

ATMOS ENERGY CORP  
Form 10-Q  
May 05, 2011

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**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 March 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

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)

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

Number of shares outstanding of each of the issuer's classes of common stock, as of April 29, 2011.

<b>Class</b>	<b>Shares Outstanding</b>
No Par Value	90,329,899

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**GLOSSARY OF KEY TERMS**

AEC	Atmos Energy Corporation
AEH	Atmos Energy Holdings, Inc.
AEM	Atmos Energy Marketing, LLC
AOCI	Accumulated other comprehensive income
Bcf	Billion cubic feet
Fitch	Fitch Ratings, Ltd.
GRIP	Gas Reliability Infrastructure Program
ISRS	Infrastructure System Replacement 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

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****ATMOS ENERGY CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS**

	<b>March 31, 2011 (Unaudited)</b>	<b>September 30, 2010</b>
	<b>(In thousands, except share data)</b>	
<b>ASSETS</b>		
Property, plant and equipment	\$ 6,693,971	\$ 6,542,318
Less accumulated depreciation and amortization	1,779,321	1,749,243
Net property, plant and equipment	4,914,650	4,793,075
Current assets		
Cash and cash equivalents	153,246	131,952
Accounts receivable, net	458,813	273,207
Gas stored underground	228,051	319,038
Other current assets	143,978	150,995
Total current assets	984,088	875,192
Goodwill and intangible assets	739,834	740,148
Deferred charges and other assets	357,252	355,376
	\$ 6,995,824	\$ 6,763,791

**CAPITALIZATION AND LIABILITIES**

Shareholders' equity		
Common stock, no par value (stated at \$.005 per share); 200,000,000 shares authorized; issued and outstanding:		
March 31, 2011 90,329,237 shares;		
September 30, 2010 90,164,103 shares	\$ 452	\$ 451
Additional paid-in capital	1,728,474	1,714,364
Retained earnings	631,044	486,905
Accumulated other comprehensive income (loss)	14,009	(23,372)
Shareholders' equity	2,373,979	2,178,348
Long-term debt	1,807,323	1,809,551
Total capitalization	4,181,302	3,987,899
Current liabilities		

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Accounts payable and accrued liabilities	423,726	266,208
Other current liabilities	301,824	413,640
Short-term debt		126,100
Current maturities of long-term debt	352,434	360,131
Total current liabilities	1,077,984	1,166,079
Deferred income taxes	944,605	829,128
Regulatory cost of removal obligation	364,709	350,521
Deferred credits and other liabilities	427,224	430,164
	\$ 6,995,824	\$ 6,763,791

See accompanying notes to condensed consolidated financial statements

Table of Contents**ATMOS ENERGY CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

	<b>Three Months Ended March 31</b>	
	<b>2011</b>	<b>2010</b>
	<b>(Unaudited)</b>	
	<b>(In thousands, except per share data)</b>	
Operating revenues		
Natural gas distribution segment	\$ 1,113,204	\$ 1,365,988
Regulated transmission and storage segment	54,976	55,181
Nonregulated segment	583,531	677,032
Intersegment eliminations	(134,424)	(157,935)
	1,617,287	1,940,266
Purchased gas cost		
Natural gas distribution segment	723,046	980,603
Regulated transmission and storage segment		
Nonregulated segment	563,473	662,871
Intersegment eliminations	(134,054)	(157,529)
	1,152,465	1,485,945
Gross profit	464,822	454,321
Operating expenses		
Operation and maintenance	116,379	117,088
Depreciation and amortization	57,136	53,080
Taxes, other than income	54,103	59,613
Asset impairment	19,282	
Total operating expenses	246,900	229,781
Operating income	217,922	224,540
Miscellaneous income	26,187	49
Interest charges	37,892	39,582
Income before income taxes	206,217	185,007
Income tax expense	74,008	70,881
Net income	\$ 132,209	\$ 114,126
Basic net income per share	\$ 1.45	\$ 1.22
Diluted net income per share	\$ 1.45	\$ 1.22



