

ATMOS ENERGY CORP  
Form 10-Q  
February 08, 2012

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-Q**

(Mark One)

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

**For the quarterly period ended December 31, 2011**

**or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 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)*

**Three Lincoln Centre, Suite 1800**

**5430 LBJ Freeway, Dallas, Texas**  
*(Address of principal executive offices)*

**75-1743247**  
*(IRS employer*

*identification no.)*

**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  No

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

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

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

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

Number of shares outstanding of each of the issuer's classes of common stock, as of February 3, 2012.

| Class        | Shares Outstanding |
|--------------|--------------------|
| No Par Value | 90,016,074         |

**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                               |
| CFTC    | Commodity Futures Trading Commission             |
| FASB    | Financial Accounting Standards Board             |
| Fitch   | Fitch Ratings, Ltd.                              |
| GAAP    | Generally Accepted Accounting Principles         |
| GRIP    | Gas Reliability Infrastructure Program           |
| GSRs    | Gas System Reliability Surcharge                 |
| ISRS    | Infrastructure System Replacement Surcharge      |
| 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                   |
| PRP     | Pipeline Replacement Program                     |
| RRC     | Railroad Commission of Texas                     |
| RRM     | Rate Review Mechanism                            |
| S&P     | Standard & Poor's Corporation                    |
| SEC     | United States Securities and Exchange Commission |
| WNA     | Weather Normalization Adjustment                 |

## PART I. FINANCIAL INFORMATION

Item 1. *Financial Statements*

**ATMOS ENERGY CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

|  | December 31,<br>2011<br>(Unaudited)  | September 30,<br>2011 |
|--|--------------------------------------|-----------------------|
|  | (In thousands, except<br>share data) |                       |
| <b>ASSETS</b>  |                                      |                       |
| Property, plant and equipment  | \$ 6,896,521                         | \$ 6,816,794          |
| Less accumulated depreciation and amortization   | 1,650,308                            | 1,668,876             |
| Net property, plant and equipment  | 5,246,213                            | 5,147,918             |
| Current assets   |                                      |                       |
| Cash and cash equivalents  | 85,160                               | 131,419               |
| Accounts receivable, net   | 489,797                              | 273,303               |
| Gas stored underground   | 325,669                              | 289,760               |
| Other current assets   | 360,615                              | 316,471               |
| Total current assets   | 1,261,241                            | 1,010,953             |
| Goodwill and intangible assets   | 740,196                              | 740,207               |
| Deferred charges and other assets  | 387,982                              | 383,793               |
|  | \$ 7,635,632                         | \$ 7,282,871          |
| <b>CAPITALIZATION AND LIABILITIES</b>  |                                      |                       |
| Shareholders' equity   |                                      |                       |
| Common stock, no par value (stated at \$.005 per share);<br>200,000,000 shares authorized; issued and outstanding: |                                      |                       |
| December 31, 2011 90,007,057 shares  |                                      |                       |
| September 30, 2011 90,296,482 shares   | \$ 448                               | \$ 451                |
| Additional paid-in capital   | 1,725,050                            | 1,732,935             |
| Retained earnings  | 607,485                              | 570,495               |
| Accumulated other comprehensive loss   | (65,221)                             | (48,460)              |
| Shareholders' equity   | 2,267,762                            | 2,255,421             |
| Long-term debt   | 2,206,193                            | 2,206,117             |
| Total capitalization   | 4,473,955                            | 4,461,538             |
| Current liabilities  |                                      |                       |
| Accounts payable and accrued liabilities   | 432,332                              | 291,205               |
| Other current liabilities  | 357,353                              | 367,563               |
| Short-term debt  | 389,985                              | 206,396               |
| Current maturities of long-term debt   | 131                                  | 2,434                 |
| Total current liabilities  | 1,179,801                            | 867,598               |
| Deferred income taxes  | 981,559                              | 960,093               |
| Regulatory cost of removal obligation  | 437,660                              | 428,947               |

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|  |              |              |
|--|--------------|--------------|
| Deferred credits and other liabilities | 562,657      | 564,695      |
|  | \$ 7,635,632 | \$ 7,282,871 |

See accompanying notes to condensed consolidated financial statements

## ATMOS ENERGY CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

|   | Three Months Ended<br>December 31        |            |
|---|--|------------|
|   | 2011                                     | 2010       |
|   | (Unaudited)                              |            |
|   | (In thousands, except<br>per share data) |            |
| Operating revenues  |  |            |
| Natural gas distribution segment                                      | \$ 693,292                               | \$ 703,462 |
| Regulated transmission and storage segment                            | 56,759                                   | 49,007     |
| Nonregulated segment  | 444,176                                  | 475,640    |
| Intersegment eliminations   | (93,054)                                 | (94,847)   |
|   | 1,101,173                                | 1,133,262  |
| Purchased gas cost  |  |            |
| Natural gas distribution segment                                      | 402,207                                  | 412,526    |
| Regulated transmission and storage segment                            |  |            |
| Nonregulated segment  | 428,771                                  | 450,462    |
| Intersegment eliminations   | (92,687)                                 | (94,450)   |
|   | 738,291                                  | 768,538    |
| Gross profit  | 362,882                                  | 364,724    |
| Operating expenses  |  |            |
| Operation and maintenance   | 116,062                                  | 114,490    |
| Depreciation and amortization   | 59,215                                   | 54,777     |
| Taxes, other than income  | 43,198                                   | 40,168     |
| Total operating expenses  | 218,475                                  | 209,435    |
| Operating income  | 144,407                                  | 155,289    |
| Miscellaneous expense   | (1,875)                                  | (726)      |
| Interest charges  | 35,442                                   | 38,895     |
| Income from continuing operations before income taxes                 | 107,090                                  | 115,668    |
| Income tax expense  | 41,302                                   | 44,568     |
| Income from continuing operations                                     | 65,788                                   | 71,100     |
| Income from discontinued operations, net of tax (\$1,559 and \$1,890) | 2,719                                    | 2,897      |
| Net income  | \$ 68,507                                | \$ 73,997  |
| Basic earnings per share  |  |            |
| Income per share from continuing operations                           | \$ 0.72                                  | \$ 0.78    |
| Income per share from discontinued operations                         | 0.03                                     | 0.03       |
| Net income per share basic  | \$ 0.75                                  | \$ 0.81    |
| Diluted earnings per share  |  |            |
| Income per share from continuing operations                           | \$ 0.72                                  | \$ 0.78    |

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|   |          |          |
|---|----------|----------|
| Income per share from discontinued operations | 0.03     | 0.03     |
| Net income per share diluted                  | \$ 0.75  | \$ 0.81  |
| Cash dividends per share                      | \$ 0.345 | \$ 0.340 |
| Weighted average shares outstanding:          |          |          |
| Basic   | 90,254   | 90,082   |
| Diluted                                       | 90,546   | 90,408   |

See accompanying notes to condensed consolidated financial statements

## ATMOS ENERGY CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

|  | Three Months Ended<br>December 31 |                   |
|--|-----------------------------------|-------------------|
|  | 2011                              | 2010              |
|  | (Unaudited)                       |                   |
|  | (In thousands)                    |                   |
| <b>Cash Flows From Operating Activities</b>  |                                   |                   |
| Net income   | \$ 68,507                         | \$ 73,997         |
| Adjustments to reconcile net income to net cash provided (used) by operating activities: |                                   |                   |
| Depreciation and amortization:   |                                   |                   |
| Charged to depreciation and amortization   | 60,733                            | 56,161            |
| Charged to other accounts  | 78                                | 46                |
| Deferred income taxes  | 40,042                            | 43,423            |
| Other  | 4,692                             | 4,712             |
| Net assets / liabilities from risk management activities                                 | (8,426)                           | 5,304             |
| Net change in operating assets and liabilities   | (180,917)                         | (137,819)         |
| <b>Net cash provided (used) by operating activities</b>                                  | <b>(15,291)</b>                   | <b>45,824</b>     |
| <b>Cash Flows From Investing Activities</b>  |                                   |                   |
| Capital expenditures   | (154,394)                         | (123,162)         |
| Other, net   | (1,080)                           | (370)             |
| <b>Net cash used in investing activities</b>   | <b>(155,474)</b>                  | <b>(123,532)</b>  |
| <b>Cash Flows From Financing Activities</b>  |                                   |                   |
| Net increase in short-term debt  | 173,905                           | 112,628           |
| Repayment of long-term debt  | (2,303)                           | (10,000)          |
| Cash dividends paid  | (31,517)                          | (31,002)          |
| Repurchase of common stock   | (12,535)                          |                   |
| Repurchase of equity awards  | (3,120)                           | (3,231)           |
| Issuance of common stock   | 76                                | 7,253             |
| <b>Net cash provided by financing activities</b>   | <b>124,506</b>                    | <b>75,648</b>     |
| <b>Net decrease in cash and cash equivalents</b>   | <b>(46,259)</b>                   | <b>(2,060)</b>    |
| Cash and cash equivalents at beginning of period   | 131,419                           | 131,952           |
| <b>Cash and cash equivalents at end of period</b>  | <b>\$ 85,160</b>                  | <b>\$ 129,892</b> |

See accompanying notes to condensed consolidated financial statements



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ATMOS ENERGY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

December 31, 2011

**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. Our corporate headquarters and shared-services function are located in Dallas, Texas and our customer support centers are located in Amarillo and Waco, Texas.

Through our natural gas distribution business, we deliver natural gas through sales and transportation arrangements to over three 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. In May 2011, we announced that we had entered into a definitive agreement to sell our natural gas distribution operations in Missouri, Illinois and Iowa, representing approximately 84,000 customers. After the closing of this transaction, which we currently anticipate will occur during fiscal 2012, we will operate in nine states. Our regulated activities also include our regulated pipeline and storage operations, which include the transportation of natural gas to our distribution system and the management of our underground storage facilities. Our regulated businesses are 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 nonregulated businesses operate primarily in the Midwest and Southeast through various wholly-owned subsidiaries of Atmos Energy Holdings, Inc. (AEH). AEH is wholly owned by the Company and based in Houston, Texas. Through AEH, we provide natural gas management and transportation services to municipalities, natural gas distribution companies, including certain divisions of Atmos Energy and third parties. AEH also seeks to maximize, through asset optimization activities, the economic value associated with storage and transportation capacity it owns or controls. Certain of these arrangements are with regulated affiliates of the Company, which have been approved by applicable state regulatory commissions.

We operate the Company through the following three 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 our Atmos Pipeline Texas Division and

the *nonregulated segment*, which includes our nonregulated natural gas management, nonregulated natural gas transmission, storage and other services.

**2. Unaudited Interim Financial Information**

These consolidated interim-period financial statements have been prepared in accordance with accounting principles generally accepted in the United States on the same basis as those used for the Company's audited consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011. 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, 2011. Because of seasonal and other factors, the results of operations for the three-month period ended December 31, 2011 are not indicative of our results of operations for the full 2012 fiscal year, which ends September 30, 2012.

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ATMOS ENERGY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We have evaluated subsequent events from the December 31, 2011 balance sheet date through the date these financial statements were filed with the Securities and Exchange Commission (SEC). No events have occurred subsequent to the balance sheet date that would require recognition or disclosure in the condensed consolidated financial statements.

*Significant accounting policies*

Our accounting policies are described in Note 2 to the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011. During the three months ended December 31, 2011, two new accounting standards were announced that will become applicable to the Company in future periods. The first standard requires enhanced disclosure of offsetting arrangements for financial instruments and will become effective for annual periods beginning after January 1, 2013 and for interim periods within those annual periods. The second standard defers the effective date for amendments to the presentation of reclassifications of items out of accumulated other comprehensive income as prescribed by a previously issued standard, which were initially to be effective for interim and annual periods beginning after December 15, 2011. The adoption of these standards should not have an impact on our financial position, results of operations or cash flows. There were no other significant changes to our accounting policies during the quarter ended December 31, 2011.

*Regulatory assets and liabilities*

Accounting principles generally accepted in the United States require cost-based, rate-regulated entities that meet certain criteria to reflect the authorized recovery of costs due to regulatory decisions in their financial statements. As a result, certain costs are permitted to be capitalized rather than expensed because they can be recovered through rates. We record certain costs as regulatory assets 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.

## ATMOS ENERGY CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Significant regulatory assets and liabilities as of December 31, 2011 and September 30, 2011 included the following:

|  | December 31,<br>2011 | September 30,<br>2011 |
|--|----------------------|-----------------------|
|  | (In thousands)       |                       |
| <b>Regulatory assets:</b>                |                      |                       |
| Pension and postretirement benefit costs | \$ 249,882           | \$ 254,666            |
| Merger and integration costs, net        | 6,120                | 6,242                 |
| Deferred gas costs                       | 88,799               | 33,976                |
| Regulatory cost of removal asset         | 9,875                | 8,852                 |
| Environmental costs                      | 288                  | 385                   |
| Rate case costs                          | 4,493                | 4,862                 |
| Deferred franchise fees                  | 365                  | 379                   |
| Other                                    | 3,345                | 3,534                 |
|  | \$ 363,167           | \$ 312,896            |
| <b>Regulatory liabilities:</b>           |                      |                       |
| Deferred gas costs                       | \$ 1,871             | \$ 8,130              |
| Regulatory cost of removal obligation    | 469,685              | 464,025               |
| Other                                    | 14,558               | 14,025                |
|  | \$ 486,114           | \$ 486,180            |

The amounts above do not include regulatory assets and liabilities related to our Missouri, Illinois and Iowa service areas, which are classified as assets held for sale as discussed in Note 5.

During the prior fiscal year, the Railroad Commission of Texas Division of Public Safety issued a new rule requiring natural gas distribution companies to develop and implement a risk-based program for the renewal or replacement of distribution facilities, including steel service lines. The rule allows for the deferral of all expenses associated with capital expenditures incurred pursuant to this rule, including the recording of interest on the deferred expenses until the next rate proceeding (rate case or annual rate filing) at which time investment and costs would be recovered through base rates. As of December 31, 2011, we had deferred \$0.1 million associated with the requirements of this rule which are recorded as other costs in the regulatory assets table above.

Currently 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 applicable state regulatory commissions.

## ATMOS ENERGY CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*Comprehensive income*

The following table presents the components of comprehensive income, net of related tax, for the three-month periods ended December 31, 2011 and 2010:

|   | Three Months Ended<br>December 31 |                   |
|---|-----------------------------------|-------------------|
|   | 2011                              | 2010              |
|   | (In thousands)                    |                   |
| Net income  | \$ 68,507                         | \$ 73,997         |
| Unrealized holding gains on investments, net of tax expense of \$514 and \$455 for the three months ended December 31, 2011 and 2010  | 901                               | 776               |
| Amortization and unrealized gain (loss) on treasury lock agreements, net of tax expense (benefit) of \$(638) and \$18,704 for the three months ended December 31, 2011 and 2010 | (1,087)                           | 31,847            |
| Net unrealized gains (losses) on cash flow hedging transactions, net of tax expense (benefit) of \$(10,597) and \$6,617 for the three months ended December 31, 2011 and 2010   | (16,575)                          | 10,350            |
| <b>Comprehensive income</b>   | <b>\$ 51,746</b>                  | <b>\$ 116,970</b> |

Accumulated other comprehensive loss, net of tax, as of December 31, 2011 and September 30, 2011 consisted of the following unrealized gains (losses):

|   | December 31,<br>2011 | September 30,<br>2011 |
|---|----------------------|-----------------------|
|   | (In thousands)       |                       |
| Accumulated other comprehensive loss:   |                      |                       |
| Unrealized holding gains on investments | \$ 3,459             | \$ 2,558              |
| Treasury lock agreements                | (35,244)             | (34,157)              |
| Cash flow hedges                        | (33,436)             | (16,861)              |
|   | \$ (65,221)          | \$ (48,460)           |

**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 consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011. During the first quarter there were no changes in our objectives, strategies and accounting for these financial instruments. Currently, we utilize financial instruments in our natural gas distribution and nonregulated segments. 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 payments to be accelerated when our financial instruments are in net liability positions.

