875)

4. Fair Value Measurements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS 157, *Fair Value Measurements*, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP) and expands disclosures about fair value measurements. This Statement does not require any new fair value measurements; rather it provides guidance on how to perform fair value measurements as required or permitted under previous accounting pronouncements.

We prospectively adopted the provisions of SFAS 157 on October 1, 2008 for most of the financial assets and liabilities recorded on our balance sheet at fair value. Adoption of this statement for these assets and liabilities did not have a material impact on our financial position, results of operations or cash flows.

In February 2008, the FASB issued FSP FAS 157-2, *Effective Date of FASB Statement No. 157,* which provided a one-year deferral of SFAS 157 for nonrecurring fair value measurements associated with our nonfinancial assets and liabilities. Under this partial deferral, SFAS 157 will not be effective until October 1, 2009 for fair value measurements for the following:

Asset retirement obligations

Most nonfinancial assets and liabilities that may be acquired in a business combination

Impairment analyses performed for nonfinancial assets

We believe the adoption of SFAS 157 for the reporting of these nonfinancial assets and liabilities will not have a material impact on our financial position, results of operations or cash flows.

In October 2008, the FASB issued FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active*, which clarified the application of SFAS 157 in inactive markets. This FSP did not impact our financial position, results of operations or cash flows.

SFAS 157 also applies to the valuation of our pension and post-retirement plan assets. The adoption of this standard did not affect these valuations because SFAS 157 specifically excluded pension and post-retirement assets from its prescribed disclosure provisions. Accordingly, these plan assets are not included in the tabular disclosures below. However, in December 2008, the FASB issued FSP FAS 132(R)-1 *Employers*

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Disclosures about Postretirement Benefit Plan Assets, which will, among other things, require disclosure about fair value measurements similar to those required by SFAS 157. This FSP will impact our annual disclosure requirements beginning in fiscal 2010.

In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. This FSP provides further guidance for estimating fair value in accordance with SFAS 157 when there has been a significant decrease in market activity for a financial asset and also identifies circumstances that indicate a transaction is not orderly. The adoption of this FSP did not impact our financial position, results of operations or cash flows.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. This FSP requires companies to disclose the fair value of financial instruments for which it is practicable to estimate the value and the methods and significant assumptions used to estimate the fair value. We have adopted the disclosure requirements of this FSP, which are presented below.

Determining Fair Value

SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). We primarily use quoted market prices and other observable market pricing information in valuing our financial assets and liabilities and minimize the use of unobservable pricing inputs in our measurements.

Prices actively quoted on national exchanges are used to determine the fair value of most of our assets and liabilities recorded on our balance sheet at fair value. Within our nonregulated operations, we utilize a mid-market pricing convention (the mid-point between the bid and ask prices) as a practical expedient for determining fair value measurement, as permitted under SFAS 157. Values derived from these sources reflect the market in which transactions involving these financial instruments are executed. We utilize models and other valuation methods to determine fair value when external sources are not available. Values are adjusted to reflect the potential impact of an orderly liquidation of our positions over a reasonable period of time under then-current market conditions. We believe the market prices and models used to value these assets and liabilities represent the best information available with respect to closing exchange and over-the-counter quotations, time value and volatility factors underlying the assets and liabilities.

Fair-value estimates also consider our own creditworthiness and the creditworthiness of the counterparties involved. Our counterparties consist primarily of financial institutions and major energy companies. This concentration of counterparties may materially impact our exposure to credit risk resulting from market, economic or regulatory conditions. Recent adverse developments in the global financial and credit markets have made it more difficult and more expensive for companies to access the short-term capital markets, which may negatively impact the creditworthiness of our counterparties. A continued tightening of the credit markets could cause more of our counterparties to fail to perform. We seek to minimize counterparty credit risk through an evaluation of their financial condition and credit ratings and the use of collateral requirements under certain circumstances.

SFAS 157 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value based on observable and unobservable data. The hierarchy categorizes the inputs into three levels, with the highest priority given to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority given to unobservable inputs (Level 3). The levels of the hierarchy are described below:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is defined as a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis. Our Level 1 measurements consist primarily of exchange-traded financial instruments, gas stored underground that has been designated as the hedged item in a fair value hedge and our available-for-sale securities.