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Cash dividends per share	\$	0.340	\$	0.335
Weighted average shares outstanding:				
Basic		90,246		92,518
Diluted		90,533		92,853

See accompanying notes to condensed consolidated financial statements

Table of Contents**ATMOS ENERGY CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

	<b>Six Months Ended March 31</b>	
	<b>2011</b>	<b>2010</b>
	<b>(Unaudited)</b>	
	<b>(In thousands, except per share data)</b>	
Operating revenues		
Natural gas distribution segment	\$ 1,840,399	\$ 2,168,882
Regulated transmission and storage segment	103,983	102,041
Nonregulated segment	1,059,171	1,225,048
Intersegment eliminations	(229,271)	(262,853)
	2,774,282	3,233,118
Purchased gas cost		
Natural gas distribution segment	1,150,469	1,488,870
Regulated transmission and storage segment		
Nonregulated segment	1,013,935	1,141,112
Intersegment eliminations	(228,504)	(262,034)
	1,935,900	2,367,948
Gross profit	838,382	865,170
Operating expenses		
Operation and maintenance	232,973	240,950
Depreciation and amortization	113,297	106,919
Taxes, other than income	94,799	102,165
Asset impairment	19,282	
Total operating expenses	460,351	450,034
Operating income	378,031	415,136
Miscellaneous income (expense)	25,450	(220)
Interest charges	76,809	78,290
Income before income taxes	326,672	336,626
Income tax expense	120,466	129,170
Net income	\$ 206,206	\$ 207,456
Basic net income per share	\$ 2.26	\$ 2.22
Diluted net income per share	\$ 2.26	\$ 2.22

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Cash dividends per share	\$	0.680	\$	0.670
Weighted average shares outstanding:				
Basic		90,157		92,336
Diluted		90,455		92,681

See accompanying notes to condensed consolidated financial statements

Table of Contents**ATMOS ENERGY CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Six Months Ended March 31</b>	
	<b>2011</b>	<b>2010</b>
	<b>(Unaudited)</b>	
	<b>(In thousands)</b>	
Cash Flows From Operating Activities		
Net income	\$ 206,206	\$ 207,456
Adjustments to reconcile net income to net cash provided by operating activities:		
Asset impairment	19,282	
Depreciation and amortization:		
Charged to depreciation and amortization	113,297	106,919
Charged to other accounts	98	96
Deferred income taxes	115,302	44,097
Other	10,255	11,759
Net assets/liabilities from risk management activities	(17,478)	1,234
Net change in operating assets and liabilities	(8,491)	111,897
Net cash provided by operating activities	438,471	483,458
Cash Flows From Investing Activities		
Capital expenditures	(246,663)	(232,629)
Other, net	(1,535)	(946)
Net cash used in investing activities	(248,198)	(233,575)
Cash Flows From Financing Activities		
Net decrease in short-term debt	(128,884)	(75,907)
Unwinding of Treasury lock agreements	27,803	
Repayment of long-term debt	(10,066)	(66)
Cash dividends paid	(62,067)	(62,550)
Repurchase of equity awards	(3,333)	
Issuance of common stock	7,568	8,590
Net cash used in financing activities	(168,979)	(129,933)
Net increase in cash and cash equivalents	21,294	119,950
Cash and cash equivalents at beginning of period	131,952	111,203
Cash and cash equivalents at end of period	\$ 153,246	\$ 231,153

See accompanying notes to condensed consolidated financial statements

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**ATMOS ENERGY CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**March 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. 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.

As discussed in Note 10, 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 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, 2010. 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

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Report on Form 10-K for the fiscal year ended September 30, 2010. Because of seasonal and other factors, the results of operations for the six-month period ended March 31, 2011 are not indicative of our results of operations for the full 2011 fiscal year, which ends September 30, 2011.