*Regulated Commodity Risk Management Activities*

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Although our purchased gas cost adjustment mechanisms essentially insulate our natural gas distribution segment from commodity price risk, our customers are exposed to the effects of volatile natural gas prices. We

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ATMOS ENERGY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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. Historically, if the regulatory authority does not establish this level, we seek to hedge between 25 and 50 percent of anticipated heating season gas purchases using financial instruments. For the 2011-2012 heating season (generally October through March), in the jurisdictions where we are permitted to utilize financial instruments, we anticipate hedging approximately 25 percent, or 25.7 Bcf of the winter flowing gas requirements. We have not designated these financial instruments as hedges.

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 costs 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 costs when the related costs are recovered through our rates and recognized in revenue in accordance with applicable authoritative accounting guidance. Accordingly, there is no earnings impact on our natural gas distribution segment as a result of the use of financial instruments.

***Nonregulated Commodity Risk Management Activities***

The primary business in our nonregulated operations is to aggregate and purchase gas supply, arrange transportation and/or storage logistics and ultimately deliver gas to our customers at competitive prices. We utilize proprietary and customer-owned transportation and storage assets to serve these customers, and will seek to maximize the value of this storage capacity through the arbitrage of pricing differences that occur over time by selling financial instruments at advantageous prices to lock in a gross profit margin to enhance our gross profit by maximizing the economic value associated with the storage and transportation capacity we own or control.

As a result of these activities, our nonregulated segment is 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. Future 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 nonregulated operations associated with deliveries under fixed-priced forward contracts to deliver gas to customers. These financial instruments have maturity dates ranging from one to 59 months. We use financial instruments, designated as fair value hedges, to hedge our natural gas inventory used in our asset optimization activities in our nonregulated segment.

Also, in our nonregulated operations, we use 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.

## ATMOS ENERGY CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*Interest Rate Risk Management Activities*

We periodically manage interest rate risk by entering into Treasury lock agreements to fix the Treasury yield component of the interest cost associated with anticipated financings.

As of December 31, 2011, we had three Treasury lock agreements outstanding to fix the Treasury yield component of \$350 million 30-year unsecured notes, which we plan to issue to refinance our \$250 million unsecured 5.125% Senior Notes that mature in January 2013.

In prior years, we entered into Treasury lock agreements to fix the Treasury yield component of the interest cost of financing various issuances of long-term debt and senior notes. The gains and losses realized upon settlement of these Treasury locks were recorded as a component of accumulated other comprehensive income (loss) when they were settled 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 the settled Treasury locks extend through fiscal 2041.

*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 December 31, 2011, 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 December 31, 2011, we had net long/(short) commodity contracts outstanding in the following quantities:

| Contract Type       | Hedge<br>Designation | Natural<br>Gas                  | Nonregulated |
|---------------------|----------------------|---------------------------------|--------------|
|                     |                      | Distribution<br>Quantity (MMcf) |              |
| Commodity contracts | Fair Value           |                                 | (26,690)     |
|                     | Cash Flow            |                                 | 44,428       |
|                     | Not designated       | 13,964                          | 46,944       |
|                     |                      | 13,964                          | 64,682       |

## ATMOS ENERGY CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*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 December 31, 2011 and September 30, 2011. As required by authoritative accounting literature, 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 \$22.1 million and \$28.8 million of cash held on deposit as of December 31, 2011 and September 30, 2011 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 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 | Nonregulated (In thousands) | Total        |
|--|--|--------------------------|-----------------------------|--------------|
| <b>December 31, 2011:</b>              |  |                          |                             |              |
| <b>Designated As Hedges:</b>           |  |                          |                             |              |
| <b>Asset Financial Instruments</b>     |  |                          |                             |              |
| Current commodity contracts            | Other current assets                     | \$                       | \$ 60,222                   | \$ 60,222    |
| Noncurrent commodity contracts         | Deferred charges and other assets        |                          | 58                          | 58           |
| <b>Liability Financial Instruments</b> |  |                          |                             |              |
| Current commodity contracts            | Other current liabilities                |                          | (57,988)                    | (57,988)     |
| Noncurrent commodity contracts         | Deferred credits and other liabilities   | (69,755)                 | (12,012)                    | (81,767)     |
| <b>Total</b>                           |  | (69,755)                 | (9,720)                     | (79,475)     |
| <b>Not Designated As Hedges:</b>       |  |                          |                             |              |
| <b>Asset Financial Instruments</b>     |  |                          |                             |              |
| Current commodity contracts            | Other current assets                     | 292                      | 148,669                     | 148,961      |
| Noncurrent commodity contracts         | Deferred charges and other assets        | 180                      | 80,916                      | 81,096       |
| <b>Liability Financial Instruments</b> |  |                          |                             |              |
| Current commodity contracts            | Other current liabilities <sup>(1)</sup> | (16,196)                 | (166,878)                   | (183,074)    |
| Noncurrent commodity contracts         | Deferred credits and other liabilities   | (350)                    | (68,250)                    | (68,600)     |
| <b>Total</b>                           |  | (16,074)                 | (5,543)                     | (21,617)     |
| <b>Total Financial Instruments</b>     |  | \$ (85,829)              | \$ (15,263)                 | \$ (101,092) |

<sup>(1)</sup> Other current liabilities not designated as hedges in our natural gas distribution segment include \$1.7 million related to risk management liabilities that were classified as assets held for sale at December 31, 2011.



## ATMOS ENERGY CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

|  | Balance Sheet Location                   | Natural Gas Distribution | Nonregulated (In thousands) | Total        |
|--|--|--------------------------|-----------------------------|--------------|
| <b>September 30, 2011:</b>             |  |                          |                             |              |
| <b>Designated As Hedges:</b>           |  |                          |                             |              |
| <b>Asset Financial Instruments</b>     |  |                          |                             |              |
| Current commodity contracts            | Other current assets                     | \$                       | \$ 22,396                   | \$ 22,396    |
| Noncurrent commodity contracts         | Deferred charges and other assets        |                          | 174                         | 174          |
| <b>Liability Financial Instruments</b> |  |                          |                             |              |
| Current commodity contracts            | Other current liabilities                |                          | (31,064)                    | (31,064)     |
| Noncurrent commodity contracts         | Deferred credits and other liabilities   | (67,527)                 | (7,709)                     | (75,236)     |
| <b>Total</b>                           |  | (67,527)                 | (16,203)                    | (83,730)     |
| <b>Not Designated As Hedges:</b>       |  |                          |                             |              |
| <b>Asset Financial Instruments</b>     |  |                          |                             |              |
| Current commodity contracts            | Other current assets                     | 843                      | 67,710                      | 68,553       |
| Noncurrent commodity contracts         | Deferred charges and other assets        | 998                      | 22,379                      | 23,377       |
| <b>Liability Financial Instruments</b> |  |                          |                             |              |
| Current commodity contracts            | Other current liabilities <sup>(1)</sup> | (13,256)                 | (73,865)                    | (87,121)     |
| Noncurrent commodity contracts         | Deferred credits and other liabilities   | (335)                    | (25,071)                    | (25,406)     |
| <b>Total</b>                           |  | (11,750)                 | (8,847)                     | (20,597)     |
| <b>Total Financial Instruments</b>     |  | \$ (79,277)              | \$ (25,050)                 | \$ (104,327) |

<sup>(1)</sup> Other current liabilities not designated as hedges in our natural gas distribution segment include \$1.3 million related to risk management liabilities that were classified as assets held for sale at September 30, 2011.

*Impact of Financial Instruments on the Income Statement*

Hedge ineffectiveness for our nonregulated segment 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 December 31, 2011 and 2010 we recognized a gain arising from fair value and cash flow hedge ineffectiveness of \$8.4 million and \$13.5 million. Additional information regarding ineffectiveness recognized in the income statement is included in the tables below.

## ATMOS ENERGY CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Fair Value Hedges

The impact of our nonregulated commodity contracts designated as fair value hedges and the related hedged item on our condensed consolidated income statement for the three months ended December 31, 2011 and 2010 is presented below.

|   | <b>Three Months Ended<br/>December 31</b> |                  |
|---|---|------------------|
|   | <b>2011</b>                               | <b>2010</b>      |
|   | <b>(In thousands)</b>                     |                  |
| Commodity contracts   | \$ 24,064                                 | \$ (1,723)       |
| Fair value adjustment for natural gas inventory designated as the hedged item | (15,249)                                  | 15,625           |
| <b>Total impact on revenue</b>  | <b>\$ 8,815</b>                           | <b>\$ 13,902</b> |
| The impact on revenue is comprised of the following:                          |   |                  |
| Basis ineffectiveness   | \$ 841                                    | \$ 921           |
| Timing ineffectiveness  | 7,974                                     | 12,981           |
|   | <b>\$ 8,815</b>                           | <b>\$ 13,902</b> |

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.

To the extent that the Company's natural gas inventory does not qualify as a hedged item in a fair-value hedge, or has not been designated as such, the natural gas inventory is valued at the lower of cost or market. During the three months ended December 31, 2011, we recorded a \$1.7 million charge to write down nonqualifying natural gas inventory to market. We did not record a writedown for nonqualifying natural gas inventory for the three months ended December 31, 2010.

## ATMOS ENERGY CORPORATION

## 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 months ended December 31, 2011 and 2010 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 December 31, 2011 |                                |              |
|---|--------------------------------------|--------------------------------|--------------|
|   | Natural<br>Gas<br>Distribution       | Nonregulated<br>(In thousands) | Consolidated |
| Loss reclassified from AOCI into revenue for effective portion of commodity contracts | \$                                   | \$ (11,642)                    | \$ (11,642)  |
| Loss arising from ineffective portion of commodity contracts                          |                                      | (430)                          | (430)        |
| Total impact on revenue   |                                      | (12,072)                       | (12,072)     |
| Loss on settled Treasury lock agreements reclassified from AOCI into interest expense | (502)                                |                                | (502)        |
| Total Impact from Cash Flow Hedges  | \$ (502)                             | \$ (12,072)                    | \$ (12,574)  |

|   | Three Months Ended December 31, 2010 |                                |              |
|---|--------------------------------------|--------------------------------|--------------|
|   | Natural<br>Gas<br>Distribution       | Nonregulated<br>(In thousands) | Consolidated |
| Loss reclassified from AOCI into revenue for effective portion of commodity contracts | \$                                   | \$ (14,253)                    | \$ (14,253)  |
| Loss arising from ineffective portion of commodity contracts                          |                                      | (444)                          | (444)        |
| Total impact on revenue   |                                      | (14,697)                       | (14,697)     |
| Loss on settled Treasury lock agreements reclassified from AOCI into interest expense | (670)                                |                                | (670)        |
| Total Impact from Cash Flow Hedges  | \$ (670)                             | \$ (14,697)                    | \$ (15,367)  |

## ATMOS ENERGY CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 months ended December 31, 2011 and 2010. The amounts included in the table below exclude gains and losses arising from ineffectiveness because those amounts are immediately recognized in the income statement as incurred.

|   | Three Months Ended<br>December 31 |                  |
|---|-----------------------------------|------------------|
|   | 2011                              | 2010             |
|   | (In thousands)                    |                  |
| <i>Increase (decrease) in fair value:</i>   |                                   |                  |
| Treasury lock agreements  | \$ (1,403)                        | \$ 31,425        |
| Forward commodity contracts   | (23,678)                          | 1,657            |
| <i>Recognition of losses in earnings due to settlements:</i>                          |                                   |                  |
| Treasury lock agreements  | 316                               | 422              |
| Forward commodity contracts   | 7,103                             | 8,693            |
| <b>Total other comprehensive income (loss) from hedging, net of tax<sup>(1)</sup></b> | <b>\$ (17,662)</b>                | <b>\$ 42,197</b> |

<sup>(1)</sup> Utilizing an income tax rate ranging from 37 percent to 39 percent comprised of the effective rates in each taxing jurisdiction. Deferred gains (losses) recorded in accumulated other comprehensive income (AOCI) associated with our Treasury lock agreements are recognized in earnings as they are amortized over the terms of the underlying debt instruments, while deferred losses associated with commodity contracts are recognized in earnings upon settlement. The following amounts, net of deferred taxes, represent the expected recognition in earnings of the deferred gains (losses) recorded in AOCI associated with our financial instruments, based upon the fair values of these financial instruments as of December 31, 2011. However, the table below does not include the expected recognition in earnings of our outstanding Treasury lock agreements as those instruments have not yet settled.

|                            | Treasury<br>Lock<br>Agreements | Commodity<br>Contracts<br>(In thousands) | Total              |
|----------------------------|--------------------------------|--|--------------------|
| Next twelve months         | \$ (1,266)                     | \$ (25,900)                              | \$ (27,166)        |
| Thereafter                 | 9,967                          | (7,536)                                  | 2,431              |
| <b>Total<sup>(1)</sup></b> | <b>\$ 8,701</b>                | <b>\$ (33,436)</b>                       | <b>\$ (24,735)</b> |

<sup>(1)</sup> Utilizing an income tax rate ranging from 37 percent to 39 percent comprised of the effective rates in each taxing jurisdiction.  
Financial Instruments Not Designated as Hedges

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The impact of financial instruments that have not been designated as hedges on our condensed consolidated income statement for the three months ended December 31, 2011 and 2010 was an increase (decrease) in revenue of (\$2.2) million and \$4.2 million. 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 on our natural gas distribution segment as a result of the use of

**ATMOS ENERGY CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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.

**4. Fair Value Measurements**

We report certain assets and liabilities at fair value, which is defined 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 record cash and cash equivalents, accounts receivable and accounts payable at carrying value, which substantially approximates fair value due to the short-term nature of these assets and liabilities. For other financial assets and liabilities, we primarily use quoted market prices and other observable market pricing information to minimize the use of unobservable pricing inputs in our measurements when determining fair value. The methods used to determine fair value for our assets and liabilities are fully described in Note 2 to the financial statements in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011. During the first quarter of fiscal 2012, there were no changes in these methods.

Fair value measurements also apply to the valuation of our pension and post-retirement plan assets. Current accounting guidance requires employers to annually disclose information about fair value measurements of the assets of a defined benefit pension or other postretirement plan. The fair value of these assets is presented in Note 9 to the financial statements in our Annual Report on Form 10-K for the fiscal year ending September 30, 2011.