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Level 2 Pricing inputs other than quoted prices included in Level 1 that are either directly or indirectly observable for the asset or liability as of the reporting date. These inputs are derived principally from, or corroborated by, observable market data. Our Level 2 measurements primarily consist of non-exchange-traded financial instruments, such as over-the-counter options and swaps where market data for pricing is observable.

Level 3 Generally unobservable pricing inputs which are developed based on the best information available, including our own internal data, in situations where there is little if any market activity for the asset or liability at the measurement date. The pricing inputs utilized reflect what a market participant would use to determine fair value. Currently, we have no assets or liabilities recorded at fair value that would qualify for Level 3 reporting.

Quantitative Disclosures

Financial Instruments

The classification of our fair value measurements requires judgment regarding the degree to which market data are observable or corroborated by observable market data. The following table summarizes, by level within the fair value hierarchy, our assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2009. As required under SFAS 157, assets and liabilities are categorized in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Netting and Cash Collateral[1]	June 30, 2009
			(In thousands)		
Assets:					
Financial instruments					
Natural gas distribution segment	$	$ 1,233	$	$	$ 1,233
Natural gas marketing segment	40,494	73,149		(73,722)	39,921
Total financial instruments	40,494	74,382		(73,722)	41,154
Hedged portion of gas stored underground					
Natural gas marketing segment	79,604				79,604
Pipeline, storage and other segment[2]	7,023				7,023
Total gas stored underground	86,627				86,627
Available-for-sale securities	38,856				38,856
Total assets	$ 165,977	$ 74,382	$	$ (73,722)	$ 166,637

Liabilities:										
Financial instruments										
Natural gas distribution segment	$		$	23,261	$		$		$	23,261
Natural gas marketing segment		72,410		22,789				(94,336)		863
Total liabilities	$	72,410	$	46,050	$		$	(94,336)	$	24,124

(1) This column reflects adjustments to our gross financial instrument assets and liabilities to reflect netting permitted under our master netting agreements and FSP FIN 39-1. In addition, as of June 30, 2009, we had $20.6 million of cash held in margin accounts to collateralize certain financial instruments. Of this amount, $0.1 million was used to offset financial instruments in a liability position. The remaining $20.5 million has been reflected as a financial instrument asset.

(2) Our pipeline, storage and other segment uses financial instruments acquired from AEM on the same terms that AEM received from an independent counterparty. On a consolidated basis, these financial instruments are reported in the natural gas marketing segment; however, the underlying hedged item is reported in the pipeline, storage and other segment.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other Fair Value Measures

In addition to the financial instruments above, we have several nonfinancial assets and liabilities subject to fair value measures. These assets and liabilities include cash and cash equivalents, accounts receivable, accounts payable, debt, asset retirement obligations and pension and post-retirement plan assets. As noted above, fair value disclosures for asset retirement obligations and pension and post-retirement plan assets are not currently effective for us. We record cash and cash equivalents, accounts receivable, accounts payable and debt at carrying value. For cash and cash equivalents, accounts receivable and accounts payable, we consider carrying value to materially approximate fair value due to the short-term nature of these assets and liabilities. The fair value of our debt is determined using a discounted cash flow analysis based upon borrowing rates currently available to us, the remaining average maturities and our credit rating. The following table presents the carrying value and fair value of our debt as of June 30, 2009:

	June 30, 2009 (In thousands)
Carrying Amount	$ 2,172,893
Fair Value	$ 2,068,388

The fair value as of June 30, 2009 was calculated utilizing discount rates ranging from 3.5 percent to 7.2 percent, remaining average maturities ranging from one to 26 years, and a credit adjustment of 2.9 percent.