We have evaluated subsequent events from the March 31, 2011 balance sheet date through the date these financial statements were filed with the Securities and Exchange Commission (SEC). Except as discussed in

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**ATMOS ENERGY CORPORATION**

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

Note 5, 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 financial statements in our Annual Report on Form 10-K for the fiscal year ended September 30, 2010.

During the second quarter of fiscal 2011, we recognized a \$5.0 million one-time tax benefit related to the administrative settlement of various income tax positions.

Additionally, during the second quarter of fiscal 2011, we completed our annual goodwill impairment assessment. Based on the assessment performed, we determined that our goodwill was not impaired.

During the six months ended March 31, 2011, two new accounting standards became applicable to the Company pertaining to goodwill impairment testing for reporting units with zero or negative carrying amounts and disclosure of supplementary pro forma information for business combinations. The adoption of these standards did 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 six months ended March 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.

**Table of Contents****ATMOS ENERGY CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Significant regulatory assets and liabilities as of March 31, 2011 and September 30, 2010 included the following:

	<b>March 31, 2011</b>	<b>September 30, 2010</b>
	<b>(In thousands)</b>	
<b>Regulatory assets:</b>		
Pension and postretirement benefit costs	\$ 203,136	\$ 209,564
Merger and integration costs, net	6,478	6,714
Deferred gas costs	34,211	22,701
Regulatory cost of removal asset	38,973	31,014
Environmental costs	509	805
Rate case costs	5,648	4,505
Deferred franchise fees	415	1,161
Other	5,101	1,046
	\$ 294,471	\$ 277,510
<b>Regulatory liabilities:</b>		
Deferred gas costs	\$ 6,419	\$ 43,333
Deferred franchise fees	5,443	
Regulatory cost of removal obligation	396,388	381,474
Other	5,912	6,112
	\$ 414,162	\$ 430,919

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



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

	<b>Three Months Ended March 31</b>		<b>Six Months Ended March 31</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>(In thousands)</b>			
Net income	\$ 132,209	\$ 114,126	\$ 206,206	\$ 207,456
Unrealized holding gains on investments, net of tax expense of \$477 and \$408 for the three months ended March 31, 2011 and 2010 and of \$932 and \$798 for the six months ended March 31, 2011 and 2010	810	695	1,586	1,359
Amortization, unrealized gain and unwinding of interest rate hedging transactions, net of tax expense (benefit) of \$(6,125) and \$248 for the three months ended March 31, 2011 and 2010 and \$12,579 and \$496 for the six months ended March 31, 2011 and 2010	(10,427)	421	21,420	843
Net unrealized gains (losses) on commodity hedging transactions, net of tax expense (benefit) of \$2,573 and \$(6,321) for the three months ended March 31, 2011 and 2010 and \$9,190 and \$(2,067) for the six months ended March 31, 2011 and 2010	4,025	(9,885)	14,375	(3,231)
Comprehensive income	\$ 126,617	\$ 105,357	\$ 243,587	\$ 206,427

Accumulated other comprehensive income (loss), net of tax, as of March 31, 2011 and September 30, 2010 consisted of the following unrealized gains (losses):

	<b>March 31, 2011</b>	<b>September 30, 2010</b>
	<b>(In thousands)</b>	
Accumulated other comprehensive income (loss):		
Unrealized holding gains on investments	\$ 5,791	\$ 4,205
Treasury lock agreements	15,952	(5,468)
Cash flow hedges	(7,734)	(22,109)
	\$ 14,009	\$ (23,372)

### **3. Financial Instruments**

We currently use financial instruments to mitigate commodity price risk. Additionally, we periodically utilize financial instruments to manage interest rate risk. The objectives and strategies for using financial instruments have been tailored to our regulated and nonregulated businesses. The accounting for these financial instruments is fully described in Note 2 to the financial statements in our Annual Report on Form 10-K for the fiscal year ended September 30, 2010. During the second 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.