## ATMOS ENERGY CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 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. Authoritative accounting literature 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), with the lowest priority given to unobservable inputs (Level 3). 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 December 31, 2011 and September 30, 2011. As required under authoritative accounting literature, assets and liabilities are categorized in their entirety based on the lowest level of input that is significant to the fair value measurement.

|  | Quoted<br>Prices in<br>Active<br>Markets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) <sup>(1)</sup> | Significant<br>Other<br>Unobservable<br>Inputs<br>(Level 3)<br>(In thousands) | Netting and<br>Cash<br>Collateral <sup>(2)</sup> | December 31,<br>2011 |
|--|---|--|---|--|----------------------|
| <b>Assets:</b>                           |   |  |   |  |                      |
| Financial instruments                    |   |  |   |  |                      |
| Natural gas distribution segment         | \$  | \$ 472   | \$  | \$   | \$ 472               |
| Nonregulated segment                     | 33,768  | 256,098  |   | (272,938)  | 16,928               |
| Total financial instruments              | 33,768  | 256,570  |   | (272,938)  | 17,400               |
| Hedged portion of gas stored underground |   |  |   |  |                      |
| Available-for-sale securities            | 77,551  |  |   |  | 77,551               |
| Money market funds                       |   | 1,151  |   |  | 1,151                |
| Registered investment companies          | 38,008  |  |   |  | 38,008               |
| Bonds                                    |   | 18,346   |   |  | 18,346               |
| Total available-for-sale securities      | 38,008  | 19,497   |   |  | 57,505               |
| Total assets                             | \$ 149,327  | \$ 276,067   | \$  | \$ (272,938)                                     | \$ 152,456           |
| <b>Liabilities:</b>                      |   |  |   |  |                      |
| Financial instruments                    |   |  |   |  |                      |
| Natural gas distribution segment         | \$  | \$ 86,301  | \$  | \$   | \$ 86,301            |
| Nonregulated segment                     | 51,117  | 254,012  |   | (295,022)  | 10,107               |
| Total liabilities                        | \$ 51,117   | \$ 340,313   | \$  | \$ (295,022)                                     | \$ 96,408            |

## ATMOS ENERGY CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

|  | Quoted<br>Prices in<br>Active<br>Markets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) <sup>(1)</sup> | Significant<br>Other<br>Unobservable<br>Inputs<br>(Level 3)<br>(In thousands) | Netting and<br>Cash<br>Collateral <sup>(3)</sup> | September 30,<br>2011 |
|--|---|--|---|--|-----------------------|
| <b>Assets:</b>                           |   |  |   |  |                       |
| Financial instruments                    |   |  |   |  |                       |
| Natural gas distribution segment         | \$  | \$ 1,841   | \$  | \$   | \$ 1,841              |
| Nonregulated segment                     | 15,262  | 97,396   |   | (95,156)   | 17,502                |
| Total financial instruments              | 15,262  | 99,237   |   | (95,156)   | 19,343                |
| Hedged portion of gas stored underground | 47,940  |  |   |  | 47,940                |
| Available-for-sale securities            |   |  |   |  |                       |
| Money market funds                       |   | 1,823  |   |  | 1,823                 |
| Registered investment companies          | 36,444  |  |   |  | 36,444                |
| Bonds                                    |   | 14,366   |   |  | 14,366                |
| Total available-for-sale securities      | 36,444  | 16,189   |   |  | 52,633                |
| Total assets                             | \$ 99,646   | \$ 115,426   | \$  | \$ (95,156)                                      | \$ 119,916            |
| <b>Liabilities:</b>                      |   |  |   |  |                       |
| Financial instruments                    |   |  |   |  |                       |
| Natural gas distribution segment         | \$  | \$ 81,118  | \$  | \$   | \$ 81,118             |
| Nonregulated segment                     | 22,091  | 115,617  |   | (123,943)  | 13,765                |
| Total liabilities                        | \$ 22,091   | \$ 196,735   | \$  | \$ (123,943)                                     | \$ 94,883             |

(1) 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. The fair values for these assets and liabilities are determined using a market-based approach in which observable market prices are adjusted for criteria specific to each instrument, such as the strike price, notional amount or basis differences. This level also includes municipal and corporate bonds where market data for pricing is observable.

(2) This column reflects adjustments to our gross financial instrument assets and liabilities to reflect netting permitted under our master netting agreements and the relevant authoritative accounting literature. In addition, as of December 31, 2011, we had \$22.1 million of cash held in margin accounts to collateralize certain financial instruments. Of this amount, \$11.4 million was used to offset current risk management liabilities under master netting arrangements and the remaining \$10.7 million is classified as current risk management assets.

(3) This column reflects adjustments to our gross financial instrument assets and liabilities to reflect netting permitted under our master netting agreements and the relevant authoritative accounting literature. In addition, as of September 30, 2011 we had \$28.8 million of cash held in margin accounts to collateralize certain financial instruments. Of this amount, \$12.4 million was used to offset current risk management liabilities under master netting arrangements and the remaining \$16.4 million is classified as current risk management assets.





## ATMOS ENERGY CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Available-for-sale securities are comprised of the following:

|                                 | Amortized<br>Cost | Gross<br>Unrealized<br>Gain | Gross<br>Unrealized<br>Loss | Fair<br>Value |
|---------------------------------|-------------------|-----------------------------|-----------------------------|---------------|
|                                 | (In thousands)    |                             |                             |               |
| <b>As of December 31, 2011</b>  |                   |                             |                             |               |
| Domestic equity mutual funds    | \$ 27,881         | \$ 5,447                    | \$                          | \$ 33,328     |
| Foreign equity mutual funds     | 4,659             | 305                         | (284)                       | 4,680         |
| Bonds                           | 18,323            | 45                          | (22)                        | 18,346        |
| Money market funds              | 1,151             |                             |                             | 1,151         |
|                                 | \$ 52,014         | \$ 5,797                    | \$ (306)                    | \$ 57,505     |
| <b>As of September 30, 2011</b> |                   |                             |                             |               |
| Domestic equity mutual funds    | \$ 27,748         | \$ 4,074                    | \$                          | \$ 31,822     |
| Foreign equity mutual funds     | 4,597             | 267                         | (242)                       | 4,622         |
| Bonds                           | 14,390            | 10                          | (34)                        | 14,366        |
| Money market funds              | 1,823             |                             |                             | 1,823         |
|                                 | \$ 48,558         | \$ 4,351                    | \$ (276)                    | \$ 52,633     |

At December 31, 2011 and September 30, 2011, our available-for-sale securities included \$39.2 million and \$38.3 million related to assets held in separate rabbi trusts for our supplemental executive benefit plans. At December 31, 2011 we maintained investments in bonds that have contractual maturity dates ranging from January 2012 through July 2016.

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.

We maintained an investment in one foreign equity mutual fund with a fair value of \$2.2 million in an unrealized loss position of \$0.3 million as of December 31, 2011. This fund has been in an unrealized loss position for less than twelve months. Because this fund is only used to fund the supplemental plans, we evaluate investment performance over a long-term horizon. Based upon our intent and ability to hold this investment, our ability to direct the source of the payments in order to maximize the life of the portfolio, the short-term nature of the decline in fair value and the fact that this fund continues to receive good ratings from mutual fund rating companies, we do not consider this impairment to be other than temporary as of December 31, 2011. We also maintained several bonds with a cumulative fair value of \$6.5 million in an unrealized loss position of less than \$0.1 million as of December 31, 2011. These bonds have been in an unrealized loss position for less than twelve months. Based upon our intent and ability to hold these investments, our ability to direct the source of payments in order to maximize the life of the portfolio, the short-term nature of the decline in fair value and the fact that these bonds are investment grade, we do not consider this impairment to be other than temporary as of December 31, 2011.

## ATMOS ENERGY CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Other Fair Value Measures

Our debt is recorded at carrying value. The fair value of our debt is determined using third party market value quotations. The following table presents the carrying value and fair value of our debt as of December 31, 2011:

|                 | <b>December 31,<br/>2011<br/>(In thousands)</b> |
|-----------------|---|
| Carrying Amount | \$ 2,210,262                                    |
| Fair Value      | \$ 2,572,094                                    |

**5. Discontinued Operations**

On May 12, 2011, we entered into a definitive agreement to sell substantially all of our natural gas distribution assets located in Missouri, Illinois and Iowa to Liberty Energy (Midstates) Corporation, an affiliate of Algonquin Power & Utilities Corp. for a cash price of approximately \$124 million. The agreement contains terms and conditions customary for transactions of this type, including typical adjustments to the purchase price at closing, if applicable. The closing of the transaction is subject to the satisfaction of customary conditions including the receipt of applicable regulatory approvals, which we currently anticipate will occur during fiscal 2012.

As required under generally accepted accounting principles, the operating results of our Missouri, Illinois and Iowa operations have been aggregated and reported on the consolidated statements of income as income from discontinued operations, net of income tax. Expenses related to general corporate overhead and interest expense allocated to their operations are not included in discontinued operations.

The tables below set forth selected financial and operational information related to net assets and operating results related to discontinued operations. Additionally, assets and liabilities related to our Missouri, Illinois and Iowa operations are classified as held for sale in other current assets and liabilities in our consolidated balance sheets at December 31, 2011 and September 30, 2011. Prior period revenues and expenses associated with these assets have been reclassified into discontinued operations. This reclassification had no impact on previously reported net income.

The following table presents statement of income data related to discontinued operations.

|   | <b>Three Months Ended<br/>December 31</b> |             |
|---|---|-------------|
|   | <b>2011</b>                               | <b>2010</b> |
|   | <b>(In thousands)</b>                     |             |
| Operating revenues                                      | \$ 23,451                                 | \$ 23,733   |
| Purchased gas cost                                      | 14,951                                    | 14,897      |
| Gross profit  | 8,500                                     | 8,836       |
| Operating expenses                                      | 4,174                                     | 4,016       |
| Operating income  | 4,326                                     | 4,820       |
| Other nonoperating expense                              | (48)                                      | (33)        |
| Income from discontinued operations before income taxes | 4,278                                     | 4,787       |
| Income tax expense                                      | 1,559                                     | 1,890       |
| Net income  | \$ 2,719                                  | \$ 2,897    |



## ATMOS ENERGY CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents balance sheet data related to assets held for sale.

|  | December 31,<br>2011 | September 30,<br>2011 |
|--|----------------------|-----------------------|
|  | (In thousands)       |                       |
| Net plant, property & equipment          | \$ 127,227           | \$ 127,577            |
| Gas stored underground                   | 14,257               | 11,931                |
| Other current assets                     | 3,773                | 786                   |
| Deferred charges and other assets        | 62                   | 277                   |
| <b>Assets held for sale</b>              | <b>\$ 145,319</b>    | <b>\$ 140,571</b>     |
| Accounts payable and accrued liabilities | \$ 9,945             | \$ 1,917              |
| Other current liabilities                | 5,459                | 4,877                 |
| Regulatory cost of removal obligation    | 10,367               | 10,498                |
| Deferred credits and other liabilities   | 1,175                | 1,153                 |
| <b>Liabilities held for sale</b>         | <b>\$ 26,946</b>     | <b>\$ 18,445</b>      |

**6. Debt**

The nature and terms of our debt instruments are described in detail in Note 7 to the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011. There were no material changes in the terms of our debt instruments during the three months ended December 31, 2011.

*Long-term debt*

Long-term debt at December 31, 2011 and September 30, 2011 consisted of the following:

|  | December 31,<br>2011 | September 30,<br>2011 |
|--|----------------------|-----------------------|
|  | (In thousands)       |                       |
| Unsecured 10% Notes, redeemed December 2011                      | \$                   | \$ 2,303              |
| Unsecured 5.125% Senior Notes, due January 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              | 450,000               |
| Unsecured 5.95% Senior Notes, due 2034                           | 200,000              | 200,000               |
| Unsecured 5.50% Senior Notes, due 2041                           | 400,000              | 400,000               |
| Medium term notes  |                      |                       |
| Series A, 1995-1, 6.67%, due 2025                                | 10,000               | 10,000                |
| Unsecured 6.75% Debentures, due 2028                             | 150,000              | 150,000               |
| Rental property term note due in installments through 2013       | 262                  | 262                   |
| <b>Total long-term debt</b>                                      | <b>2,210,262</b>     | <b>2,212,565</b>      |
| Less:  |                      |                       |
| Original issue discount on unsecured senior notes and debentures | (3,938)              | (4,014)               |

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|                    |              |              |
|--------------------|--------------|--------------|
| Current maturities | (131)        | (2,434)      |
|                    | \$ 2,206,193 | \$ 2,206,117 |

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**ATMOS ENERGY CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Our unsecured 10% notes were paid on their maturity date on December 31, 2011, and were not replaced.

***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 \$750 million commercial paper program and four committed revolving credit facilities with third-party lenders. As a result, we have approximately \$985 million of working capital funding. Additionally, our \$750 million unsecured credit facility has an accordion feature which, if utilized, would increase borrowing capacity to \$1.0 billion. At December 31, 2011 and September 30, 2011, there was \$390.0 million and \$206.4 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.

***Regulated Operations***

We fund our regulated operations as needed, primarily through our commercial paper program and three committed revolving credit facilities with third-party lenders that provide approximately \$785 million of working capital funding, including a five-year \$750 million unsecured facility, a \$25 million unsecured facility and a \$10 million revolving credit facility, which is used primarily to issue letters of credit. Due to outstanding letters of credit, the total amount available to us under our \$10 million revolving credit facility was \$4.2 million at December 31, 2011.

In addition to these third-party facilities, our regulated operations had a \$350 million intercompany revolving credit facility with AEH. This facility was replaced on January 1, 2012 with a \$500 million intercompany revolving credit facility with AEH. This facility bears interest at the lower of (i) 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 our use of this facility through December 31, 2012.

***Nonregulated Operations***

Atmos Energy Marketing, LLC (AEM), which is wholly-owned by AEH, has a three-year \$200 million committed revolving credit facility, expiring in December 2013, with a syndicate of third-party lenders with an accordion feature that could increase AEM's borrowing capacity to \$500 million. The credit facility is primarily used to issue letters of credit and, on a less frequent basis, to borrow funds for gas purchases and other working capital needs. This facility is collateralized by substantially all of the assets of AEM and is guaranteed by AEH. Due to outstanding letters of credit and various covenants, including covenants based on working capital, the amount available to AEM under this credit facility was \$110.0 million at December 31, 2011.

To supplement borrowings under this facility, AEH had a \$350 million intercompany demand credit facility with AEC. This facility was replaced on January 1, 2012 with a \$500 million intercompany facility with AEC, which bears interest at a rate equal to the greater of (i) the one-month LIBOR rate plus 3.00 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 our use of this facility through December 31, 2012.

***Shelf Registration***

We have an effective shelf registration statement with the Securities and Exchange Commission (SEC) that permits us to issue a total of \$1.3 billion in common stock and/or debt securities. The shelf registration statement

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ATMOS ENERGY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

has been approved by all requisite state regulatory commissions. At December 31, 2011, \$900 million remains available for issuance. Of this amount, \$550 million is available for the issuance of debt securities and \$350 million remains available for the issuance of equity securities under the shelf until March 2013.

*Debt Covenants*

The availability of funds under our regulated 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 December 31, 2011, our total-debt-to-total-capitalization ratio, as defined in the agreements, was 56 percent. In addition, both the interest margin and the fee that we pay on unused amounts under each of these facilities are subject to adjustment depending upon our credit ratings.

AEM is required by the financial covenants in its facility to maintain a ratio of total liabilities to tangible net worth that does not exceed a maximum of 5 to 1. At December 31, 2011, AEM's ratio of total liabilities to tangible net worth, as defined, was 1.39 to 1. Additionally, AEM must maintain minimum levels of net working capital and net worth ranging from \$20 million to \$40 million. As defined in the financial covenants, at December 31, 2011, AEM's net working capital was \$118.2 million and its tangible net worth was \$147.8 million.

In addition to these financial covenants, our credit facilities and public indentures contain usual and customary covenants for our business, including covenants substantially limiting liens, substantial asset sales and mergers.

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 December 31, 2011. 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.



## ATMOS ENERGY CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## 7. Earnings Per Share

Since we have non-vested share-based payments with a nonforfeitable right to dividends or dividend equivalents (referred to as participating securities) we are required to use the two-class method of computing earnings per share. The Company's non-vested restricted stock and restricted stock units, for which vesting is predicated solely on the passage of time granted under the 1998 Long-Term Incentive Plan, are considered to be participating securities. The calculation of earnings per share using the two-class method excludes income attributable to these participating securities from the numerator and excludes the dilutive impact of those shares from the denominator. Basic and diluted earnings per share for the three months ended December 31, 2011 and 2010 are calculated as follows:

|   | <b>Three Months Ended<br/>December 31</b>           |             |
|---|---|-------------|
|   | <b>2011</b>   | <b>2010</b> |
|   | <b>(In thousands, except<br/>per share amounts)</b> |             |
| <b>Basic Earnings Per Share from continuing operations</b>                      |   |             |
| Income from continuing operations   | \$ 65,788   | \$ 71,100   |
| Less: Income from continuing operations allocated to participating securities   | 685   | 748         |
| Income from continuing operations available to common shareholders              | \$ 65,103   | \$ 70,352   |
| Basic weighted average shares outstanding                                       | 90,254  | 90,082      |
| Income from continuing operations per share - Basic                             | \$ 0.72   | \$ 0.78     |
| <b>Basic Earnings Per Share from discontinued operations</b>                    |   |             |
| Income from discontinued operations   | \$ 2,719  | \$ 2,897    |
| Less: Income from discontinued operations allocated to participating securities | 28  | 31          |
| Income from discontinued operations available to common shareholders            | \$ 2,691  | \$ 2,866    |
| Basic weighted average shares outstanding                                       | 90,254  | 90,082      |
| Income from discontinued operations per share - Basic                           | \$ 0.03   | \$ 0.03     |
| Net income per share - Basic  | \$ 0.75   | \$ 0.81     |
| <b>Diluted Earnings Per Share from continuing operations</b>                    |   |             |
| Income from continuing operations available to common shareholders              | \$ 65,103   | \$ 70,352   |
| Effect of dilutive stock options and other shares                               | 1   | 2           |
| Income from continuing operations available to common shareholders              | \$ 65,104   | \$ 70,354   |
| Basic weighted average shares outstanding                                       | 90,254  | 90,082      |
| Additional dilutive stock options and other shares                              | 292   | 326         |
| Diluted weighted average shares outstanding                                     | 90,546  | 90,408      |
| Income from continuing operations per share - Diluted                           | \$ 0.72   | \$ 0.78     |



## ATMOS ENERGY CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

|  | Three Months Ended<br>December 31           |          |
|--|---|----------|
|  | 2011  | 2010     |
|  | (In thousands, except<br>per share amounts) |          |
| <b>Diluted Earnings Per Share from discontinued operations</b>       |   |          |
| Income from discontinued operations available to common shareholders | \$ 2,691                                    | \$ 2,866 |
| Effect of dilutive stock options and other shares                    |   |          |
| Income from discontinued operations available to common shareholders | \$ 2,691                                    | \$ 2,866 |
| Basic weighted average shares outstanding                            | 90,254                                      | 90,082   |
| Additional dilutive stock options and other shares                   | 292   | 326      |
| Diluted weighted average shares outstanding                          | 90,546                                      | 90,408   |
| Income from discontinued operations per share Diluted                | \$ 0.03                                     | \$ 0.03  |
| Net income per share Diluted   | \$ 0.75                                     | \$ 0.81  |

There were no out-of-the-money stock options excluded from the computation of diluted earnings per share for the three months ended December 31, 2011 and 2010 as their exercise price was less than the average market price of the common stock during that period.