5. Debt

Long-term debt

Long-term debt at June 30, 2009 and September 30, 2008 consisted of the following:

	June 30, 2009	September 30, 2008
	(In thousands)	
Unsecured 4.00% Senior Notes, redeemed April 2009	$	$ 400,000
Unsecured 7.375% Senior Notes, due 2011	350,000	350,000
Unsecured 10% Notes, due 2011	2,303	2,303
Unsecured 5.125% Senior Notes, due 2013	250,000	250,000
Unsecured 4.95% Senior Notes, due 2014	500,000	500,000
Unsecured 6.35% Senior Notes, due 2017	250,000	250,000
Unsecured 8.50% Senior Notes, due 2019	450,000	
Unsecured 5.95% Senior Notes, due 2034	200,000	200,000
Medium term notes		
Series A, 1995-2, 6.27%, due December 2010	10,000	10,000

Series A, 1995-1, 6.67%, due 2025	10,000	10,000
Unsecured 6.75% Debentures, due 2028	150,000	150,000
Other term notes due in installments through 2013	590	1,309
Total long-term debt	2,172,893	2,123,612
Less:		
Original issue discount on unsecured senior notes and debentures	(3,367)	(3,035)
Current maturities	(131)	(785)
	$ 2,169,395	$ 2,119,792

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

On March 26, 2009, we closed our Senior Notes Offering. The effective interest rate on these notes is 8.69 percent, after giving effect to the settlement of the $450 million Treasury lock discussed in Note 3. Most of the net proceeds of approximately $446 million were used to redeem our $400 million 4.00% unsecured senior notes on April 30, 2009, prior to their October 2009 maturity. In connection with the repayment of the $400 million 4.00% unsecured senior notes, we paid a $6.6 million call premium in accordance with the terms of the senior notes and accrued interest of approximately $0.6 million. The remaining net proceeds were used for general corporate purposes.

Short-term debt

Our short-term borrowing requirements are affected by the seasonal nature of the natural gas business. Changes in the price of natural gas and the amount of natural gas we need to supply our customers needs could significantly affect our borrowing requirements. Our short-term borrowings typically reach their highest levels in the winter months.

We finance our short-term borrowing requirements through a combination of a $566.7 million commercial paper program and four committed revolving credit facilities with third-party lenders that provide approximately $1.3 billion of working capital funding. At June 30, 2009, there was no short-term debt outstanding. At September 30, 2008, there was $350.5 million of short-term debt outstanding, comprised of $330.5 million outstanding under our bank credit facilities and $20.0 million outstanding under our commercial paper program. We also use intercompany credit facilities to supplement the funding provided by these third-party committed credit facilities. These facilities are described in greater detail below.

Regulated Operations

We fund our regulated operations as needed primarily through a $566.7 million commercial paper program and three committed revolving credit facilities with third-party lenders that provide approximately $800 million of working capital funding. The first facility is a five-year unsecured facility, expiring December 2011, that bears interest at a base rate or at a LIBOR-based rate for the applicable interest period, plus a spread ranging from 0.30 percent to 0.75 percent, based on the Company s credit ratings. This credit facility serves as a backup liquidity facility for our commercial paper program. At the time this credit facility was established, borrowings under this facility were limited to $600 million. However, in September 2008, the limit on borrowings was effectively reduced to $566.7 million after one lender with a 5.55% share of the commitments ceased funding under the facility. On March 30, 2009, the credit facility was amended to reflect this reduction. At June 30, 2009, there were no borrowings under this facility and $566.7 million was available.

The second facility is a $212.5 million unsecured 364-day facility expiring October 2009, that bears interest at a base rate or at a LIBOR-based rate for the applicable interest period, plus a spread ranging from 1.25 percent to 2.50 percent, based on the Company s credit ratings. At June 30, 2009, there were no borrowings outstanding under this facility.

The third facility was an $18 million unsecured facility that bore interest at a daily negotiated rate, generally based on the Federal Funds rate plus a variable margin. This facility expired on March 31, 2009 and was replaced with a $25 million unsecured facility effective April 1, 2009 that bears interest at a daily negotiated rate. At June 30, 2009, there were no borrowings outstanding under this facility.

The availability of funds under these credit facilities is subject to conditions specified in the respective credit agreements, all of which we currently satisfy. These conditions include our compliance with financial covenants and the continued accuracy of representations and warranties contained in these agreements. We are required by the financial covenants in each of these facilities to maintain, at the end of each fiscal quarter, a ratio of total debt to total capitalization of no greater than 70 percent. At June 30, 2009, our total-debt-to-

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

total-capitalization ratio, as defined, was 52 percent. In addition, both the interest margin over the Eurodollar rate and the fee that we pay on unused amounts under each of these facilities are subject to adjustment depending upon our credit ratings.