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

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

***Regulated Commodity Risk Management Activities***

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 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 2010-2011 heating season, in the jurisdictions where we are permitted to utilize financial instruments, we hedged approximately 35 percent, or 31.7 Bcf of the planned 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 cost adjustment mechanisms in accordance with regulatory requirements. Therefore, changes in the fair value of these financial instruments are initially recorded as a component of deferred gas costs and recognized in the consolidated statement of income as a component of purchased gas cost when the related costs are recovered through our rates and recognized in revenue in accordance with 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***

In our nonregulated operations, we aggregate and purchase gas supply, arrange transportation and/or storage logistics and ultimately deliver gas to our customers at competitive prices. To facilitate this process, we utilize proprietary and customer-owned transportation and storage assets to provide the various services our customers request.

We also perform asset optimization activities in our nonregulated segment. Through asset optimization activities, we seek to enhance our gross profit by maximizing the economic value associated with the storage and transportation capacity we own or control. We attempt to meet this objective by engaging in natural gas storage transactions in which we seek to find and profit from pricing differences that occur over time. We purchase physical natural gas and then sell financial instruments at advantageous prices to lock in a gross profit margin. Through the use of transportation and storage services and financial instruments, we also seek to capture gross profit margin through the arbitrage of pricing differences that exist in various locations and by recognizing pricing differences that occur over time. Over time, gains and losses on the sale of storage gas inventory should be offset by gains and losses on the financial instruments, resulting in the realization of the economic gross profit margin we anticipated at the time we structured the original transaction.

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. Futures contracts provide the right to buy or sell the commodity at a fixed price in the future. Option contracts provide the right, but not the requirement, to buy or sell the commodity at a

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**ATMOS ENERGY CORPORATION**

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

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.

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

Under our risk management policies, we seek to match our financial instrument positions to our physical storage positions as well as our expected current and future sales and purchase obligations in order to maintain no open positions at the end of each trading day. The determination of our net open position as of any day, however, requires us to make assumptions as to future circumstances, including the use of gas by our customers in relation to our anticipated storage and market positions. Because the price risk associated with any net open position at the end of each day may increase if the assumptions are not realized, we review these assumptions as part of our daily monitoring activities. Our operations can also be affected by intraday fluctuations of gas prices, since the price of natural gas purchased or sold for future delivery earlier in the day may not be hedged until later in the day. At times, limited net open positions related to our existing and anticipated commitments may occur. At the close of business on March 31, 2011, our nonregulated segment had net open positions (including existing storage and related financial contracts) of 0.4 Bcf.

***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.

We intend to refinance our \$350 million unsecured 7.375% Senior Notes that will mature in May 2011 through the issuance of \$300 million 30-year unsecured senior notes in June 2011. In September 2010, 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 which were designated as cash flow hedges of an anticipated transaction.

Additionally, our original fiscal 2011 financing plans included the issuance of \$250 million of 30-year unsecured notes in November 2011 to fund our capital expenditure program. In September 2010, we entered into two Treasury lock agreements to fix the Treasury yield component of the interest cost associated with the anticipated issuance of

these senior notes, which were designated as cash flow hedges of an anticipated transaction. Due to stronger than anticipated cash flows primarily resulting from the extension of the Bush tax cuts that allow the continued use of bonus depreciation on qualifying expenditures through December 31, 2011, the need to issue \$250 million of debt in November has been eliminated and the related Treasury lock agreements were unwound in March 2011. As a result of unwinding these Treasury locks, we recognized a pretax cash gain of \$27.8 million during the second quarter.

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

***Quantitative Disclosures Related to Financial Instruments***

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

As of March 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 March 31, 2011, we had net long/(short) commodity contracts outstanding in the following quantities:

Contract Type	Hedge Designation	Natural Gas	
		Distribution	Nonregulated Quantity (MMcf)
Commodity contracts	Fair Value		(20,483)
	Cash Flow		27,276
	Not designated	6,973	26,672
		6,973	33,465

***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 March 31, 2011 and September 30, 2010. 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 \$17.1 million and \$24.9 million of cash held on deposit in margin accounts as of March 31, 2011 and September 30, 2010 to collateralize certain financial instruments. Therefore, these gross balances are not indicative of either our actual credit exposure or net economic exposure. Additionally, the

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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.

