

ATMOS ENERGY CORP
Form 10-Q
August 06, 2014

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 June 30, 2014
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)

75-1743247
(IRS employer
identification no.)

Three Lincoln Centre, Suite 1800
5430 LBJ Freeway, Dallas, Texas
(Address of principal executive offices)
(972) 934-9227
(Registrant's telephone number, including area code)

75240
(Zip 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

Indicate by check mark whether the registrant has submitted electronically and posted on its website, 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 August 1, 2014.

Class	Shares Outstanding
No Par Value	100,351,676

GLOSSARY OF KEY TERMS

AEC	Atmos Energy Corporation
AEH	Atmos Energy Holdings, Inc.
AEM	Atmos Energy Marketing, LLC
AOCI	Accumulated other comprehensive income
Bcf	Billion cubic feet
FASB	Financial Accounting Standards Board
Fitch	Fitch Ratings, Ltd.
GAAP	Generally Accepted Accounting Principles
GRIP	Gas Reliability Infrastructure Program
GSRS	Gas System Reliability Surcharge
Mcf	Thousand cubic feet
MMcf	Million cubic feet
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

	June 30, 2014 (Unaudited) (In thousands, except share data)	September 30, 2013
ASSETS		
Property, plant and equipment	\$8,217,954	\$7,722,019
Less accumulated depreciation and amortization	1,756,504	1,691,364
Net property, plant and equipment	6,461,450	6,030,655
Current assets		
Cash and cash equivalents	51,421	66,199
Accounts receivable, net	388,874	301,992
Gas stored underground	207,458	244,741
Other current assets	126,890	64,201
Total current assets	774,643	677,133
Goodwill	741,363	741,363
Deferred charges and other assets	379,733	485,117
	\$8,357,189	\$7,934,268
CAPITALIZATION AND LIABILITIES		
Shareholders' equity		
Common stock, no par value (stated at \$.005 per share); 200,000,000 shares authorized; issued and outstanding: June 30, 2014 — 100,346,468 shares; September 30, 2013 — 90,640,211 shares	\$502	\$453
Additional paid-in capital	2,172,307	1,765,811
Retained earnings	932,576	775,267
Accumulated other comprehensive income	11,300	38,878
Shareholders' equity	3,116,685	2,580,409
Long-term debt	1,955,907	2,455,671
Total capitalization	5,072,592	5,036,080
Current liabilities		
Accounts payable and accrued liabilities	312,671	241,611
Other current liabilities	343,026	368,891
Short-term debt	—	367,984
Current maturities of long-term debt	500,000	—
Total current liabilities	1,155,697	978,486
Deferred income taxes	1,341,294	1,164,053
Regulatory cost of removal obligation	391,785	359,299
Pension and postretirement liabilities	347,344	358,787
Deferred credits and other liabilities	48,477	37,563
	\$8,357,189	\$7,934,268

See accompanying notes to condensed consolidated financial statements.

ATMOS ENERGY CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended	
	June 30	
	2014	2013
	(Unaudited)	
	(In thousands, except per share data)	
Operating revenues		
Natural gas distribution segment	\$517,707	\$467,144
Regulated transmission and storage segment	87,189	74,041
Nonregulated segment	465,033	421,808
Intersegment eliminations	(127,211)	(105,058)
	942,718	857,935
Purchased gas cost		
Natural gas distribution segment	260,042	227,649
Regulated transmission and storage segment	—	—
Nonregulated segment	450,220	418,548
Intersegment eliminations	(127,077)	(104,759)
	583,185	541,438
Gross profit	359,533	316,497
Operating expenses		
Operation and maintenance	125,559	121,258
Depreciation and amortization	63,955	58,129
Taxes, other than income	63,414	50,714
Total operating expenses	252,928	230,101
Operating income	106,605	86,396
Miscellaneous expense	(374)	(467)
Interest charges	31,840	32,741
Income from continuing operations before income taxes	74,391	53,188
Income tax expense	28,670	19,714
Income from continuing operations	45,721	33,474
Gain on sale of discontinued operations, net of tax (\$0 and \$2,909)	—	5,294
Net income	\$45,721	\$38,768
Basic earnings per share		
Income per share from continuing operations	\$0.45	\$0.37
Income per share from discontinued operations	—	0.06
Net income per share — basic	\$0.45	\$0.43
Diluted earnings per share		
Income per share from continuing operations	\$0.45	\$0.36
Income per share from discontinued operations	—	0.06
Net income per share — diluted	\$0.45	\$0.42
Cash dividends per share	\$0.37	\$0.35
Weighted average shares outstanding:		
Basic	100,267	90,603
Diluted	101,150	91,550

See accompanying notes to condensed consolidated financial statements.