In addition to these third-party facilities, our regulated operations have a $200 million intercompany revolving credit facility with AEH. Through December 31, 2008, this facility bore interest at the one-month LIBOR rate plus 0.20 percent. In January 2009, this facility was replaced with a new $200 million 364 day-facility that bears interest at the lower of (i) the one-month LIBOR rate plus 0.45 percent or (ii) the marginal borrowing rate available to the Company on the date of borrowing. The marginal borrowing rate is defined as the lower of (i) a rate based upon the lower of the Prime Rate or the Eurodollar rate under the five year revolving credit facility or (ii) the lowest rate outstanding under the commercial paper program. Applicable state regulatory commissions have approved the new facility through December 31, 2009. There was $40.3 million outstanding under this facility at June 30, 2009.

Nonregulated Operations

On December 30, 2008, AEM and the participating banks amended and restated AEM s former uncommitted credit facility, primarily to convert the $580 million uncommitted demand credit facility to a 364-day $375 million committed revolving credit facility and extend it to December 29, 2009. Effective April 1, 2009, the borrowing base was increased to $450 million through the exercise of an accordion feature in the facility.

The amended facility also adds a swing line loan feature; adjusts the interest rate on borrowings as discussed below and increases the fees paid to reflect the facility s conversion to a committed facility and current credit market conditions. The swing line loan feature allows AEM to borrow, on a same day basis, an amount ranging from $17 million to $27 million based on the terms of an election within the agreement.

AEM uses this facility primarily to issue letters of credit and, on a less frequent basis, to borrow funds for gas purchases and other working capital needs. At AEM s option, borrowings made under the credit facility are based on a base rate or an offshore rate, in each case plus an applicable margin. The base rate is a floating rate equal to the higher of: (a) 0.50 percent per annum above the latest federal funds rate; (b) the per annum rate of interest established by BNP Paribas from time to time as its prime rate or base rate for U.S. dollar loans; (c) an offshore rate (based on LIBOR with a one-month interest period) as in effect from time to time; and (d) the cost of funds rate based on an average of interest rates reported by one or more of the lenders to the administrative agent. The offshore rate is a floating rate equal to the higher of (a) an offshore rate based upon LIBOR for the applicable interest period; and (b) a cost of funds rate referred to above. In the case of both base rate and offshore rate loans, the applicable margin ranges from 2.250 percent to 2.625 percent per annum, depending on the excess tangible net worth of AEM, as defined in the credit facility. This facility is collateralized by substantially all of the assets of AEM and is guaranteed by AEH.

At June 30, 2009, there were no borrowings outstanding under this credit facility. However, at June 30, 2009, AEM letters of credit totaling $24.0 million had been issued under the facility, which reduced the amount available by a corresponding amount. The amount available under this credit facility is also limited by various covenants, including covenants based on working capital. Under the most restrictive covenant, the amount available to AEM under this credit facility was $100.6 million at June 30, 2009.

AEM is required by the financial covenants in this facility to maintain a ratio of total liabilities to tangible net worth that does not exceed a maximum of 5 to 1. At June 30, 2009, AEM s ratio of total liabilities to tangible net worth, as defined, was 0.86 to 1. Additionally, AEM must maintain minimum levels of net working capital and net worth ranging from $75 million to $112.5 million. As defined in the financial covenants, at June 30, 2009, AEM s net working capital was $195.5 million and its tangible net worth was $210.5 million.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

To supplement borrowings under this facility, through December 31, 2008, AEM had a $200 million intercompany demand credit facility with AEH, which bore interest at the rate for AEM s offshore borrowings under its committed credit facility plus 0.75 percent. Amounts outstanding under this facility are subordinated to AEM s committed credit facility. This facility was replaced with another $200 million 364-day facility in January 2009 with no material changes to its terms except for the rate of interest, which is the greater of (i) the one-month LIBOR rate plus 2.00 percent or (ii) the rate for AEM s offshore borrowings under its committed credit facility plus 0.75 percent. There were no borrowings outstanding under this facility at June 30, 2009.