**Share Repurchase Program**

On September 28, 2011, the Board of Directors approved a new program authorizing the repurchase of up to five million shares of common stock over a five-year period. Although the program is authorized for a five-year period, it may be terminated or limited at any time. Shares may be repurchased in the open market or in privately negotiated transactions in amounts the company deems appropriate. The program is primarily intended to minimize the dilutive effect of equity grants under various benefit related incentive compensation plans of the company. As of December 31, 2011, 387,991 shares had been repurchased for an aggregate value of \$12.5 million.

**8. 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 months ended December 31, 2011 and 2010 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 December 31 |          |                |          |
|--|--------------------------------|----------|----------------|----------|
|  | Pension Benefits               |          | Other Benefits |          |
|  | 2011                           | 2010     | 2011           | 2010     |
|  | (In thousands)                 |          |                |          |
| Components of net periodic pension cost: |                                |          |                |          |
| Service cost                             | \$ 4,298                       | \$ 4,380 | \$ 4,088       | \$ 3,601 |
| Interest cost                            | 6,677                          | 6,924    | 3,465          | 3,203    |
| Expected return on assets                | (5,368)                        | (5,963)  | (652)          | (682)    |
| Amortization of transition asset         |                                |          | 378            | 378      |
| Amortization of prior service cost       | (35)                           | (112)    | (362)          | (362)    |
| Amortization of actuarial loss           | 4,142                          | 3,494    | 662            | 87       |

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|                           |          |          |          |          |
|---------------------------|----------|----------|----------|----------|
| Net periodic pension cost | \$ 9,714 | \$ 8,723 | \$ 7,579 | \$ 6,225 |
|---------------------------|----------|----------|----------|----------|

## ATMOS ENERGY CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The assumptions used to develop our net periodic pension cost for the three months ended December 31, 2011 and 2010 are as follows:

|                                | Pension Benefits |       | Other Benefits |       |
|--------------------------------|------------------|-------|----------------|-------|
|                                | 2011             | 2010  | 2011           | 2010  |
| Discount rate                  | 5.05%            | 5.39% | 5.05%          | 5.39% |
| Rate of compensation increase  | 3.50%            | 4.00% | N/A            | N/A   |
| Expected return on plan assets | 7.75%            | 8.25% | 4.70%          | 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, 2012. Based upon this valuation, we expect we will be required to contribute between \$25 million and \$30 million to our pension plans by September 15, 2012.

We contributed \$4.8 million to our other post-retirement benefit plans during the three months ended December 31, 2011. We expect to contribute between \$20 million and \$25 million to these plans during fiscal 2012.

## 9. Commitments and Contingencies

### *Litigation and Environmental Matters*

With respect to the specific litigation and environmental-related matters or claims that were disclosed in Note 13 to the financial statements in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011, except as noted below, there were no material changes in the status of such litigation and environmental-related matters or claims during the three months ended December 31, 2011.

Since April 2009, Atmos Energy and two subsidiaries of AEH, AEM and Atmos Gathering Company, LLC (AGC) (collectively, the Atmos Entities), have been involved in a lawsuit filed in the Circuit Court of Edmonson County, Kentucky, *Billy Joe Honeycutt et al. vs. Atmos Energy Corporation, et al.*, which is related to our Park City Gathering Project. The dispute which gave rise to the litigation involves the amount of royalties due from a third party producer to landowners (who own the mineral rights) for natural gas produced from the landowners' properties. The third party producer was operating pursuant to leases between the landowners and certain investors/working interest owners. The third party producer filed a petition in bankruptcy, which was subsequently dismissed due to the lack of meaningful assets to reorganize or liquidate.

Although certain Atmos Energy companies entered into contracts with the third party producer to gather, treat and ultimately sell natural gas produced from the landowners' properties, no Atmos Energy company had a contractual relationship with the landowners or the investors/working interest owners. After the lawsuit was filed, the landowners were successful in terminating for non-payment of royalties the leases related to the production of natural gas from their properties. Subsequent to termination, the investors/working interest owners under such leases filed additional claims against us for the termination of the leases.

During the trial, the landowners and the investors/working interest owners requested an award of compensatory damages plus punitive damages against us. On December 17, 2010, the jury returned a verdict in favor of the landowners and investor/working interest owners and awarded compensatory damages of \$3.8 million and punitive damages of \$27.5 million payable by Atmos Energy and the two AEH subsidiaries.

A hearing was held on February 28, 2011 to hear a number of motions, including a motion to dismiss the jury verdict and a motion for a new trial. The motions to dismiss the jury verdict and for a new trial were denied.

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ATMOS ENERGY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

However, the total punitive damages award was reduced from \$27.5 million to \$24.7 million. On October 17, 2011, we filed our brief of appellants with the Kentucky Court of Appeals, appealing the verdict of the trial court. The appellees in this case subsequently filed their reply brief with the Court of Appeals on January 16, 2012, with our reply brief due to be filed with the Court by March 16, 2012.

In addition, in a related development, on July 12, 2011, the Atmos Entities filed a lawsuit in the United States District Court, Western District of Kentucky, *Atmos Energy Corporation et al. vs. Resource Energy Technologies, LLC and Robert Thorpe and John F. Charles*, against the third party producer and its affiliates to recover all costs, including attorneys' fees, incurred by the Atmos Entities, which are associated with the defense and appeal of the case discussed above as well as for all damages awarded to the plaintiffs in such case against the Atmos Entities. The total amount of damages being claimed in the lawsuit is open-ended since the appellate process and related costs are ongoing. This lawsuit is based upon the indemnification provisions agreed to by the third party producer in favor of Atmos Gathering that are contained in an agreement entered into between Atmos Gathering and the third party producer in May 2009. The defendants filed a motion to dismiss the case on August 25, 2011, with Atmos Energy filing a brief in response to such motion on September 19, 2011. As of this date, the Court has not yet ruled on the motion.

We have accrued what we believe is an adequate amount for the anticipated resolution of this matter; however, the amount accrued is less than the amount of the verdict. The Company does not have insurance coverage that could mitigate any losses that may arise from the resolution of this matter. However, we continue to believe that the final outcome will not have a material adverse effect on our financial condition, results of operations or cash flows.

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

***Purchase Commitments***

AEH has commitments to purchase physical quantities of natural gas under contracts indexed to the forward NYMEX strip or fixed price contracts. At December 31, 2011, AEH was committed to purchase 103.1 Bcf within one year, 35.3 Bcf within one to three years and 0.3 Bcf after three years under indexed contracts. AEH is committed to purchase 3.4 Bcf within one year and 0.2 Bcf within one to three years under fixed price contracts with prices ranging from \$2.82 to \$6.36 per Mcf. Purchases under these contracts totaled \$312.1 million and \$334.2 million for the three months ended December 31, 2011 and 2010.

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.

## ATMOS ENERGY CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Our Mid-Tex Division maintains long-term supply contracts to ensure a reliable source of gas for our customers in its service area which obligate it to purchase specified volumes at market and fixed prices. The estimated commitments under these contracts as of December 31, 2011 are as follows (in thousands):

|            |            |
|------------|------------|
| 2012       | \$ 149,788 |
| 2013       | 82,778     |
| 2014       | 68,124     |
| Thereafter |            |
|            | \$ 300,690 |

Our nonregulated segment maintains long-term contracts related to storage and transportation. The estimated contractual demand fees for contracted storage and transportation under these contracts are detailed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011. There were no material changes to the estimated storage and transportation fees for the quarter ended December 31, 2011.

**Regulatory Matters**

As previously described in Note 13 to the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011, 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. Since that time, we have fully cooperated with the Commission during this investigation.

The Company and the Commission entered into a stipulation and consent agreement, which was approved by the Commission on December 9, 2011, thereby resolving this investigation. The Commission's findings of violations were limited to the nonregulated operations of the Company. Under the terms of the agreement, the Company has paid to the United States Treasury a total civil penalty of approximately \$6.4 million and to energy assistance programs approximately \$5.6 million in disgorgement of unjust profits plus interest for violations identified during the investigation. The resolution of this matter did not have a material adverse impact on the Company's financial position, results of operations or cash flows and none of the payments were charged to any of the Company's customers. In addition, none of the services the Company provides to any of its regulated or nonregulated customers were affected by the agreement.

As discussed in Note 13 to the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011, in 2010, our Mid-Tex Division agreed to install 100,000 steel service line replacements by September 30, 2012. As of December 31, 2011, we had replaced 60,184 lines and are on schedule for completion in September 2012. Under the terms of the agreement, special rate recovery of the associated return, depreciation and taxes is approved for lines replaced between October 1, 2010 and September 30, 2012. Since October 1, 2010, we have spent \$64.0 million on steel service line replacements.

In July 2010, the Dodd-Frank Act was enacted, representing an extensive overhaul of the framework for regulation of U.S. financial markets. The Dodd-Frank Act calls for various regulatory agencies, including the SEC and the Commodities Futures Trading Commission (CFTC) to establish rules and regulations for implementation of many of the provisions of the Dodd-Frank Act. Although the CFTC and SEC have issued a number of rules and regulations, we expect additional rules and regulations to be issued, which should provide additional clarity regarding the extent of the impact of this legislation on us. The costs of participating in financial markets for hedging certain risks inherent in our business may be increased as a result of the new legislation and related rules and regulations. We also anticipate additional reporting and disclosure obligations will be imposed.

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ATMOS ENERGY CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2011, annual rate filing mechanisms were in progress in our Louisiana and Mississippi service areas and there was one other ratemaking activity in progress in our Kansas service area. These regulatory proceedings are discussed in further detail below in *Management's Discussion and Analysis - Recent Ratemaking Developments*.

**10. Concentration of Credit Risk**

Information regarding our concentration of credit risk is disclosed in Note 15 to the financial statements in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011. During the three months ended December 31, 2011, there were no material changes in our concentration of credit risk.

**11. Segment Information**

As discussed in Note 1 above, we operate the Company through the following three 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 our Atmos Pipeline Texas Division and

The *nonregulated segment*, which is comprised of our nonregulated natural gas management, nonregulated natural gas transmission, storage and other 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, 2011. We evaluate performance based on net income or loss of the respective operating units.



## ATMOS ENERGY CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Income statements for the three month periods ended December 31, 2011 and 2010 by segment are presented in the following tables:

|   | Three Months Ended December 31, 2011 |  |                                |              |              |
|---|--------------------------------------|--|--------------------------------|--------------|--------------|
|   | Natural<br>Gas<br>Distribution       | Regulated<br>Transmission<br>and Storage | Nonregulated<br>(In thousands) | Eliminations | Consolidated |
| Operating revenues from external parties              | \$ 693,068                           | \$ 19,440                                | \$ 388,665                     | \$           | \$ 1,101,173 |
| Intersegment revenues                                 | 224                                  | 37,319                                   | 55,511                         | (93,054)     |              |
|   | 693,292                              | 56,759                                   | 444,176                        | (93,054)     | 1,101,173    |
| Purchased gas cost                                    | 402,207                              |  | 428,771                        | (92,687)     | 738,291      |
| Gross profit  | 291,085                              | 56,759                                   | 15,405                         | (367)        | 362,882      |
| Operating expenses                                    |                                      |  |                                |              |              |
| Operation and maintenance                             | 93,414                               | 16,965                                   | 6,051                          | (368)        | 116,062      |
| Depreciation and amortization                         | 50,831                               | 7,651                                    | 733                            |              | 59,215       |
| Taxes, other than income                              | 38,479                               | 3,784                                    | 935                            |              | 43,198       |
| Total operating expenses                              | 182,724                              | 28,400                                   | 7,719                          | (368)        | 218,475      |
| Operating income                                      | 108,361                              | 28,359                                   | 7,686                          | 1            | 144,407      |
| Miscellaneous income (expense)                        | (1,756)                              | (280)                                    | 36                             | 125          | (1,875)      |
| Interest charges                                      | 27,855                               | 7,209                                    | 252                            | 126          | 35,442       |
| Income from continuing operations before income taxes | 78,750                               | 20,870                                   | 7,470                          |              | 107,090      |
| Income tax expense                                    | 30,845                               | 7,456                                    | 3,001                          |              | 41,302       |
| Income from continuing operations                     | 47,905                               | 13,414                                   | 4,469                          |              | 65,788       |
| Income from discontinued operations, net of tax       | 2,719                                |  |                                |              | 2,719        |
| Net income  | \$ 50,624                            | \$ 13,414                                | \$ 4,469                       | \$           | \$ 68,507    |
| Capital expenditures                                  | \$ 128,733                           | \$ 24,120                                | \$ 1,541                       | \$           | \$ 154,394   |

## ATMOS ENERGY CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

|   | Three Months Ended December 31, 2010 |                                    |                                |              | Consolidated |
|---|--------------------------------------|------------------------------------|--------------------------------|--------------|--------------|
|   | Natural Gas Distribution             | Regulated Transmission and Storage | Nonregulated<br>(In thousands) | Eliminations |              |
| Operating revenues from external parties              | \$ 703,261                           | \$ 21,233                          | \$ 408,768                     | \$           | \$ 1,133,262 |
| Intersegment revenues                                 | 201                                  | 27,774                             | 66,872                         | (94,847)     |              |
|   | 703,462                              | 49,007                             | 475,640                        | (94,847)     | 1,133,262    |
| Purchased gas cost                                    | 412,526                              |                                    | 450,462                        | (94,450)     | 768,538      |
| Gross profit  | 290,936                              | 49,007                             | 25,178                         | (397)        | 364,724      |
| Operating expenses                                    |                                      |                                    |                                |              |              |
| Operation and maintenance                             | 89,229                               | 15,574                             | 10,084                         | (397)        | 114,490      |
| Depreciation and amortization                         | 47,894                               | 5,799                              | 1,084                          |              | 54,777       |
| Taxes, other than income                              | 34,448                               | 3,553                              | 2,167                          |              | 40,168       |
| Total operating expenses                              | 171,571                              | 24,926                             | 13,335                         | (397)        | 209,435      |
| Operating income                                      | 119,365                              | 24,081                             | 11,843                         |              | 155,289      |
| Miscellaneous income (expense)                        | (698)                                | (282)                              | 290                            | (36)         | (726)        |
| Interest charges                                      | 29,697                               | 8,064                              | 1,170                          | (36)         | 38,895       |
| Income from continuing operations before income taxes | 88,970                               | 15,735                             | 10,963                         |              | 115,668      |
| Income tax expense                                    | 34,549                               | 5,633                              | 4,386                          |              | 44,568       |
| Income from continuing operations                     | 54,421                               | 10,102                             | 6,577                          |              | 71,100       |
| Income from discontinued operations, net of tax       | 2,897                                |                                    |                                |              | 2,897        |
| Net income  | \$ 57,318                            | \$ 10,102                          | \$ 6,577                       | \$           | \$ 73,997    |
| Capital expenditures                                  | \$ 109,499                           | \$ 12,739                          | \$ 924                         | \$           | \$ 123,162   |