ATMOS ENERGY CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Nine Months Ended	
	June 30	
	2014	2013
	(Unaudited)	
	(In thousands, except per share data)	
Operating revenues		
Natural gas distribution segment	\$2,652,532	\$2,039,107
Regulated transmission and storage segment	232,145	196,570
Nonregulated segment	1,670,437	1,250,650
Intersegment eliminations	(392,926	) (285,241
	4,162,188	3,201,086
Purchased gas cost		
Natural gas distribution segment	1,710,508	1,172,975
Regulated transmission and storage segment	—	—
Nonregulated segment	1,599,469	1,200,624
Intersegment eliminations	(392,556	) (284,123
	2,917,421	2,089,476
Gross profit	1,244,767	1,111,610
Operating expenses		
Operation and maintenance	365,991	338,871
Depreciation and amortization	185,731	174,888
Taxes, other than income	165,640	146,355
Total operating expenses	717,362	660,114
Operating income	527,405	451,496
Miscellaneous income (expense)	(4,022	) 1,943
Interest charges	95,556	96,594
Income from continuing operations before income taxes	427,827	356,845
Income tax expense	161,723	133,683
Income from continuing operations	266,104	223,162
Income from discontinued operations, net of tax (\$0 and \$3,986)	—	7,202
Gain on sale of discontinued operations, net of tax (\$0 and \$2,909)	—	5,294
Net income	\$266,104	\$235,658
Basic earnings per share		
Income per share from continuing operations	\$2.78	\$2.46
Income per share from discontinued operations	—	0.14
Net income per share — basic	\$2.78	\$2.60
Diluted earnings per share		
Income per share from continuing operations	\$2.76	\$2.43
Income per share from discontinued operations	—	0.14
Net income per share — diluted	\$2.76	\$2.57
Cash dividends per share	\$1.11	\$1.05
Weighted average shares outstanding:		
Basic	95,455	90,497

Diluted	96,339	91,445
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See accompanying notes to condensed consolidated financial statements.

ATMOS ENERGY CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended June 30		Nine Months Ended June 30	
	2014	2013	2014	2013
	(Unaudited)			
	(In thousands)			
Net income	\$45,721	\$38,768	\$266,104	\$235,658
Other comprehensive income (loss), net of tax				
Net unrealized holding gains (losses) on available-for-sale securities, net of tax of \$216, \$(202), \$1,518 and \$(532)	377	(348)	) 2,519	(921)
Cash flow hedges:				
Amortization and unrealized gain (loss) on interest rate agreements, net of tax of \$(13,472), \$17,865, \$(21,005) and \$38,427	(23,440)	) 31,079	(36,545)	) 66,852
Net unrealized gains (losses) on commodity cash flow hedges, net of tax of \$(1,580), \$(2,243), \$4,122 and \$3,174	(2,471)	) (3,508)	) 6,448	4,965
Total other comprehensive income (loss)	(25,534)	) 27,223	(27,578)	) 70,896
Total comprehensive income	\$20,187	\$65,991	\$238,526	\$306,554

See accompanying notes to condensed consolidated financial statements.

ATMOS ENERGY CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended	
	June 30	
	2014	2013
	(Unaudited)	
	(In thousands)	
Cash Flows From Operating Activities		
Net income	\$266,104	\$235,658
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of discontinued operations	—	(8,203)
Depreciation and amortization:		
Charged to depreciation and amortization	185,731	176,737
Charged to other accounts	669	446
Deferred income taxes	150,457	130,365
Other	21,587	14,460
Net assets / liabilities from risk management activities	3,158	(6,386)
Net change in operating assets and liabilities	2,504	(33,502)
Net cash provided by operating activities	630,210	509,575
Cash Flows From Investing Activities		
Capital expenditures	(552,600)	(582,473)
Proceeds from the sale of discontinued operations	—	153,023
Other, net	(620)	(3,139)
Net cash used in investing activities	(553,220)	(432,589)
Cash Flows From Financing Activities		
Net decrease in short-term debt	(366,602)	(435,084)
Net proceeds from equity offering	390,205	—
Net proceeds from issuance of long-term debt	—	493,793
Settlement of Treasury lock agreements	—	(66,626)
Repayment of long-term debt	—	(131)
Cash dividends paid	(108,806)	(96,060)
Repurchase of equity awards	(8,717)	(5,146)
Issuance of common stock	2,152	8
Net cash used in financing activities	(91,768)	(109,246)
Net decrease in cash and cash equivalents	(14,778)	(32,260)
Cash and cash equivalents at beginning of period	66,199	64,239
Cash and cash equivalents at end of period	\$51,421	\$31,979

See accompanying notes to condensed consolidated financial statements.