Finally, through December 31, 2008, AEH had a $200 million intercompany demand credit facility with AEC, which bore interest at the rate for AEM s offshore borrowings under its committed credit facility plus 0.75 percent. This facility was replaced with another $200 million 364-day facility in January 2009 with no material changes to its terms except for the rate of interest, which is the greater of (i) the one-month LIBOR rate plus 2.00 percent or (ii) the rate for AEM s offshore borrowings under its committed credit facility plus 0.75 percent. Applicable state regulatory commissions have approved the new facility through December 31, 2009. There were no borrowings outstanding under this facility at June 30, 2009.

Shelf Registration

On March 23, 2009, we filed a registration statement with the Securities and Exchange Commission (SEC) to issue, from time to time, up to $900 million in common stock and/or debt securities available for issuance, including approximately $450 million of capacity carried over from our prior shelf registration statement filed with the SEC in December 2006.

As of June 30, 2009, we had $450 million of availability remaining under the registration statement after completing our Senior Notes Offering. However, due to certain restrictions placed by one state regulatory commission on our ability to issue securities under the registration statement, we now have remaining and available for issuance a total of approximately $300 million of equity securities and $150 million of subordinated debt securities.

Debt Covenants

In addition to the financial covenants described above, our debt instruments contain various covenants that are usual and customary for debt instruments of these types.

Additionally, our public debt indentures relating to our senior notes and debentures, as well as our revolving credit agreements, each contain a default provision that is triggered if outstanding indebtedness arising out of any other credit agreements in amounts ranging from in excess of $15 million to in excess of $100 million becomes due by acceleration or is not paid at maturity.

Further, AEM s credit agreement contains a cross-default provision whereby AEM would be in default if it defaults on other indebtedness, as defined, by at least $250 thousand in the aggregate.

Finally, AEM s credit agreement contains a provision that would limit the amount of credit available if Atmos Energy were downgraded below an S&P rating of BBB and a Moody s rating of Baa2. We have no other triggering events in our debt instruments that are tied to changes in specified credit ratings or stock price, nor have we entered into any transactions that would require us to issue equity, based on our credit rating or other triggering events.

We were in compliance with all of our debt covenants as of June 30, 2009. If we were unable to comply with our debt covenants, we would likely be required to repay our outstanding balances on demand, provide additional collateral or take other corrective actions.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Earnings Per Share

Basic and diluted earnings per share for the three and nine months ended June 30, 2009 and 2008 are calculated as follows:

	Three Months Ended June 30		Nine Months Ended June 30	
	2009	2008	2009	2008
	(In thousands, except per share amounts)			
Net income (loss)	$ 1,964	$ (6,588)	$ 206,930	$ 178,749
Denominator for basic income per share weighted average common shares	91,338	89,648	90,940	89,281
Effect of dilutive securities:				
Restricted and other shares	616		611	557
Stock options	48		39	99
Denominator for diluted income per share weighted average common shares	92,002	89,648	91,590	89,937
Income (loss) per share basic	$ 0.02	$ (0.07)	$ 2.28	$ 2.00
Income (loss) per share diluted	$ 0.02	$ (0.07)	$ 2.26	$ 1.99

There were approximately 33,000 and 132,000 out-of-the-money stock options excluded from the computation of diluted earnings per share for the three and nine months ended June 30, 2009.

There were approximately 557,000 restricted and other shares and approximately 99,000 stock options that were excluded from the calculation of diluted earnings per share for the three months ended June 30, 2008 as their inclusion in the computation would be anti-dilutive. There were no out-of-the-money stock options excluded from the computation of diluted earnings per share for the three and nine months ended June 30, 2008 as their exercise price was less than the average market price of the common stock during that period.

7. Interim Pension and Other Postretirement Benefit Plan Information

The components of our net periodic pension cost for our pension and other postretirement benefit plans for the three and nine months ended June 30, 2009 and 2008 are presented in the following table. Most of these costs are recoverable through our gas distribution rates; however, a portion of these costs is capitalized into our gas distribution rate base. The remaining costs are recorded as a component of operation and maintenance expense.