## ATMOS ENERGY CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Balance sheet information at December 31, 2011 and September 30, 2011 by segment is presented in the following tables.

|  | December 31, 2011        |                                    |                             |                |              |
|--|--------------------------|------------------------------------|-----------------------------|----------------|--------------|
|  | Natural Gas Distribution | Regulated Transmission and Storage | Nonregulated (In thousands) | Eliminations   | Consolidated |
| <b>ASSETS</b>  |                          |                                    |                             |                |              |
| Property, plant and equipment, net                     | \$ 4,328,612             | \$ 855,245                         | \$ 62,356                   | \$             | \$ 5,246,213 |
| Investment in subsidiaries                             | 672,300                  |                                    | (2,096)                     | (670,204)      |              |
| Current assets   |                          |                                    |                             |                |              |
| Cash and cash equivalents                              | 63,031                   |                                    | 22,129                      |                | 85,160       |
| Assets from risk management activities                 | 292                      |                                    | 10,732                      |                | 11,024       |
| Other current assets                                   | 912,185                  | 13,418                             | 453,571                     | (214,117)      | 1,165,057    |
| Intercompany receivables                               | 567,587                  |                                    |                             | (567,587)      |              |
| Total current assets                                   | 1,543,095                | 13,418                             | 486,432                     | (781,704)      | 1,261,241    |
| Intangible assets                                      |                          |                                    |                             |                |              |
| Goodwill   | 572,908                  | 132,381                            | 34,711                      |                | 740,000      |
| Noncurrent assets from risk management activities      | 180                      |                                    | 6,196                       |                | 6,376        |
| Deferred charges and other assets                      | 359,860                  | 11,297                             | 10,449                      |                | 381,606      |
|  | \$ 7,476,955             | \$ 1,012,341                       | \$ 598,244                  | \$ (1,451,908) | \$ 7,635,632 |
| <b>CAPITALIZATION AND LIABILITIES</b>                  |                          |                                    |                             |                |              |
| Shareholders' equity                                   | \$ 2,267,762             | \$ 278,515                         | \$ 393,785                  | \$ (672,300)   | \$ 2,267,762 |
| Long-term debt   | 2,206,062                |                                    | 131                         |                | 2,206,193    |
| Total capitalization                                   | 4,473,824                | 278,515                            | 393,916                     | (672,300)      | 4,473,955    |
| Current liabilities                                    |                          |                                    |                             |                |              |
| Current maturities of long-term debt                   |                          |                                    | 131                         |                | 131          |
| Short-term debt  | 583,980                  |                                    |                             | (193,995)      | 389,985      |
| Liabilities from risk management activities            | 14,521                   |                                    | 4,623                       |                | 19,144       |
| Other current liabilities                              | 606,357                  | 11,929                             | 170,281                     | (18,026)       | 770,541      |
| Intercompany payables                                  |                          | 531,126                            | 36,461                      | (567,587)      |              |
| Total current liabilities                              | 1,204,858                | 543,055                            | 211,496                     | (779,608)      | 1,179,801    |
| Deferred income taxes                                  | 813,423                  | 181,641                            | (13,505)                    |                | 981,559      |
| Noncurrent liabilities from risk management activities | 70,105                   |                                    | 5,484                       |                | 75,589       |
| Regulatory cost of removal obligation                  | 437,660                  |                                    |                             |                | 437,660      |
| Deferred credits and other liabilities                 | 477,085                  | 9,130                              | 853                         |                | 487,068      |
|  | \$ 7,476,955             | \$ 1,012,341                       | \$ 598,244                  | \$ (1,451,908) | \$ 7,635,632 |

## ATMOS ENERGY CORPORATION

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

|  | September 30, 2011       |                                    |                             |                |              |
|--|--------------------------|------------------------------------|-----------------------------|----------------|--------------|
|  | Natural Gas Distribution | Regulated Transmission and Storage | Nonregulated (In thousands) | Eliminations   | Consolidated |
| <b>ASSETS</b>  |                          |                                    |                             |                |              |
| Property, plant and equipment, net                     | \$ 4,248,198             | \$ 838,302                         | \$ 61,418                   | \$             | \$ 5,147,918 |
| Investment in subsidiaries                             | 670,993                  |                                    | (2,096)                     | (668,897)      |              |
| Current assets   |                          |                                    |                             |                |              |
| Cash and cash equivalents                              | 24,646                   |                                    | 106,773                     |                | 131,419      |
| Assets from risk management activities                 | 843                      |                                    | 17,501                      |                | 18,344       |
| Other current assets                                   | 655,716                  | 15,413                             | 386,215                     | (196,154)      | 861,190      |
| Intercompany receivables                               | 569,898                  |                                    |                             | (569,898)      |              |
| Total current assets                                   | 1,251,103                | 15,413                             | 510,489                     | (766,052)      | 1,010,953    |
| Intangible assets                                      |                          |                                    | 207                         |                | 207          |
| Goodwill   | 572,908                  | 132,381                            | 34,711                      |                | 740,000      |
| Noncurrent assets from risk management activities      | 998                      |                                    |                             |                | 998          |
| Deferred charges and other assets                      | 353,960                  | 18,028                             | 10,807                      |                | 382,795      |
|  | \$ 7,098,160             | \$ 1,004,124                       | \$ 615,536                  | \$ (1,434,949) | \$ 7,282,871 |
| <b>CAPITALIZATION AND LIABILITIES</b>                  |                          |                                    |                             |                |              |
| Shareholders' equity                                   | \$ 2,255,421             | \$ 265,102                         | \$ 405,891                  | \$ (670,993)   | \$ 2,255,421 |
| Long-term debt   | 2,205,986                |                                    | 131                         |                | 2,206,117    |
| Total capitalization                                   | 4,461,407                | 265,102                            | 406,022                     | (670,993)      | 4,461,538    |
| Current liabilities                                    |                          |                                    |                             |                |              |
| Current maturities of long-term debt                   | 2,303                    |                                    | 131                         |                | 2,434        |
| Short-term debt  | 387,691                  |                                    |                             | (181,295)      | 206,396      |
| Liabilities from risk management activities            | 11,916                   |                                    | 3,537                       |                | 15,453       |
| Other current liabilities                              | 474,783                  | 10,369                             | 170,926                     | (12,763)       | 643,315      |
| Intercompany payables                                  |                          | 543,084                            | 26,814                      | (569,898)      |              |
| Total current liabilities                              | 876,693                  | 553,453                            | 201,408                     | (763,956)      | 867,598      |
| Deferred income taxes                                  | 789,649                  | 173,351                            | (2,907)                     |                | 960,093      |
| Noncurrent liabilities from risk management activities | 67,862                   |                                    | 10,227                      |                | 78,089       |
| Regulatory cost of removal obligation                  | 428,947                  |                                    |                             |                | 428,947      |
| Deferred credits and other liabilities                 | 473,602                  | 12,218                             | 786                         |                | 486,606      |
|  | \$ 7,098,160             | \$ 1,004,124                       | \$ 615,536                  | \$ (1,434,949) | \$ 7,282,871 |

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders of

Atmos Energy Corporation

We have reviewed the condensed consolidated balance sheet of Atmos Energy Corporation and subsidiaries as of December 31, 2011, the related condensed consolidated statements of income for the three-month periods ended December 31, 2011 and 2010, and the condensed consolidated statements of cash flows for the three-month periods ended December 31, 2011 and 2010. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Atmos Energy Corporation and subsidiaries as of September 30, 2011, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended, not presented herein, and in our report dated November 22, 2011, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of September 30, 2011, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ ERNST & YOUNG LLP

Dallas, Texas

February 8, 2012

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**INTRODUCTION**

The following discussion should be read in conjunction with the condensed consolidated financial statements in this Quarterly Report on Form 10-Q and Management's Discussion and Analysis in our Annual Report on Form 10-K for the year ended September 30, 2011.

***Cautionary Statement for the Purposes of the Safe Harbor under the Private Securities Litigation Reform Act of 1995***

The statements contained in this Quarterly Report on Form 10-Q may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical fact included in this Report are forward-looking statements made in good faith by us and are intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. When used in this Report, or any other of our documents or oral presentations, the words anticipate, believe, estimate, expect, forecast, goal, intend, objective, plan, projection, seek, strategy, and similar words are intended to identify forward-looking statements. Such forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in the statements relating to our strategy, operations, markets, services, rates, recovery of costs, availability of gas supply and other factors. These risks and uncertainties include the following: our ability to continue to access the credit markets to satisfy our liquidity requirements; the impact of adverse economic conditions on our customers; increased costs of providing pension and postretirement health care benefits and increased funding requirements along with increased costs of health care benefits; market risks beyond our control affecting our risk management activities including market liquidity, commodity price volatility, increasing interest rates and counterparty creditworthiness; regulatory trends and decisions, including the impact of rate proceedings before various state regulatory commissions; possible increased federal, state and local regulation of the safety of our operations; increased federal regulatory oversight and potential penalties; the impact of environmental regulations on our business; the impact of possible future additional regulatory and financial risks associated with global warming and climate change on our business; the concentration of our distribution, pipeline and storage operations in Texas; adverse weather conditions; the effects of inflation and changes in the availability and price of natural gas; the capital-intensive nature of our gas distribution business; increased competition from energy suppliers and alternative forms of energy; the inherent hazards and risks involved in operating our gas distribution business, natural disasters, terrorist activities or other events, and other risks and uncertainties discussed herein, all of which are difficult to predict and many of which are beyond our control. Accordingly, while we believe these forward-looking statements to be reasonable, there can be no assurance that they will approximate actual experience or that the expectations derived from them will be realized. Further, we undertake no obligation to update or revise any of our forward-looking statements whether as a result of new information, future events or otherwise.

**OVERVIEW**

Atmos Energy and its subsidiaries are engaged primarily in the regulated natural gas distribution and transportation and storage businesses as well as other nonregulated natural gas businesses. We distribute natural gas through sales and transportation arrangements to over three million residential, commercial, public authority and industrial customers throughout 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 regulated distribution and pipeline systems. In May 2011, we announced that we had entered into a definitive agreement to sell our natural gas distribution operations in Missouri, Illinois and Iowa, representing approximately 84,000 customers. After the closing of this transaction, which we currently anticipate will occur during fiscal 2012, we will operate in nine states.

Through our nonregulated businesses, we provide natural gas management and transportation services to municipalities, other local gas distribution companies and industrial customers primarily in the Midwest and

Southeast and natural gas transportation and storage services to certain of our natural gas distribution divisions and to third parties. Through our asset optimization activities, we also seek to maximize the economic value associated with the storage and transportation capacity we own or control.

As discussed in Note 11, we operate the Company through the following three 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 our Atmos Pipeline Texas Division and

the *nonregulated segment*, which includes our nonregulated natural gas management, nonregulated natural gas transmission, storage and other services.

### **CRITICAL ACCOUNTING ESTIMATES AND POLICIES**

Our condensed consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States. Preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and the related disclosures of contingent assets and liabilities. We based our estimates on historical experience and various other assumptions that we believe to be reasonable under the circumstances. On an ongoing basis, we evaluate our estimates, including those related to risk management and trading activities, the allowance for doubtful accounts, legal and environmental accruals, insurance accruals, pension and postretirement obligations, deferred income taxes and the valuation of goodwill, indefinite-lived intangible assets and other long-lived assets. Actual results may differ from such estimates.

Our critical accounting policies used in the preparation of our consolidated financial statements are described in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011 and include the following:

Regulation

Revenue Recognition

Allowance for Doubtful Accounts

Financial Instruments and Hedging Activities

Impairment Assessments

Pension and Other Postretirement Plans

Fair Value Measurements

Our critical accounting policies are reviewed quarterly by the Audit Committee. There were no significant changes to these critical accounting policies during the three months ended December 31, 2011.

### **RESULTS OF OPERATIONS**

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We reported net income of \$68.5 million, or \$0.75 per diluted share for the three months ended December 31, 2011 compared with net income of \$74.0 million, or \$0.81 per diluted share in the prior-year quarter. Regulated operations contributed 93 percent of our net income during this period with our nonregulated operations contributing the remaining seven percent. Excluding the impact of unrealized margins, diluted earnings per share decreased \$0.20 compared with the prior-year quarter. The \$0.20 per diluted share decrease primarily reflects the adverse impact of unfavorable natural gas market conditions on our nonregulated segment and increased operating expenses in our natural gas distribution segment. These decreases were partially offset by a five percent increase in consolidated throughput in our regulated transmission and storage segment and the favorable impact of ratemaking efforts in our natural gas distribution segment.



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Due to the pending sale of our Missouri, Illinois and Iowa service areas, the results of operations for these three service areas are shown in discontinued operations. During the current-year quarter, discontinued operations generated net income of \$2.7 million, or \$0.03 per diluted share, compared with net income of \$2.9 million, or \$0.03 per diluted share in the prior-year quarter. Continuing operations in the current quarter generated net income of \$65.8 million, or \$0.72 per diluted share, compared with net income of \$71.1 million, or \$0.78 per diluted share from continuing operations in the prior-year quarter.

The following table presents our consolidated financial highlights for the three months ended December 31, 2011 and 2010:

|   | <b>Three Months Ended<br/>December 31</b>    |              |
|---|--|--------------|
|   | <b>2011</b>                                  | <b>2010</b>  |
|   | <b>(In thousands, except per share data)</b> |              |
| Operating revenues  | \$ 1,101,173                                 | \$ 1,133,262 |
| Gross profit  | 362,882                                      | 364,724      |
| Operating expenses  | 218,475                                      | 209,435      |
| Operating income  | 144,407                                      | 155,289      |
| Miscellaneous expense                                     | (1,875)                                      | (726)        |
| Interest charges  | 35,442                                       | 38,895       |
| Income from continuing operations before income taxes     | 107,090                                      | 115,668      |
| Income tax expense  | 41,302                                       | 44,568       |
| Income from continuing operations                         | 65,788                                       | 71,100       |
| Income from discontinued operations, net of tax           | 2,719  | 2,897        |
| Net income  | \$ 68,507                                    | \$ 73,997    |
| Diluted net income per share from continuing operations   | \$ 0.72                                      | \$ 0.78      |
| Diluted net income per share from discontinued operations | 0.03   | 0.03         |
| Diluted net income per share                              | \$ 0.75                                      | \$ 0.81      |

The following table reflects our consolidated net income and diluted earnings per share in our regulated and nonregulated operations:

|  | <b>Three Months Ended December 31</b>        |             |               |
|--|--|-------------|---------------|
|  | <b>2011</b>                                  | <b>2010</b> | <b>Change</b> |
|  | <b>(In thousands, except per share data)</b> |             |               |
| Regulated operations                             | \$ 61,319                                    | \$ 64,523   | \$ (3,204)    |
| Nonregulated operations                          | 4,469  | 6,577       | (2,108)       |
| Net income from continuing operations            | 65,788                                       | 71,100      | (5,312)       |
| Net income from discontinued operations          | 2,719  | 2,897       | (178)         |
| Net income                                       | \$ 68,507                                    | \$ 73,997   | \$ (5,490)    |
| Diluted EPS from continuing regulated operations | \$ 0.67                                      | \$ 0.71     | \$ (0.04)     |
| Diluted EPS from nonregulated operations         | 0.05   | 0.07        | (0.02)        |
| Diluted EPS from continuing operations           | 0.72   | 0.78        | (0.06)        |
| Diluted EPS from discontinued operations         | 0.03   | 0.03        |               |
| Consolidated diluted EPS                         | \$ 0.75                                      | \$ 0.81     | \$ (0.06)     |

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*Three Months Ended December 31, 2011 compared with Three Months Ended December 31, 2010*

***Natural Gas Distribution Segment***

The primary factors that impact the results of our natural gas distribution operations are our ability to earn our authorized rates of return, the cost of natural gas, competitive factors in the energy industry and economic conditions in our service areas.