ATMOS ENERGY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

June 30, 2014

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. For the fiscal year ended September 30, 2013, our regulated businesses generated approximately 95 percent of our consolidated net income.

Through our natural gas distribution business, we deliver natural gas through sales and transportation arrangements to approximately three million residential, commercial, public authority and industrial customers through our six regulated natural gas distribution divisions, which at June 30, 2014, covered service areas located in eight states. On April 1, 2013, we completed the divestiture of our natural gas distribution operations in Georgia, representing approximately 64,000 customers. In addition, we transport natural gas for others through our distribution system. Our regulated businesses also include our regulated pipeline and storage operations, which include the transportation of natural gas to our North Texas 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.

2. Unaudited 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, 2013. 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, 2013. Because of seasonal and other factors, the results of operations for the nine-month period ended June 30, 2014 are not indicative of our results of operations for the full 2014 fiscal year, which ends September 30, 2014.

Except for the forward starting interest rate swap entered into in July 2014 as noted in Note 8, 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, 2013.

During the second quarter of fiscal 2014, we completed our annual goodwill impairment assessment. Based on the assessment performed, we determined that our goodwill was not impaired.

Due to the April 1, 2013 sale of our Georgia distribution operations, prior year financial results for this service area are shown in discontinued operations.

Disclosure requirements for offsetting arrangements for financial instruments became effective for us beginning on October 1, 2013. We have presented these disclosures in Note 8. In connection with the adoption of this standard, prior-year risk management assets and liabilities have been reclassified to conform with the current-year presentation. The adoption of this standard and reclassification did not have an impact on our financial position, results of

operations or cash flows.

In April 2014, the Financial Accounting Standards Board (FASB) issued updated guidance for discontinued operations that limits discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have a major effect on an entity's operations and financial results and requires additional disclosures related to discontinued operations. This standard will become effective for us beginning on October 1, 2015. The adoption of this guidance is not expected to impact our financial position, results of operations or cash flows.

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In May 2014, the FASB issued a comprehensive new revenue recognition standard that will supersede virtually all existing revenue recognition guidance under generally accepted accounting principles in the United States. Under the new standard, a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under current guidance. The new standard will become effective for us beginning on October 1, 2017 and can be applied either retrospectively to each period presented or as a cumulative-effect adjustment as of the date of adoption. We are currently evaluating the impact this standard may have on our financial position, results of operations and cash flows. There were no other significant changes to our accounting policies during the nine months ended June 30, 2014 that will become applicable to the Company in future periods.

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.

Significant regulatory assets and liabilities as of June 30, 2014 and September 30, 2013 included the following:

	June 30, 2014	September 30, 2013
	(In thousands)	
Regulatory assets:		
Pension and postretirement benefit costs ⁽¹⁾	\$172,844	\$187,977
Merger and integration costs, net	4,860	5,250
Deferred gas costs	9,809	15,152
Regulatory cost of removal asset	9,552	10,008
Rate case costs	4,436	6,329
Texas Rule 8.209 ⁽²⁾	19,349	30,364
APT annual adjustment mechanism	5,927	5,853
Recoverable loss on reacquired debt	19,517	21,435
Other	4,006	4,380
	\$250,300	\$286,748
Regulatory liabilities:		
Deferred gas costs	\$62,522	\$16,481
Deferred franchise fees	5,918	1,689
Regulatory cost of removal obligation	441,643	427,524
Other	11,509	7,887
	\$521,592	\$453,581

(1) Includes \$18.0 million and \$17.4 million of pension and postretirement expense deferred pursuant to regulatory authorization.

(2) Texas Rule 8.209 is a Railroad Commission rule that 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.

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.

3. Segment Information

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, 2013. We evaluate performance based on net income or loss of the respective operating units.