	Three Months Ended June 30			
	Pension Benefits		Other Benefits	
	2009	2008	2009	2008
	(In thousands)			
Components of net periodic pension cost:				
Service cost	$ 3,703	$ 3,879	$ 2,946	$ 3,342
Interest cost	7,554	6,736	3,520	2,912
Expected return on assets	(6,238)	(6,311)	(573)	(715)
Amortization of transition asset			378	377
Amortization of prior service cost	(183)	(171)		
Amortization of actuarial loss	955	1,926		
Net periodic pension cost	$ 5,791	$ 6,059	$ 6,271	$ 5,916

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Nine Months Ended June 30			
	Pension Benefits		Other Benefits	
	2009	2008	2009	2008
	(In thousands)			
Components of net periodic pension cost:				
Service cost	$ 11,109	$ 11,635	$ 8,838	$ 10,024
Interest cost	22,662	20,208	10,560	8,736
Expected return on assets	(18,714)	(18,932)	(1,719)	(2,145)
Amortization of transition asset			1,134	1,133
Amortization of prior service cost	(549)	(513)		
Amortization of actuarial loss	2,865	5,778		
Net periodic pension cost	$ 17,373	$ 18,176	$ 18,813	$ 17,748

The assumptions used to develop our net periodic pension cost for the three and nine months ended June 30, 2009 and 2008 are as follows:

	Pension Benefits		Other Benefits	
	2009	2008	2009	2008
Discount rate	7.57%	6.30%	7.57%	6.30%
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%
Expected return on plan assets	8.25%	8.25%	5.00%	5.00%

The discount rate used to compute the present value of a plan s liabilities generally is based on rates of high-grade corporate bonds with maturities similar to the average period over which the benefits will be paid. Generally, our funding policy has been to contribute annually an amount in accordance with the requirements of the Employee Retirement Income Security Act of 1974. In accordance with the Pension Protection Act of 2006 (PPA), we determined the funded status of our plans as of January 1, 2009. In June 2009, we contributed $21 million in cash to our pension plans to achieve a desired level of funding while maximizing the tax deductibility of this payment.

We contributed $8.2 million to our other post-retirement benefit plans during the nine months ended June 30, 2009. We expect to contribute a total of approximately $11 million to these plans during fiscal 2009.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. This FSP amends the other-than-temporary impairment guidance for debt securities and expands the presentation and disclosure of other-than-temporary impairments on debt and equity securities in interim and annual financial statements. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities.

For our Supplemental Executive Benefit Plans, we own equity securities that are classified as available-for-sale securities. These securities are reported at market value with unrealized gains and losses shown as a component of accumulated other comprehensive income (loss). We regularly evaluate the performance of these investments on a fund by fund basis for impairment, taking into consideration the fund s purpose, volatility and current returns. If a determination is made that a decline in fair value is other than temporary, the related fund is written down to its estimated fair value and the other-than-temporary impairment is recognized in the income statement.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Assets for the supplemental plans are held in separate rabbi trusts and comprise the following:

	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
		(In thousands)		
As of June 30, 2009:				
Domestic equity mutual funds	$ 25,824	$ 286	$	$ 26,110
Foreign equity mutual funds	4,047			4,047
Money market funds	8,699			8,699
	$ 38,570	$ 286	$	$ 38,856
As of September 30, 2008:				
Domestic equity mutual funds	$ 31,041	$ 1,625	$ (394)	$ 32,272
Foreign equity mutual funds	5,309	359		5,668
	$ 36,350	$ 1,984	$ (394)	$ 37,940

The following table presents interest and dividends on available-for-sale securities for the three and nine months ended June 30, 2009 and 2008:

	Three Months Ended June 30		Nine Months Ended June 30	
	2009	2008	2009	2008
		(In thousands)		
Interest	$ 8	$	$ 8	$
Dividends	184	190	1,607	2,032
Total interest and dividends	$ 192	$ 190	$ 1,615	$ 2,032

The following table presents realized gains and losses on available-for-sale securities for the three and nine months ended June 30, 2009 and 2008. The gross realized investment losses exclude losses from other-than-temporary impairment:

	Nine Months Ended

	Three Months Ended June 30		June 30	
	2009	2008	2009	2008
	(In thousands)			
Gross realized investment gains	$	$ 51	$	$ 97
Gross realized investment losses		(2)	(129)	(3)
Net realized gains (losses)	$	$ 49	$ (129)	$ 94

Due to the recent deterioration of the financial markets and the uncertainty of a full recovery of these investments given the current economic environment, we have recorded a $3.3 million and $5.4 million noncash charge to impair certain available-for-sale investments during the three and nine months ended June 30, 2009. As a result of these impairments, at June 30, 2009, we did not maintain any investments that are in an unrealized loss position.