Our ability to earn our authorized rates of return is based primarily on our ability to improve the rate design in our various ratemaking jurisdictions by reducing or eliminating regulatory lag and, ultimately, separating the recovery of our approved margins from customer usage patterns. Improving rate design is a long-term process and is further complicated by the fact that we operate in multiple rate jurisdictions.

Seasonal weather patterns can also affect our natural gas distribution operations. However, the effect of weather that is above or below normal is substantially offset through weather normalization adjustments, known as WNA, which has been approved by state regulatory commissions for over 90 percent of our residential and commercial meters in the following states for the following time periods:

|   |          |          |
|---|----------|----------|
| Georgia, Kansas, West Texas               | October  | May      |
| Kentucky, Mississippi, Tennessee, Mid-Tex | November | April    |
| Louisiana                                 | December | March    |
| Virginia                                  | January  | December |

Our natural gas distribution operations are also affected by the cost of natural gas. The cost of gas is passed through to our customers without markup. Therefore, increases in the cost of gas are offset by a corresponding increase in revenues. Accordingly, we believe gross profit is a better indicator of our financial performance than revenues. However, gross profit in our Texas and Mississippi service areas includes franchise fees and gross receipts taxes, which are calculated as a percentage of revenue (inclusive of gas costs). Therefore, the amount of these taxes included in revenues is influenced by the cost of gas and the level of gas sales volumes. We record the associated tax expense as a component of taxes, other than income. Although changes in these revenue-related taxes arising from changes in gas costs affect gross profit, over time the impact is offset within operating income.

Higher gas costs may also adversely impact our accounts receivable collections, resulting in higher bad debt expense and may require us to increase borrowings under our credit facilities resulting in higher interest expense. Finally, higher gas costs, as well as competitive factors in the industry and general economic conditions may cause customers to conserve or use alternative energy sources.

In May 2011, we announced that we had entered into a definitive agreement to sell substantially all of our natural gas distribution operations in Missouri, Illinois and Iowa. The results of these operations have been separately reported in the following tables as discontinued operations and exclude general corporate overhead and interest expense that would normally be allocated to these operations.

*Review of Financial and Operating Results*

Financial and operational highlights for our natural gas distribution segment for the three months ended December 31, 2011 and 2010 are presented below.

|   | Three Months Ended<br>December 31      |            |            |
|---|--|------------|------------|
|   | 2011                                   | 2010       | Change     |
|   | (In thousands, unless otherwise noted) |            |            |
| <b>Gross profit</b>   | \$ 291,085                             | \$ 290,936 | \$ 149     |
| Operating expenses  | 182,724                                | 171,571    | 11,153     |
| <b>Operating income</b>   | 108,361                                | 119,365    | (11,004)   |
| Miscellaneous expense   | (1,756)                                | (698)      | (1,058)    |
| Interest charges  | 27,855                                 | 29,697     | (1,842)    |
| <b>Income from continuing operations before income taxes</b>                                    | 78,750                                 | 88,970     | (10,220)   |
| Income tax expense  | 30,845                                 | 34,549     | (3,704)    |
| <b>Income from continuing operations</b>  | 47,905                                 | 54,421     | (6,516)    |
| Income from discontinued operations, net of tax   | 2,719                                  | 2,897      | (178)      |
| <b>Net income</b>   | \$ 50,624                              | \$ 57,318  | \$ (6,694) |
| Consolidated natural gas distribution sales volumes from continuing operations<br>MMcf          | 84,890                                 | 84,137     | 753        |
| Consolidated natural gas distribution transportation volumes from continuing<br>operations MMcf | 32,832                                 | 32,218     | 614        |
| Consolidated natural gas distribution throughput from continuing operations<br>MMcf             | 117,722                                | 116,355    | 1,367      |
| Consolidated natural gas distribution throughput from discontinued operations<br>MMcf           | 4,026                                  | 4,189      | (163)      |
| <b>Total consolidated natural gas distribution throughput MMcf</b>                              | 121,748                                | 120,544    | 1,204      |
| Consolidated natural gas distribution average transportation revenue per Mcf                    | \$ 0.45                                | \$ 0.49    | \$ (0.04)  |
| Consolidated natural gas distribution average cost of gas per Mcf sold                          | \$ 4.78                                | \$ 4.92    | \$ (0.14)  |

The \$0.1 million increase in natural gas distribution gross profit primarily reflects the following:

\$4.6 million net increase in rate adjustments, primarily in the Mid-Tex, Louisiana and Kentucky service areas.

A two percent rise in transportation volumes resulting in a \$0.5 million increase in transportation margins. These increases were largely offset by the quarter-over-quarter negative effect of the weather normalization adjustment in the Mid-Tex Division, which required utilizing updated weather data in the calculation of the adjustment in the current quarter.

Operating expenses, which include operation and maintenance expense, provision for doubtful accounts, depreciation and amortization expense and taxes, other than income increased \$11.2 million, primarily due to the following:

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\$2.9 million increase in depreciation and amortization and a \$2.6 million increase in ad valorem taxes associated with an increase in our net plant as a result of our capital investments in the prior year.

\$3.5 million net increase in legal and other administrative costs.

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The following table shows our operating income from continuing operations by natural gas distribution division, in order of total rate base, for the three months ended December 31, 2011 and 2010. The presentation of our natural gas distribution operating income is included for financial reporting purposes and may not be appropriate for ratemaking purposes.

|                     | 2011       | Three Months Ended<br>December 31 |             |
|---------------------|------------|-----------------------------------|-------------|
|                     |            | 2010<br>(In thousands)            | Change      |
| Mid-Tex             | \$ 48,449  | \$ 57,439                         | \$ (8,990)  |
| Kentucky/Mid-States | 16,318     | 16,853                            | (535)       |
| Louisiana           | 15,201     | 14,961                            | 240         |
| West Texas          | 10,675     | 9,520                             | 1,155       |
| Mississippi         | 10,132     | 10,215                            | (83)        |
| Colorado-Kansas     | 8,179      | 7,702                             | 477         |
| Other               | (593)      | 2,675                             | (3,268)     |
| Total               | \$ 108,361 | \$ 119,365                        | \$ (11,004) |

*Recent Ratemaking Developments*

Significant ratemaking developments that occurred during the three months ended December 31, 2011 are discussed below. The amounts described below represent the operating income that was requested or received in each rate filing, which may not necessarily reflect the stated amount referenced in the final order, as certain operating costs may have changed as a result of a final order from a commission or other governmental authority.

Annual net operating income increases totaling \$4.3 million resulting from ratemaking activity became effective in the quarter ended December 31, 2011 as summarized below:

| Rate Action             | Annual Increase to<br>Operating<br>Income<br>(In thousands) |
|-------------------------|---|
| Rate case filings       | \$ 545  |
| Infrastructure programs | 3,744   |
|                         | \$ 4,289  |

Additionally, the following ratemaking efforts were in progress during the first quarter of fiscal 2012 but had not been completed as of December 31, 2011.

| Division        | Rate Action                       | Jurisdiction | Operating<br>Income<br>Requested<br>(In thousands) |
|-----------------|-----------------------------------|--------------|--|
| Colorado-Kansas | Ad Valorem <sup>(1)</sup>         | Kansas       | \$ 167   |
| Louisiana       | Rate Stabilization Clause         | TransLa      |  |
| Mississippi     | Stable Rate Filing <sup>(2)</sup> | Mississippi  | 5,303  |
|                 |                                   |              | \$ 5,470   |

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- (1) The Ad Valorem filing relates to a collection of property taxes in excess of the amount included in our Kansas service area's base rates. The Kansas Commission approved the filing on January 14, 2012.
- (2) The Mississippi Commission issued a final order on January 11, 2012 approving a \$4.3 million increase to operating income.

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Subsequent to December 31, 2011, we filed five rate actions requesting a total increase in annual operating income of \$66.8 million in our Mid-Tex, West Texas, Kansas and Georgia service areas. In our Mid-Tex service area, we filed a rate case requesting a \$46.0 million annual increase in operating income as well as our first City of Dallas Annual Rate Review filing in which we requested a \$2.5 million increase to operating income. In our West Texas and Kansas service areas, we filed rate cases requesting an increase in annual operating income of \$11.1 million and \$6.1 million. In our Georgia service area, we requested an increase in annual operating income of \$1.1 million under the annual pipeline replacement program.

### *Rate Case Filings*

A rate case is a formal request from Atmos Energy to a regulatory authority to increase rates that are charged to our customers. Rate cases may also be initiated when the regulatory authorities request us to justify our rates. This process is referred to as a show cause action. Adequate rates are intended to provide for recovery of the Company's costs as well as a fair rate of return for our shareholders and ensure that we continue to deliver reliable, reasonably priced natural gas service to our customers. The following table summarizes the rate case that was completed during the three months ended December 31, 2011.

| Division                       | State | Increase in<br>Annual<br>Operating<br>Income<br>(In thousands) | Effective<br>Date |
|--------------------------------|-------|--|-------------------|
| <i>2012 Rate Case Filings:</i> |       |  |                   |
| West Texas Environs            | Texas | \$ 545   | 11/08/2011        |
| Total 2012 Rate Case Filings   |       | \$ 545   |                   |

### *Infrastructure Programs*

Infrastructure programs such as the Gas Reliability Infrastructure Program (GRIP) allow natural gas distribution companies the opportunity to include in their rate base annually approved capital costs incurred in the prior calendar year. We currently have infrastructure programs in Texas, Georgia, Missouri and Kentucky. The following table summarizes our infrastructure program filings with effective dates during the three months ended December 31, 2011.

| Division                             | Period End | Incremental<br>Net Utility Plant<br>Investment<br>(In thousands) | Increase in<br>Annual<br>Operating<br>Income<br>(In thousands) | Effective<br>Date |
|--------------------------------------|------------|--|--|-------------------|
| <i>2012 Infrastructure Programs:</i> |            |  |  |                   |
| Kentucky/Mid-States Georgia          | 09/2010    | \$ 7,160   | \$ 1,215   | 10/01/2011        |
| Kentucky/Mid-States Kentucky         | 09/2012    | 17,347   | 2,529  | 10/01/2011        |
| Total 2012 Infrastructure Programs   |            | \$ 24,507  | \$ 3,744   |                   |

### *Annual Rate Filing Mechanism*

As an instrument to reduce regulatory lag, annual rate filing mechanisms allow us to refresh our rates on a periodic basis without filing a formal rate case. However, these filings still involve discovery by the appropriate regulatory authorities prior to the final determination of rates under these mechanisms. We currently have annual rate filing mechanisms in our Louisiana, Georgia and Mississippi service areas and in significant portions of our Mid-Tex and West Texas divisions. These mechanisms are referred to as rate review mechanisms in our Mid-Tex and West Texas divisions, stable rate filings in the Mississippi Division, Georgia rate adjustment mechanism in Kentucky/Mid-States and a rate stabilization clause in the Louisiana Division. There were no annual rate filing mechanisms completed during the three months ended December 31, 2011.





*Other Ratemaking Activity*

There was no other ratemaking activity completed during the three months ended December 31, 2011.

*Regulated Transmission and Storage Segment*

Our regulated transmission and storage segment consists of the regulated pipeline and storage operations of the Atmos Pipeline Texas Division. The Atmos Pipeline Texas Division transports natural gas to our Mid-Tex Division and third parties and manages five underground storage reservoirs in Texas. We also provide ancillary services customary in the pipeline industry including parking and lending arrangements and sales of inventory on hand.

Similar to our natural gas distribution segment, our regulated transmission and storage segment is impacted by seasonal weather patterns, competitive factors in the energy industry and economic conditions in our service areas. Further, as the Atmos Pipeline Texas Division operations supply all of the natural gas for our Mid-Tex Division, the results of this segment are highly dependent upon the natural gas requirements of the Mid-Tex Division. Finally, as a regulated pipeline, the operations of the Atmos Pipeline Texas Division may be impacted by the timing of when costs and expenses are incurred and when these costs and expenses are recovered through its tariffs.

*Review of Financial and Operating Results*

Financial and operational highlights for our regulated transmission and storage segment for the three months ended December 31, 2011 and 2010 are presented below.

|   | Three Months Ended<br>December 31 |                  |                 |
|---|-----------------------------------|------------------|-----------------|
|   | 2011                              | 2010             | Change          |
| (In thousands, unless otherwise noted)            |                                   |                  |                 |
| Mid-Tex transportation                            | \$ 37,343                         | \$ 27,535        | \$ 9,808        |
| Third-party transportation                        | 14,939                            | 16,512           | (1,573)         |
| Storage and park and lend services                | 1,806                             | 2,170            | (364)           |
| Other   | 2,671                             | 2,790            | (119)           |
| <b>Gross profit</b>                               | <b>56,759</b>                     | <b>49,007</b>    | <b>7,752</b>    |
| Operating expenses                                | 28,400                            | 24,926           | 3,474           |
| <b>Operating income</b>                           | <b>28,359</b>                     | <b>24,081</b>    | <b>4,278</b>    |
| Miscellaneous expense                             | (280)                             | (282)            | 2               |
| Interest charges                                  | 7,209                             | 8,064            | (855)           |
| <b>Income before income taxes</b>                 | <b>20,870</b>                     | <b>15,735</b>    | <b>5,135</b>    |
| Income tax expense                                | 7,456                             | 5,633            | 1,823           |
| <b>Net income</b>                                 | <b>\$ 13,414</b>                  | <b>\$ 10,102</b> | <b>\$ 3,312</b> |
| Gross pipeline transportation volumes MMcf        | 160,829                           | 153,178          | 7,651           |
| Consolidated pipeline transportation volumes MMcf | 105,037                           | 99,841           | 5,196           |

The \$7.8 million increase in regulated transmission and storage gross profit was primarily a result of rate design changes approved in the rate case in the prior year. The current rate design allows us to recover fixed costs associated with transportation and storage services through monthly customer charges rather than through a volumetric charge, which should allow us to earn margin more ratably during the fiscal year. Additionally, consolidated throughput increased about five percent due to increased through-system demand and the execution of new delivery contracts with local producers.



Operating expenses increased \$3.5 million primarily due to the following:

\$1.3 million increase due to higher levels of pipeline maintenance activities.

\$1.9 million increase due to higher depreciation expense, resulting from the rate case and a higher investment in net plant.

***Nonregulated Segment***

Our nonregulated activities are conducted through Atmos Energy Holdings, Inc. (AEH), which is a wholly-owned subsidiary of Atmos Energy Corporation and operates primarily in the Midwest and Southeast areas of the United States.

AEH's primary business is to deliver gas and provide related services by aggregating and purchasing gas supply, arranging transportation and storage logistics and ultimately delivering gas to customers at competitive prices. This business is significantly influenced by competitive factors in the industry, general economic conditions and other factors that could affect the demand for natural gas. Therefore, the margins earned from these activities are dependent upon our ability to attract and retain customers and to minimize the cost of gas used to serve those customers. Further, delivered gas margins can be affected by the price of natural gas in the different locations where we buy and sell gas.

AEH also earns storage and transportation margins from (i) utilizing its proprietary 21-mile pipeline located in New Orleans, Louisiana to aggregate gas supply for our regulated natural gas distribution division in Louisiana, its gas delivery activities and, on a more limited basis, for third parties and (ii) managing proprietary storage in Kentucky and Louisiana to supplement the natural gas needs of our natural gas distribution divisions during peak periods. The majority of these margins are generated through demand fees established under contracts with certain of our natural gas distribution divisions that are renewed periodically and subject to regulatory oversight.

AEH utilizes customer-owned or contracted storage capacity to serve its customers. In an effort to offset the demand fees paid to contract for storage capacity and to maximize the value of this capacity, AEH sells financial instruments in an effort to earn a gross profit margin through the arbitrage of pricing differences in various locations and by recognizing pricing differences that occur over time. Margins earned from these activities and the related storage demand fees are reported as asset optimization margins. Certain of these arrangements are with regulated affiliates, which have been approved by applicable state regulatory commissions. These margins are influenced by natural gas market conditions including, but not limited to, the price of natural gas, demand for natural gas, the level of domestic natural gas inventory levels and the level of volatility between current (spot) and future natural gas prices. These margins are also impacted by our ability to minimize the demand fees paid to contract for storage capacity.