Income statements for the three and nine month periods ended June 30, 2014 and 2013 by segment are presented in the following tables:

	Three Months Ended June 30, 2014				
	Natural Gas Distribution	Regulated Transmission and Storage	Nonregulated	Eliminations	Consolidated
	(In thousands)				
Operating revenues from external parties	\$516,644	\$24,990	\$401,084	\$—	\$942,718
Intersegment revenues	1,063	62,199	63,949	(127,211)	—
	517,707	87,189	465,033	(127,211)	942,718
Purchased gas cost	260,042	—	450,220	(127,077)	583,185
Gross profit	257,665	87,189	14,813	(134)	359,533
Operating expenses					
Operation and maintenance	92,994	23,570	9,129	(134)	125,559
Depreciation and amortization	52,542	10,281	1,132	—	63,955
Taxes, other than income	57,596	5,054	764	—	63,414
Total operating expenses	203,132	38,905	11,025	(134)	252,928
Operating income	54,533	48,284	3,788	—	106,605
Miscellaneous income (expense)	678	(489)	1,018	(1,581)	(374)
Interest charges	23,649	9,162	610	(1,581)	31,840
Income before income taxes	31,562	38,633	4,196	—	74,391
Income tax expense	13,033	13,695	1,942	—	28,670
Net income	\$18,529	\$24,938	\$2,254	\$—	\$45,721
Capital expenditures	\$146,860	\$45,658	\$1,073	\$—	\$193,591

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	Three Months Ended June 30, 2013				Consolidated
	Natural Gas Distribution	Regulated Transmission and Storage	Nonregulated	Eliminations	
	(In thousands)				
Operating revenues from external parties	\$465,982	\$26,730	\$365,223	\$—	\$857,935
Intersegment revenues	1,162	47,311	56,585	(105,058)	—
	467,144	74,041	421,808	(105,058)	857,935
Purchased gas cost	227,649	—	418,548	(104,759)	541,438
Gross profit	239,495	74,041	3,260	(299)	316,497
Operating expenses					
Operation and maintenance	93,490	17,035	11,034	(301)	121,258
Depreciation and amortization	48,368	8,676	1,085	—	58,129
Taxes, other than income	45,686	4,287	741	—	50,714
Total operating expenses	187,544	29,998	12,860	(301)	230,101
Operating income (loss)	51,951	44,043	(9,600)	) 2	86,396
Miscellaneous income (expense)	268	(247)	) 215	(703)	(467)
Interest charges	25,001	8,049	392	(701)	32,741
Income (loss) from continuing operations before income taxes	27,218	35,747	(9,777)	) —	53,188
Income tax expense (benefit)	11,401	12,650	(4,337)	) —	19,714
Income (loss) from continuing operations	15,817	23,097	(5,440)	) —	33,474
Gain (loss) on sale of discontinued operations, net of tax	5,649	—	(355)	) —	5,294
Net income (loss)	\$21,466	\$23,097	\$(5,795)) \$—	\$38,768
Capital expenditures	\$114,606	\$78,012	\$738	\$—	\$193,356

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	Nine Months Ended June 30, 2014				
	Natural Gas Distribution	Regulated Transmission and Storage	Nonregulated	Eliminations	Consolidated
	(In thousands)				
Operating revenues from external parties	\$2,648,505	\$67,162	\$1,446,521	\$—	\$4,162,188
Intersegment revenues	4,027	164,983	223,916	(392,926)	—
	2,652,532	232,145	1,670,437	(392,926)	4,162,188
Purchased gas cost	1,710,508	—	1,599,469	(392,556)	2,917,421
Gross profit	942,024	232,145	70,968	(370)	1,244,767
Operating expenses					
Operation and maintenance	289,433	57,465	19,463	(370)	365,991
Depreciation and amortization	152,113	30,223	3,395	—	185,731
Taxes, other than income	155,286	8,485	1,869	—	165,640
Total operating expenses	596,832	96,173	24,727	(370)	717,362
Operating income	345,192	135,972	46,241	—	527,405
Miscellaneous income (expense)	304	(2,751)	1,785	(3,360)	(4,022)
Interest charges	69,802	27,274	1,840	(3,360)	95,556
Income from before income taxes	275,694	105,947	46,186	—	427,827
Income tax expense	105,665	37,454	18,604	—	161,723
Net income	\$170,029	\$68,493	\$27,582	\$—	\$266,104
Capital expenditures	\$413,921	\$137,579	\$1,100	\$—	\$552,600