8. Commitments and Contingencies

Litigation and Environmental Matters

With respect to the specific litigation and environmental-related matters or claims that were disclosed in Note 12 to the financial statements in our Annual Report on Form 10-K for the fiscal year ended September 30,

ATMOS ENERGY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2008, there were no material changes in the status of such litigation and environmental-related matters or claims during the nine months ended June 30, 2009. We continue to believe that the final outcome of such litigation and environmental-related matters or claims will not have a material adverse effect on our financial condition, results of operations or cash flows.

In addition, we are involved in other litigation and environmental-related matters or claims that arise in the ordinary course of our business. While the ultimate results of such litigation and response actions to such environmental-related matters or claims cannot be predicted with certainty, we believe the final outcome of such litigation and response actions will not have a material adverse effect on our financial condition, results of operations or cash flows.

Purchase Commitments

AEM has commitments to purchase physical quantities of natural gas under contracts indexed to the forward NYMEX strip or fixed price contracts. At June 30, 2009, AEM was committed to purchase 83.0 Bcf within one year and 25.4 Bcf within one to three years under indexed contracts. AEM is committed to purchase 2.9 Bcf within one year under fixed price contracts with prices ranging from $3.15 to $7.68 per Mcf. Purchases under these contracts totaled $256.0 million and $842.1 million for the three months ended June 30, 2009 and 2008 and $1,215.0 million and $2,274.4 million for the nine months ended June 30, 2009 and 2008.

Our natural gas distribution divisions, except for our Mid-Tex Division, maintain supply contracts with several vendors that generally cover a period of up to one year. Commitments for estimated base gas volumes are established under these contracts on a monthly basis at contractually negotiated prices. Commitments for incremental daily purchases are made as necessary during the month in accordance with the terms of the individual contract.

Our Mid-Tex Division maintains long-term supply contracts to ensure a reliable source of gas for our customers in this service area which obligate it to purchase specified volumes at market and fixed prices. The estimated commitments under these contracts as of June 30, 2009 are as follows (in thousands):

2009	$ 20,256
2010	120,481
2011	5,658
2012	7,302
2013	7,711
Thereafter	2,614
	$ 164,022

Regulatory Matters

As previously described in Note 12 to the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended September 30, 2008, in December 2007, the Company received data requests from the Division of Investigations of the Office of Enforcement of the Federal Energy Regulatory Commission (the Commission) in connection with its investigation into possible violations of the Commission s posting and competitive bidding regulations for pre-arranged released firm capacity on natural gas pipelines.

After responding to two sets of data requests received from the Commission, the Commission agreed to allow us to conduct our own internal investigation into compliance with the Commission s rules. We have completed our internal investigation and submitted the results to the Commission. During our investigation, we identified certain transactions that could possibly be considered non-compliant, and we continue to fully

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

cooperate with the Commission as we work to resolve this matter. We have accrued what we believe is an adequate amount for the anticipated resolution of this proceeding. While the ultimate resolution of this investigation cannot be predicted with certainty, we believe that the final outcome will not have a material adverse effect on our financial condition, results of operations or cash flows.

As of June 30, 2009, rate cases were in progress in our City of Dallas and Virginia service areas and annual rate filing mechanisms were in progress in our City of Dallas and Amarillo service areas. These regulatory proceedings are discussed in further detail in *Management s Discussion and Analysis Recent Ratemaking Developments*.

9. Concentration of Credit Risk

Information regarding our concentration of credit risk is disclosed in Note 14 to the financial statements in our Annual Report on Form 10-K for the fiscal year ended September 30, 2008. During the nine months ended June 30, 2009, there were no material changes in our concentration of credit risk.