Higher natural gas prices may adversely impact our accounts receivable collections, resulting in higher bad debt expense, and may require us to increase borrowings under our credit facilities resulting in higher interest expense. Higher gas prices may also cause customers to conserve or use alternative energy sources. Lower natural gas prices generally reduce these risks.

The level of volatility in natural gas prices also has a significant impact on our nonregulated segment. Increased price volatility influences the spreads between the current (spot) prices and forward natural gas prices, which creates opportunities to earn higher arbitrage spreads and basis differentials from identifying the lowest cost alternative among the natural gas supplies, transportation and markets to which we have access. Conversely, a lack of price volatility reduces opportunities to create value from arbitrage spreads and basis differentials.

Our nonregulated segment manages its exposure to natural gas commodity price risk through a combination of physical storage and financial instruments. Therefore, results for this segment will include unrealized gains or losses on its net physical gas position and the related financial instruments used to manage commodity price risk. These margins fluctuate based upon changes in the spreads between the physical and forward natural gas prices. Generally, if the physical/financial spread narrows, we will record unrealized gains or lower unrealized losses. If the physical/financial spread widens, we will generally record unrealized losses or lower unrealized gains. The magnitude of the unrealized gains and losses is also contingent upon the levels of our net physical position at the end of the reporting period.

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Review of Financial and Operating Results

Financial and operational highlights for our nonregulated segment for the three months ended December 31, 2011 and 2010 are presented below.

|  | Three Months Ended |                     |            |
|--|--------------------|---------------------|------------|
|  | 2011               | December 31<br>2010 | Change     |
| (In thousands, unless otherwise noted)                     |                    |                     |            |
| <b>Realized margins</b>                                    |                    |                     |            |
| Gas delivery and related services                          | \$ 11,113          | \$ 16,041           | \$ (4,928) |
| Storage and transportation services                        | 3,189              | 3,349               | (160)      |
| Other  | 1,017              | 1,319               | (302)      |
|  | 15,319             | 20,709              | (5,390)    |
| Asset optimization <sup>(1)</sup>                          | (21,594)           | 3,965               | (25,559)   |
| <b>Total realized margins</b>                              | (6,275)            | 24,674              | (30,949)   |
| <b>Unrealized margins</b>                                  | 21,680             | 504                 | 21,176     |
| <b>Gross profit</b>  | 15,405             | 25,178              | (9,773)    |
| Operating expenses   | 7,719              | 13,335              | (5,616)    |
| <b>Operating income</b>                                    | 7,686              | 11,843              | (4,157)    |
| Miscellaneous income                                       | 36                 | 290                 | (254)      |
| Interest charges   | 252                | 1,170               | (918)      |
| <b>Income before income taxes</b>                          | 7,470              | 10,963              | (3,493)    |
| Income tax expense   | 3,001              | 4,386               | (1,385)    |
| <b>Net income</b>  | \$ 4,469           | \$ 6,577            | \$ (2,108) |
| Gross nonregulated delivered gas sales volumes MMcf        | 106,462            | 107,712             | (1,250)    |
| Consolidated nonregulated delivered gas sales volumes MMcf | 90,870             | 94,538              | (3,668)    |
| Net physical position (Bcf)                                | 35.6               | 19.6                | 16.0       |

<sup>(1)</sup> Net of storage fees of \$4.7 million and \$3.3 million.

Results for our nonregulated operations during the first fiscal quarter were adversely influenced by continued unfavorable natural gas market conditions. Historically high natural gas storage levels caused by growing domestic natural gas production coupled with an unseasonably warm start to the 2011-2012 winter heating season caused natural gas prices to fall and for spot to forward spread values and basis differentials to remain compressed. Further, unseasonably warm weather reduced the demand for natural gas.

We anticipate natural gas storage levels will remain high for an extended period of time and for unseasonably warm weather to continue during the second quarter of fiscal 2012. Therefore, we expect gas prices to remain relatively low with little volatility and spot to forward spread values and basis differentials to remain compressed. Further, sales of natural gas could be adversely impacted. Accordingly, although we anticipate continuing to profit from our nonregulated activities, we anticipate per-unit margins from our delivered gas activities and margins earned from our asset optimization activities will be more consistent with the reduced margins we realized in fiscal 2011 than in previous years.

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Realized margins for gas delivery, storage and transportation services and other services were \$15.3 million during the three months ended December 31, 2011 compared with \$20.7 million for the prior-year quarter. The decrease reflects the following:

A four percent decrease in consolidated sales volumes. The decrease was largely attributable to warmer weather particularly in the latter half of the quarter, which reduced sales to our utility, municipal and other

weather-sensitive customers. These decreases were partially offset by a 6 percent period-over-period increase in sales to new and existing industrial and power generation customers.

A decrease in gas delivery per-unit margins from \$0.15/Mcf in the prior-year quarter to \$0.10/Mcf in the current-year quarter primarily due to lower basis differentials resulting from increased natural gas supply coupled with increased transportation costs. Asset optimization margins decreased \$25.6 million from the prior-year quarter. In the prior year quarter, due to compressed spot to forward spread values, AEH traded more frequently in the daily cash market and earned intramonth trading gains that exceeded the demand fees paid for its contracted storage capacity.

In the current year quarter, AEH elected to take advantage of falling natural prices by purchasing and injecting a net 15.7 Bcf into storage and capturing incremental physical to forward spread values that should be realized in future periods. As a result of this decision, we realized no storage withdrawal gains to offset the realized losses on the settlement of financial instruments used to hedge our natural gas purchases.

We anticipate this trend will continue during the fiscal second quarter; however, a substantial portion of the incremental margins captured during the quarter are currently anticipated to be realized during the third and fourth quarter of fiscal 2012.

Realized asset optimization margins for the current-year quarter also included a \$1.7 million charge to write-down to market certain natural gas inventory that no longer qualified for fair value hedge accounting.

The \$21.2 million increase in unrealized margins primarily reflects unrealized gains on the financial instruments executed during the quarter to capture incremental physical to forward spreads as a result of falling natural gas prices.

Operating expenses decreased \$5.6 million due to the following:

\$3.1 million decrease in insurance and legal costs as a result of the resolution of the FERC matter and the timing of activity pertaining to other litigation.

\$1.4 million decrease in employee related expenses.

Interest charges decreased \$0.9 million primarily due to a decrease in commitment fees.

### **Liquidity and Capital Resources**

The liquidity required to fund our working capital, capital expenditures and other cash needs is provided from a variety of sources including internally generated funds and borrowings under our commercial paper program and bank credit facilities. Additionally, we have various uncommitted trade credit lines with our gas suppliers that we utilize to purchase natural gas on a monthly basis. Finally, from time to time, we raise funds from the public debt and equity capital markets to fund our liquidity needs.

We regularly evaluate our funding strategy and profile to ensure that we have sufficient liquidity for our short-term and long-term needs in a cost-effective manner. We also evaluate the levels of committed borrowing capacity that we require.

We intend to refinance our \$250 million unsecured 5.125% Senior Notes that mature in January 2013 through the issuance of \$350 million 30-year unsecured notes. In August 2011, we entered into three Treasury lock agreements to fix the Treasury yield component of the interest cost associated with the anticipated issuances of these senior notes. We designated all of these Treasury locks as cash flow hedges.

We believe the liquidity provided by our senior notes and committed credit facilities, combined with our operating cash flows, will be sufficient to fund our working capital needs and capital expenditure program for the remainder of fiscal 2012.

**Cash Flows**

Our internally generated funds may change in the future due to a number of factors, some of which we cannot control. These include regulatory changes, prices for our products and services, demand for such products and services, margin requirements resulting from significant changes in commodity prices, operational risks and other factors.

Cash flows from operating, investing and financing activities for the three months ended December 31, 2011 and 2010 are presented below.

|   | <b>Three Months Ended December 31</b> |                   |                      |
|---|---------------------------------------|-------------------|----------------------|
|   | <b>2011</b>                           | <b>2010</b>       | <b>2011 vs. 2010</b> |
|   | <b>(In thousands)</b>                 |                   |                      |
| <b>Total cash provided by (used in)</b>           |                                       |                   |                      |
| Operating activities                              | \$ (15,291)                           | \$ 45,824         | \$ (61,115)          |
| Investing activities                              | (155,474)                             | (123,532)         | (31,942)             |
| Financing activities                              | 124,506                               | 75,648            | 48,858               |
| <b>Change in cash and cash equivalents</b>        | <b>(46,259)</b>                       | <b>(2,060)</b>    | <b>(44,199)</b>      |
| Cash and cash equivalents at beginning of period  | 131,419                               | 131,952           | (533)                |
| <b>Cash and cash equivalents at end of period</b> | <b>\$ 85,160</b>                      | <b>\$ 129,892</b> | <b>\$ (44,732)</b>   |

*Cash flows from operating activities*

Period-over-period changes in our operating cash flows are primarily attributable to changes in net income and working capital changes, particularly within our natural gas distribution segment resulting from the price of natural gas and the timing of customer collections, payments for natural gas purchases and deferred gas cost recoveries.

The \$61.1 million decrease in operating cash flows primarily reflects the effect of purchasing natural gas and injecting it into storage in our nonregulated operations in order to capture incremental value anticipated to be realized in the third and fourth quarter of fiscal 2012, as well as the timing of customer collections and vendor payments.

*Cash flows from investing activities*

In recent years, a substantial portion of our cash resources has been used to fund growth projects, our ongoing construction program and improvements to information technology systems. Our ongoing construction program enables us to provide natural gas distribution services to our existing customer base, expand our natural gas distribution services into new markets, enhance the integrity of our pipelines and, more recently, expand our intrastate pipeline network. In executing our current rate strategy, we are directing discretionary capital spending to jurisdictions that permit us to earn a timely return on our investment. Currently, rate designs in our Mid-Tex, Louisiana, Mississippi and West Texas natural gas distribution divisions and our Atmos Pipeline Texas Division provide the opportunity to include in their rate base approved capital costs on a periodic basis without being required to file a rate case.

Capital expenditures for fiscal 2012 are expected to range from \$680 million to \$700 million. For the three months ended December 31, 2011, capital expenditures were \$154.4 million compared with \$123.2 million for the three months ended December 31, 2010. The \$31.2 million increase in capital expenditures primarily reflects spending for the steel service line replacement program in the Mid-Tex Division and the development of new customer billing and information systems for our natural gas distribution segment.

*Cash flows from financing activities*

The \$48.9 million increase in financing cash flows was primarily due to the following:

\$61.3 million additional cash provided from short-term debt borrowings.

\$7.7 million increase in cash flows due to lower repayments of long-term debt. In the current-year quarter, we repaid \$2.3 million of long-term debt compared to \$10.0 million in the prior-year quarter.

These increases in financing cash flows were partially offset by the following:

\$12.5 million additional cash used to repurchase common stock as part of our share buyback program.

\$7.2 million less cash received from proceeds related to the issuance of common stock.

The following table summarizes our share issuances for the three months ended December 31, 2011 and 2010.

|                                      | <b>Three Months Ended<br/>December 31</b> |             |
|--------------------------------------|---|-------------|
|                                      | <b>2011</b>                               | <b>2010</b> |
| Shares issued:                       |   |             |
| 1998 Long-Term Incentive Plan        | 197,503                                   | 595,103     |
| Outside Directors Stock-for-Fee Plan | 618                                       | 638         |
| <br>Total shares issued              | <br>198,121                               | <br>595,741 |

The quarter-over-quarter decrease in the number of shares issued primarily reflects the significant number of stock options exercised in the prior year. During the current quarter, we cancelled and retired 99,555 shares attributable to federal withholdings on equity awards and repurchased and retired 387,991 shares through our 2011 share repurchase program described in Note 7.

As of September 30, 2011, we were authorized to grant awards for up to a maximum of 6.5 million shares of common stock under our 1998 Long-Term Incentive Plan (LTIP). In February 2011, shareholders voted to increase the number of authorized LTIP shares by 2.2 million shares. On October 19, 2011, we received all required state regulatory approvals to increase the maximum number of authorized LTIP shares to 8.7 million shares, subject to certain adjustment provisions. On October 28, 2011, we filed with the SEC a registration statement on Form S-8 to register an additional 2.2 million shares; we also listed such shares with the New York Stock Exchange.

**Credit Facilities**

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 to meet our customers' needs could significantly affect our borrowing requirements. However, our short-term borrowings reach their highest levels in the winter months.

We finance our short-term borrowing requirements through a combination of a \$750.0 million commercial paper program and four committed revolving credit facilities with third-party lenders that provide approximately \$1.0 billion of working capital funding. As of December 31, 2011, the amount available to us under our credit facilities, net of outstanding letters of credit, was \$499.2 million.

**Shelf Registration**

We have an effective shelf registration statement with the Securities and Exchange Commission (SEC) that permits us to issue a total of \$1.3 billion in common stock and/or debt securities. The shelf registration statement has been approved by all requisite state regulatory commissions.



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Due to certain restrictions imposed by one state regulatory commission on our ability to issue securities under the new registration statement, we were able to issue a total of \$950 million in debt securities and \$350 million in equity securities. At December 31, 2011, \$900

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million was available for issuance. Of this amount, \$550 million is available for the issuance of debt securities and \$350 million remains available for the issuance of equity securities under the shelf until March 2013.

### Credit Ratings

Our credit ratings directly affect our ability to obtain short-term and long-term financing, in addition to the cost of such financing. In determining our credit ratings, the rating agencies consider a number of quantitative factors, including debt to total capitalization, operating cash flow relative to outstanding debt, operating cash flow coverage of interest and pension liabilities and funding status. In addition, the rating agencies consider qualitative factors such as consistency of our earnings over time, the quality of our management and business strategy, the risks associated with our regulated and nonregulated businesses and the regulatory structures that govern our rates in the states where we operate.

Our debt is rated by three rating agencies: Standard & Poor's Corporation (S&P), Moody's Investors Service (Moody's) and Fitch Ratings, Ltd. (Fitch). As of December 31, 2011, all three ratings agencies maintained a stable outlook. Our current debt ratings are all considered investment grade and are as follows:

|                                 | S&P  | Moody's | Fitch |
|---------------------------------|------|---------|-------|
| Unsecured senior long-term debt | BBB+ | Baa1    | A-    |
| Commercial paper                | A-2  | P-2     | F-2   |

A significant degradation in our operating performance or a significant reduction in our liquidity caused by more limited access to the private and public credit markets as a result of deteriorating global or national financial and credit conditions could trigger a negative change in our ratings outlook or even a reduction in our credit ratings by the three credit rating agencies. This would mean more limited access to the private and public credit markets and an increase in the costs of such borrowings.

A credit rating is not a recommendation to buy, sell or hold securities. The highest investment grade credit rating for S&P is AAA, Moody's is Aaa and Fitch is AAA. The lowest investment grade credit rating for S&P is BBB-, Moody's is Baa3 and Fitch is BBB-. Our credit ratings may be revised or withdrawn at any time by the rating agencies, and each rating should be evaluated independently of any other rating. There can be no assurance that a rating will remain in effect for any given period of time or that a rating will not be lowered, or withdrawn entirely, by a rating agency if, in its judgment, circumstances so warrant.

### Debt Covenants

We were in compliance with all of our debt covenants as of December 31, 2011. Our debt covenants are described in greater detail in Note 6 to the unaudited condensed consolidated financial statements.