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	Nine Months Ended June 30, 2013				
	Natural Gas Distribution	Regulated Transmission and Storage	Nonregulated	Eliminations	Consolidated
	(In thousands)				
Operating revenues from external parties	\$2,035,712	\$65,084	\$1,100,290	\$—	\$3,201,086
Intersegment revenues	3,395	131,486	150,360	(285,241)	—
	2,039,107	196,570	1,250,650	(285,241)	3,201,086
Purchased gas cost	1,172,975	—	1,200,624	(284,123)	2,089,476
Gross profit	866,132	196,570	50,026	(1,118)	1,111,610
Operating expenses					
Operation and maintenance	266,570	48,745	24,679	(1,123)	338,871
Depreciation and amortization	146,059	25,756	3,073	—	174,888
Taxes, other than income	132,029	12,513	1,813	—	146,355
Total operating expenses	544,658	87,014	29,565	(1,123)	660,114
Operating income	321,474	109,556	20,461	5	451,496
Miscellaneous income (expense)	2,728	(473)	1,791	(2,103)	1,943
Interest charges	74,228	22,777	1,687	(2,098)	96,594
Income from continuing operations before income taxes	249,974	86,306	20,565	—	356,845
Income tax expense	94,874	30,574	8,235	—	133,683
Income from continuing operations	155,100	55,732	12,330	—	223,162
Income from discontinued operations, net of tax	7,202	—	—	—	7,202
Gain (loss) on sale of discontinued operations, net of tax	5,649	—	(355)	—	5,294
Net income	\$167,951	\$55,732	\$11,975	\$—	\$235,658
Capital expenditures	\$391,942	\$189,051	\$1,480	\$—	\$582,473

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Balance sheet information at June 30, 2014 and September 30, 2013 by segment is presented in the following tables:

	June 30, 2014		Nonregulated	Eliminations	Consolidated
	Natural Gas Distribution	Regulated Transmission and Storage			
	(In thousands)				
ASSETS					
Property, plant and equipment, net	\$5,036,007	\$1,366,928	\$58,515	\$—	\$6,461,450
Investment in subsidiaries	933,660	—	(2,096)	(931,564)	—
Current assets					
Cash and cash equivalents	17,042	—	34,379	—	51,421
Assets from risk management activities	36,438	—	7,918	—	44,356
Other current assets	461,644	15,813	581,221	(379,812)	678,866
Intercompany receivables	775,175	—	—	(775,175)	—
Total current assets	1,290,299	15,813	623,518	(1,154,987)	774,643
Goodwill	574,190	132,462	34,711	—	741,363
Noncurrent assets from risk management activities	20,708	—	5,109	—	25,817
Deferred charges and other assets	325,035	22,474	6,407	—	353,916
	\$8,179,899	\$1,537,677	\$726,164	\$(2,086,551)	\$8,357,189
CAPITALIZATION AND LIABILITIES					
Shareholders' equity	\$3,116,685	\$464,914	\$468,746	\$(933,660)	\$3,116,685
Long-term debt	1,955,907	—	—	—	1,955,907
Total capitalization	5,072,592	464,914	468,746	(933,660)	5,072,592
Current liabilities					
Current maturities of long-term debt	500,000	—	—	—	500,000
Short-term debt	357,000	—	—	(357,000)	—
Liabilities from risk management activities	609	—	—	—	609
Other current liabilities	477,726	14,837	183,241	(20,716)	655,088
Intercompany payables	—	717,134	58,041	(775,175)	—
Total current liabilities	1,335,335	731,971	241,282	(1,152,891)	1,155,697
Deferred income taxes	988,737	338,350	14,207	—	1,341,294
Noncurrent liabilities from risk management activities	7,024	—	—	—	7,024
Regulatory cost of removal obligation	391,785	—	—	—	391,785
Pension and postretirement liabilities	347,344	—	—	—	347,344
Deferred credits and other liabilities	37,082	2,442	1,929	—	41,453
	\$8,179,899	\$1,537,677	\$726,164	\$(2,086,551)	\$8,357,189