10. Segment Information

Atmos Energy and our subsidiaries are engaged primarily in the regulated natural gas distribution, transmission and storage business as well as other nonregulated businesses. We distribute natural gas through sales and transportation arrangements to approximately 3.2 million residential, commercial, public authority and industrial customers through our six regulated natural gas distribution divisions, which cover service areas located in 12 states. In addition, we transport natural gas for others through our distribution system.

Through our nonregulated businesses, we primarily provide natural gas management and marketing services to municipalities, other local distribution companies and industrial customers primarily in the Midwest and Southeast. Additionally, we provide natural gas transportation and storage services to certain of our natural gas distribution operations and to third parties.

We operate the Company through the following four segments:

- The *natural gas distribution segment*, which includes our regulated natural gas distribution and related sales operations.
- The *regulated transmission and storage segment,* which includes the regulated pipeline and storage operations of the Atmos Pipeline Texas Division.
- The *natural gas marketing segment,* which includes a variety of nonregulated natural gas management services.
- The *pipeline, storage and other segment,* which includes our nonregulated natural gas transmission and storage services.

Our determination of reportable segments considers the strategic operating units under which we manage sales of various products and services to customers in differing regulatory environments. Although our natural gas distribution segment operations are geographically dispersed, they are reported as a single segment as each natural gas distribution division has similar economic characteristics. The accounting policies of the segments are the same as those described in the summary of significant accounting policies found in our Annual Report on Form 10-K for the fiscal year ended September 30, 2008. We evaluate performance based on net income or loss of the respective operating units.

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Income statements for the three and nine month periods ended June 30, 2009 and 2008 by segment are presented in the following tables:

	Three Months Ended June 30, 2009					
	Natural Gas Distribution	Regulated Transmission and Storage	Natural Gas Marketing	Pipeline, Storage and Other	Eliminations	Consolidated
	(In thousands)					
Operating revenues from external parties	$ 386,774	$ 29,558	$ 358,458	$ 5,985	$	$ 780,775
Intersegment revenues	211	19,787	95,046	2,241	(117,285)	
	386,985	49,345	453,504	8,226	(117,285)	780,775
Purchased gas cost	195,303		438,482	4,212	(116,862)	521,135
Gross profit	191,682	49,345	15,022	4,014	(423)	259,640
Operating expenses						
Operation and maintenance	89,534	13,784	6,445	1,641	(509)	110,895
Depreciation and amortization	47,928	5,066	392	795		54,181
Taxes, other than income	44,014	2,569	628	366		47,577
Asset impairments	2,823	370	90	21		3,304
Total operating expenses	184,299	21,789	7,555	2,823	(509)	215,957
Operating income	7,383	27,556	7,467	1,191	86	43,683
Miscellaneous income	2,167	615	71	2,319	(3,953)	1,219
Interest charges	32,798	8,152	4,020	408	(3,867)	41,511
Income (loss) before income taxes	(23,248)	20,019	3,518	3,102		3,391
Income tax expense (benefit)	(8,307)	7,065	1,419	1,250		1,427
Net income (loss)	$ (14,941)	$ 12,954	$ 2,099	$ 1,852	$	$ 1,964
Capital expenditures	$ 86,861	$ 28,216	$ 82	$ 5,837	$	$ 120,996

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	Three Months Ended June 30, 2008					
	Natural Gas Distribution	Regulated Transmission and Storage	Natural Gas Marketing	Pipeline, Storage and Other	Eliminations	Consolidated
	(In thousands)					
Operating revenues from external parties	$ 676,418	$ 27,321	$ 933,931	$ 1,475	$	$ 1,639,145
Intersegment revenues	221	18,965	255,791	2,405	(277,382)	
	676,639	46,286	1,189,722	3,880	(277,382)	1,639,145
Purchased gas cost	476,711		1,192,353	706	(276,847)	1,392,923
Gross profit	199,928	46,286	(2,631)	3,174	(535)	246,222
Operating expenses						
Operation and maintenance	95,853	17,042	4,433	1,115	(621)	117,822
Depreciation and amortization	44,737	4,860	381	378		50,356
Taxes, other than income	54,141	2,493	391	310		57,335
Total operating expenses	194,731	24,395	5,205	1,803	(621)	225,513
Operating income (loss)	5,197					