### Capitalization

The following table presents our capitalization inclusive of short-term debt and the current portion of long-term debt as of December 31, 2011, September 30, 2011 and December 31, 2010:

|                      | December 31, 2011                  |        | September 30, 2011 |        | December 31, 2010 |        |
|----------------------|------------------------------------|--------|--------------------|--------|-------------------|--------|
|                      | (In thousands, except percentages) |        |                    |        |                   |        |
| Short-term debt      | \$ 389,985                         | 8.0%   | \$ 206,396         | 4.4%   | \$ 247,993        | 5.3%   |
| Long-term debt       | 2,206,324                          | 45.4%  | 2,208,551          | 47.3%  | 2,159,753         | 46.1%  |
| Shareholders' equity | 2,267,762                          | 46.6%  | 2,255,421          | 48.3%  | 2,274,853         | 48.6%  |
| Total                | \$ 4,864,071                       | 100.0% | \$ 4,670,368       | 100.0% | \$ 4,682,599      | 100.0% |

Total debt as a percentage of total capitalization, including short-term debt, was 53.4 percent at December 31, 2011, 51.7 percent at September 30, 2011 and 51.4 percent at December 31, 2010. Our ratio of total debt to capitalization is typically greater during the winter heating season as we incur short-term debt to fund natural gas purchases and meet our working capital requirements. We intend to maintain our debt to capitalization ratio in a target range of 50 to 55 percent.



**Contractual Obligations and Commercial Commitments**

Significant commercial commitments are described in Note 9 to the unaudited condensed consolidated financial statements. There were no significant changes in our contractual obligations and commercial commitments during the three months ended December 31, 2011.

**Risk Management Activities**

We conduct risk management activities through our natural gas distribution and nonregulated segments. In our natural gas distribution segment, we use a combination of physical storage, fixed physical contracts and fixed financial contracts to reduce our exposure to unusually large winter-period gas price increases.

In our nonregulated segment, we manage our exposure to the risk of natural gas price changes and lock in our gross profit margin through a combination of storage and financial instruments, including futures, over-the-counter and exchange-traded options and swap contracts with counterparties. To the extent our inventory cost and actual sales and actual purchases do not correlate with the changes in the market indices we use in our hedges, we could experience ineffectiveness or the hedges may no longer meet the accounting requirements for hedge accounting, resulting in the financial instruments being treated as mark to market instruments through earnings.

The following table shows the components of the change in fair value of our natural gas distribution segment's financial instruments for the three months ended December 31, 2011 and 2010:

|   | <b>Three Months Ended<br/>December 31</b> |                  |
|---|---|------------------|
|   | <b>2011</b>                               | <b>2010</b>      |
|   | <b>(In thousands)</b>                     |                  |
| Fair value of contracts at beginning of period  | \$ (79,277)                               | \$ (49,600)      |
| Contracts realized/settled                      | (17,729)                                  | (32,981)         |
| Fair value of new contracts                     | (555)                                     | 531              |
| Other changes in value                          | 11,732                                    | 108,856          |
| <b>Fair value of contracts at end of period</b> | <b>\$ (85,829)</b>                        | <b>\$ 26,806</b> |

The fair value of our natural gas distribution segment's financial instruments at December 31, 2011 is presented below by time period and fair value source:

| <b>Source of Fair Value</b>                        | <b>Fair Value of Contracts at December 31, 2011</b> |                    |            |                               | <b>Total<br/>Fair<br/>Value</b> |
|--|---|--------------------|------------|-------------------------------|---------------------------------|
|  | <b>Maturity in Years</b>                            |                    |            |                               |                                 |
|  | <b>Less<br/>Than 1</b>                              | <b>1-3</b>         | <b>4-5</b> | <b>Greater<br/>Than<br/>5</b> |                                 |
|  | <b>(In thousands)</b>                               |                    |            |                               |                                 |
| Prices actively quoted                             | \$ (15,904)   | \$ (69,925)        | \$         | \$                            | \$ (85,829)                     |
| Prices based on models and other valuation methods |   |                    |            |                               |                                 |
| <b>Total Fair Value</b>                            | <b>\$ (15,904)</b>                                  | <b>\$ (69,925)</b> | <b>\$</b>  | <b>\$</b>                     | <b>\$ (85,829)</b>              |

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The following table shows the components of the change in fair value of our nonregulated segment's financial instruments for the three months ended December 31, 2011 and 2010:

|   | Three Months Ended<br>December 31 |             |
|---|-----------------------------------|-------------|
|   | 2011                              | 2010        |
| (In thousands)  |                                   |             |
| Fair value of contracts at beginning of period            | \$ (25,050)                       | \$ (12,374) |
| Contracts realized/settled                                | 17,449                            | 934         |
| Fair value of new contracts                               |                                   |             |
| Other changes in value                                    | (7,662)                           | 759         |
| Fair value of contracts at end of period                  | (15,263)                          | (10,681)    |
| Netting of cash collateral                                | 22,084                            | 25,296      |
| Cash collateral and fair value of contracts at period end | \$ 6,821                          | \$ 14,615   |

The fair value of our nonregulated segment's financial instruments at December 31, 2011 is presented below by time period and fair value source:

| Source of Fair Value                               | Fair Value of Contracts at December 31, 2011 |        |                       |                      | Total<br>Fair<br>Value |
|--|--|--------|-----------------------|----------------------|------------------------|
|  | Maturity in Years                            |        |                       |                      |                        |
|  | Less<br>Than 1                               | 1-3    | 4-5<br>(In thousands) | Greater<br>Than<br>5 |                        |
| Prices actively quoted                             | \$ (15,975)                                  | \$ 734 | \$ (22)               | \$                   | \$ (15,263)            |
| Prices based on models and other valuation methods |  |        |                       |                      |                        |
| Total Fair Value                                   | \$ (15,975)                                  | \$ 734 | \$ (22)               | \$                   | \$ (15,263)            |

### Pension and Postretirement Benefits Obligations

For the three months ended December 31, 2011 and 2010, our total net periodic pension and other benefits cost was \$17.3 million and \$14.9 million. Those costs relating to our natural gas distribution operations are generally recoverable through our gas distribution rates; however, a portion of these costs is capitalized into our distribution rate base. The remaining costs are recorded as a component of operation and maintenance expense.

Our fiscal 2012 costs were determined using a September 30, 2011 measurement date. As of September 30, 2011, interest and corporate bond rates utilized to determine our discount rates, were lower than the interest and corporate bond rates as of September 30, 2010, the measurement date for our fiscal 2011 net periodic cost. Accordingly, we decreased our discount rate used to determine our fiscal 2012 pension and benefit costs to 5.05 percent. We reduced the expected return on our pension plan assets to 7.75 percent, based on historical experience and the current market projection of the target asset allocation. Accordingly, our fiscal 2012 pension and postretirement medical costs for the quarter ended December 31, 2011 were higher than the prior-year quarter.

The amounts with which we fund our defined benefit plans are determined in accordance with the Pension Protection Act of 2006 (PPA) and are influenced by the funded position of the plans when the funding requirements are determined on January 1 of each year. Based upon the most recent evaluation, we anticipate contributing between \$25 million and \$30 million to our defined benefit plans in fiscal 2012. The need for this funding reflects the decline in the fair value of the plans' assets resulting from the unfavorable market conditions experienced during 2008 and 2009. This contribution will increase the level of our plan assets to achieve a desirable PPA funding threshold. With respect to our postretirement medical plans, we anticipate contributing between \$20 million and \$25 million to these plans during fiscal 2012.



The projected pension liability, future funding requirements and the amount of pension expense or income recognized for the plan are subject to change, depending upon the actuarial value of plan assets and the determination of future benefit obligations as of each subsequent actuarial calculation date. These amounts will be determined by actual investment returns, changes in interest rates, values of assets in the plan and changes in the demographic composition of the participants in the plan.

**OPERATING STATISTICS AND OTHER INFORMATION**

The following tables present certain operating statistics for our natural gas distribution, regulated transmission and storage and nonregulated segments for the three-month periods ended December 31, 2011 and 2010.

*Natural Gas Distribution Sales and Statistical Data - Continuing Operations*

|   | <b>Three Months Ended<br/>December 31</b> |                   |
|---|---|-------------------|
|   | <b>2011</b>                               | <b>2010</b>       |
| <b>METERS IN SERVICE, end of period</b>               |   |                   |
| Residential   | 2,847,305                                 | 2,848,433         |
| Commercial  | 258,749                                   | 261,494           |
| Industrial  | 2,318                                     | 2,328             |
| Public authority and other                            | 10,253                                    | 10,158            |
| <b>Total meters</b>                                   | <b>3,118,625</b>                          | <b>3,122,413</b>  |
| <b>INVENTORY STORAGE BALANCE Bcf</b>                  | <b>58.1</b>                               | <b>55.6</b>       |
| <b>SALES VOLUMES MMcf<sup>(2)</sup></b>               |   |                   |
| Gas sales volumes                                     |   |                   |
| Residential   | 50,240                                    | 50,156            |
| Commercial  | 26,604                                    | 26,029            |
| Industrial  | 5,412                                     | 5,146             |
| Public authority and other                            | 2,634                                     | 2,806             |
| <b>Total gas sales volumes</b>                        | <b>84,890</b>                             | <b>84,137</b>     |
| Transportation volumes                                | 33,967                                    | 33,217            |
| <b>Total throughput</b>                               | <b>118,857</b>                            | <b>117,354</b>    |
| <b>OPERATING REVENUES (000 \$)<sup>(3)</sup></b>      |   |                   |
| Gas sales revenues                                    |   |                   |
| Residential   | \$ 437,509                                | \$ 443,639        |
| Commercial  | 189,688                                   | 189,265           |
| Industrial  | 26,707                                    | 28,689            |
| Public authority and other                            | 17,494                                    | 18,537            |
| <b>Total gas sales revenues</b>                       | <b>671,398</b>                            | <b>680,130</b>    |
| Transportation revenues                               | 14,862                                    | 15,691            |
| Other gas revenues                                    | 7,032                                     | 7,641             |
| <b>Total operating revenues</b>                       | <b>\$ 693,292</b>                         | <b>\$ 703,462</b> |
| Average transportation revenue per Mcf <sup>(1)</sup> | \$ 0.44                                   | \$ 0.48           |
| Average cost of gas per Mcf sold <sup>(1)</sup>       | \$ 4.78                                   | \$ 4.92           |

See footnote following these tables.



*Natural Gas Distribution Sales and Statistical Data Discontinued Operations*

|                                  | <b>Three Months Ended<br/>December 31</b> |              |
|----------------------------------|---|--------------|
|                                  | <b>2011</b>                               | <b>2010</b>  |
| Meters in service, end of period | 84,383                                    | 83,873       |
| Sales volumes MMcf               |   |              |
| Total gas sales volumes          | 2,429                                     | 2,653        |
| Transportation volumes           | 1,597                                     | 1,536        |
| <b>Total throughput</b>          | <b>4,026</b>                              | <b>4,189</b> |
| Operating revenues (000 \$)      | \$ 23,451                                 | \$ 23,733    |

*Regulated Transmission and Storage and Nonregulated Operations Sales and Statistical Data*

|  | <b>Three Months Ended<br/>December 31</b> |                   |
|--|---|-------------------|
|  | <b>2011</b>                               | <b>2010</b>       |
| <b>CUSTOMERS, end of period</b>                                      |   |                   |
| Industrial   | 771                                       | 749               |
| Municipal  | 69  | 62                |
| Other  | 516                                       | 512               |
| <b>Total</b>   | <b>1,356</b>                              | <b>1,323</b>      |
| <b>NONREGULATED INVENTORY STORAGE BALANCE Bcf</b>                    | <b>27.9</b>                               | <b>22.1</b>       |
| <b>REGULATED TRANSMISSION AND STORAGE VOLUMES MMcf<sup>(1)</sup></b> | <b>160,829</b>                            | <b>153,178</b>    |
| <b>NONREGULATED DELIVERED GAS SALES VOLUMES MMcf<sup>(1)</sup></b>   | <b>106,462</b>                            | <b>107,712</b>    |
| <b>OPERATING REVENUES (000 \$)<sup>(2)</sup></b>                     |   |                   |
| Regulated transmission and storage                                   | \$ 56,759                                 | \$ 49,007         |
| Nonregulated   | 444,176                                   | 475,640           |
| <b>Total operating revenues</b>                                      | <b>\$ 500,935</b>                         | <b>\$ 524,647</b> |

Note to preceding tables:

(1) Statistics are shown on a consolidated basis.

(2) Sales volumes and revenues reflect segment operations, including intercompany sales and transportation amounts.

**RECENT ACCOUNTING DEVELOPMENTS**

Recent accounting developments and their impact on our financial position, results of operations and cash flows are described in Note 2 to the unaudited condensed consolidated financial statements.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Information regarding our quantitative and qualitative disclosures about market risk are disclosed in Item 7A in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011. During the three months ended December 31, 2011, there were no material changes in our

quantitative and qualitative disclosures about market risk.

**Item 4. *Controls and Procedures***

**Management's Evaluation of Disclosure Controls and Procedures**

We carried out an evaluation, under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, of the effectiveness of the Company's disclosure

controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act). Based on this evaluation, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures were effective as of December 31, 2011 to provide reasonable assurance that information required to be disclosed by us, including our consolidated entities, in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified by the SEC's rules and forms, including a reasonable level of assurance that such information is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

**Changes in Internal Control over Financial Reporting**

We did not make any changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the first quarter of the fiscal year ended September 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

During the three months ended December 31, 2011, except as noted in Note 9 to the unaudited condensed consolidated financial statements, there were no material changes in the status of the litigation and other matters that were disclosed in Note 13 to our Annual Report on Form 10-K for the fiscal year ended September 30, 2011. We continue to believe that the final outcome of such litigation and other matters or claims will not have a material adverse effect on our financial condition, results of operations or cash flows.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

On September 28, 2011, the Board of Directors approved a new program authorizing the repurchase of up to five million shares of common stock over a five-year period. Although the program is authorized for a five-year period, it may be terminated or limited at any time. Shares may be repurchased in the open market or in privately negotiated transactions in amounts the company deems appropriate. The program is primarily intended to minimize the dilutive effect of equity grants under various benefit related incentive compensation plans of the company. As of December 31, 2011, 387,991 shares had been repurchased.

| Period                                | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|---------------------------------------|----------------------------------|------------------------------|--|--|
| October 1, 2011 to October 31, 2011   |                                  | \$                           |  | 5,000,000  |
| November 1, 2011 to November 30, 2011 | 77,818                           | 32.51                        | 77,818   | 4,922,182  |
| December 1, 2011 to December 31, 2011 | 310,173                          | 32.26                        | 310,173  | 4,612,009  |
| Total                                 | 387,991                          | \$ 32.31                     | 387,991  | 4,612,009  |

**Item 6. Exhibits**

A list of exhibits required by Item 601 of Regulation S-K and filed as part of this report is set forth in the Exhibits Index, which immediately precedes such exhibits.

**SIGNATURE**

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

ATMOS ENERGY CORPORATION

(Registrant)

By: /s/ FRED E. MEISENHEIMER  
Fred E. Meisenheimer

*Senior Vice President and Chief*

*Financial Officer*

(Duly authorized signatory)

Date: February 8, 2012

## EXHIBITS INDEX

## Item 6

| Exhibit<br>Number | Description   | Page Number or<br>Incorporation by<br>Reference to |
|-------------------|---|--|
| 10.1              | Atmos Energy Corporation Equity Incentive and Deferred Compensation Plan for Non-Employee Directors, Amended and Restated as of January 1, 2012 |  |
| 12                | Computation of ratio of earnings to fixed charges   |  |
| 15                | Letter regarding unaudited interim financial information  |  |
| 31                | Rule 13a-14(a)/15d-14(a) Certifications   |  |
| 32                | Section 1350 Certifications*  |  |
| 101.INS           | XBRL Instance Document**  |  |
| 101.SCH           | XBRL Taxonomy Extension Schema**  |  |
| 101.CAL           | XBRL Taxonomy Extension Calculation Linkbase**  |  |
| 101.DEF           | XBRL Taxonomy Extension Definition Linkbase**   |  |
| 101.LAB           | XBRL Taxonomy Extension Labels Linkbase**   |  |
| 101.PRE           | XBRL Taxonomy Extension Presentation Linkbase**   |  |

\* These certifications, which were made pursuant to 18 U.S.C. Section 1350 by the Company's Chief Executive Officer and Chief Financial Officer, furnished as Exhibit 32 to this Quarterly Report on Form 10-Q, will not be deemed to be filed with the Commission or incorporated by reference into any filing by the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent that the Company specifically incorporates such certifications by reference.

\*\* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.