	September 30, 2013				
	Natural Gas Distribution	Regulated Transmission and Storage	Nonregulated	Eliminations	Consolidated
	(In thousands)				
ASSETS					
Property, plant and equipment, net	\$4,719,873	\$1,249,767	\$61,015	\$—	\$6,030,655
Investment in subsidiaries	831,136	—	(2,096	) (829,040) —
Current assets					
Cash and cash equivalents	4,237	—	61,962	—	66,199
Assets from risk management activities	1,837	—	10,129	—	11,966
Other current assets	428,366	11,709	452,126	(293,233	) 598,968
Intercompany receivables	783,738	—	—	(783,738) —
Total current assets	1,218,178	11,709	524,217	(1,076,971	) 677,133
Goodwill	574,190	132,462	34,711	—	741,363
Noncurrent assets from risk management activities	109,354	—	—	—	109,354
Deferred charges and other assets	347,687	19,227	8,849	—	375,763
	\$7,800,418	\$1,413,165	\$626,696	\$(1,906,011)	\$7,934,268
CAPITALIZATION AND LIABILITIES					
Shareholders' equity	\$2,580,409	\$396,421	\$434,715	\$(831,136	) \$2,580,409
Long-term debt	2,455,671	—	—	—	2,455,671
Total capitalization	5,036,080	396,421	434,715	(831,136	) 5,036,080
Current liabilities					
Current maturities of long-term debt	—	—	—	—	—
Short-term debt	645,984	—	—	(278,000	) 367,984
Liabilities from risk management activities	1,543	—	—	—	1,543
Other current liabilities	491,681	20,288	110,306	(13,316	) 608,959
Intercompany payables	—	712,768	70,970	(783,738) —
Total current liabilities	1,139,208	733,056	181,276	(1,075,054	) 978,486
Deferred income taxes	871,360	283,554	8,960	179	1,164,053
Regulatory cost of removal obligation	359,299	—	—	—	359,299
Pension and postretirement liabilities	358,787	—	—	—	358,787
Deferred credits and other liabilities	35,684	134	1,745	—	37,563
	\$7,800,418	\$1,413,165	\$626,696	\$(1,906,011)	\$7,934,268

4. Earnings Per Share

We use the two-class method of computing earnings per share because we have participating securities in the form of non-vested restricted stock units with a nonforfeitable right to dividend equivalents, for which vesting is predicated solely on the passage of time. 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 and nine months ended June 30, 2014 and 2013 are calculated as follows:

	Three Months Ended June 30		Nine Months Ended June 30	
	2014	2013	2014	2013
	(In thousands, except per share amounts)			
Basic Earnings Per Share from continuing operations				
Income from continuing operations	\$45,721	\$33,474	\$266,104	\$223,162
Less: Income from continuing operations allocated to participating securities	107	91	674	760
Income from continuing operations available to common shareholders	\$45,614	\$33,383	\$265,430	\$222,402
Basic weighted average shares outstanding	100,267	90,603	95,455	90,497
Income from continuing operations per share — Basic	\$0.45	\$0.37	\$2.78	\$2.46
Basic Earnings Per Share from discontinued operations				
Income from discontinued operations	\$—	\$5,294	\$—	\$12,496
Less: Income from discontinued operations allocated to participating securities	—	14	—	43
Income from discontinued operations available to common shareholders	\$—	\$5,280	\$—	\$12,453
Basic weighted average shares outstanding	100,267	90,603	95,455	90,497
Income from discontinued operations per share — Basic	\$—	\$0.06	\$—	\$0.14
Net income per share — Basic	\$0.45	\$0.43	\$2.78	\$2.60

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	Three Months Ended		Nine Months Ended	
	June 30 2014	2013	June 30 2014	2013
(In thousands, except per share amounts)				
Diluted Earnings Per Share from continuing operations				
Income from continuing operations available to common shareholders	\$45,614	\$33,383	\$265,430	\$222,402
Effect of dilutive stock options and other shares	—	—	4	5
Income from continuing operations available to common shareholders	\$45,614	\$33,383	\$265,434	\$222,407
Basic weighted average shares outstanding	100,267	90,603	95,455	90,497
Additional dilutive stock options and other shares	883	947	884	948
Diluted weighted average shares outstanding	101,150	91,550	96,339	91,445
Income from continuing operations per share — Diluted	\$0.45	\$0.36	\$2.76	\$2.43
Diluted Earnings Per Share from discontinued operations				
Income from discontinued operations available to common shareholders	\$—	\$5,280	\$—	\$12,453
Effect of dilutive stock options and other shares	—	—	—	—
Income from discontinued operations available to common shareholders	\$—	\$5,280	\$—	\$12,453
Basic weighted average shares outstanding	100,267	90,603	95,455	90,497
Additional dilutive stock options and other shares	883	947	884	948
Diluted weighted average shares outstanding	101,150	91,550	96,339	91,445
Income from discontinued operations per share — Diluted	\$—	\$0.06	\$—	\$0.14
Net income per share — Diluted	\$0.45			