<b>Balance Sheet Location</b>	<b>Natural Gas Distribution</b>	<b>Regulated Transmission and Storage</b>	<b>Nonregulated</b>	<b>Total</b>
	<b>(In thousands)</b>			
<b>March 31, 2011</b>				
<b>Designated As Hedges:</b>				
<b>Asset Financial Instruments</b>				
Current commodity and interest rate contracts	Other current assets	\$ 33,207	\$ 12,807	\$ 46,014
Noncurrent commodity contracts	Deferred charges and other assets		574	574
<b>Liability Financial Instruments</b>				
Current commodity contracts	Other current liabilities		(21,303)	(21,303)
Noncurrent commodity contracts	Deferred credits and other liabilities		(5,857)	(5,857)
<b>Total</b>		<b>33,207</b>	<b>(13,779)</b>	<b>19,428</b>
<b>Not Designated As Hedges:</b>				
<b>Asset Financial Instruments</b>				
Current commodity contracts	Other current assets	716	10,035	10,751
Noncurrent commodity contracts	Deferred charges and other assets		2,761	2,761
<b>Liability Financial Instruments</b>				
Current commodity contracts	Other current liabilities	(3,390)	(10,660)	(14,050)
Noncurrent commodity contracts	Deferred credits and other liabilities		(1,299)	(1,299)
<b>Total</b>		<b>(2,674)</b>	<b>837</b>	<b>(1,837)</b>
<b>Total Financial Instruments</b>		<b>\$ 30,533</b>	<b>\$ (12,942)</b>	<b>\$ 17,591</b>



		Natural Gas	Regulated Transmission and Storage	Nonregulated	Total
	Balance Sheet Location	Distribution		(In thousands)	
<b>September 30, 2010</b>					
<b>Designated As Hedges:</b>					
<b>Asset Financial Instruments</b>					
Current commodity contracts	Other current assets	\$	\$	\$ 40,030	\$ 40,030
Noncurrent commodity contracts	Deferred charges and other assets			2,461	2,461
<b>Liability Financial Instruments</b>					
Current commodity contracts	Other current liabilities			(56,575)	(56,575)
Noncurrent commodity contracts	Deferred credits and other liabilities			(9,222)	(9,222)
<b>Total</b>				(23,306)	(23,306)
<b>Not Designated As Hedges:</b>					
<b>Asset Financial Instruments</b>					
Current commodity contracts	Other current assets	2,219		16,459	18,678
Noncurrent commodity contracts	Deferred charges and other assets	47		2,056	2,103
<b>Liability Financial Instruments</b>					
Current commodity contracts	Other current liabilities	(48,942)		(7,178)	(56,120)
Noncurrent commodity contracts	Deferred credits and other liabilities	(2,924)		(405)	(3,329)
<b>Total</b>		(49,600)		10,932	(38,668)
<b>Total Financial Instruments</b>		\$ (49,600)	\$	\$ (12,374)	\$ (61,974)

*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

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item. Hedge ineffectiveness could materially affect our results of operations for the reported period. For the three months ended March 31, 2011 and 2010 we recognized a gain (loss) arising from fair value and cash flow hedge ineffectiveness of \$4.1 million and \$(4.9) million. For the six months ended March 31, 2011 and 2010 we recognized a gain arising from fair value and cash flow hedge ineffectiveness of \$17.5 million and \$40.4 million. Additional information regarding ineffectiveness recognized in the income statement is included in the tables below.

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 and six months ended March 31, 2011 and 2010 is presented below.

	<b>Three Months Ended March 31</b>	
	<b>2011</b>	<b>2010</b>
	<b>(In thousands)</b>	
Commodity contracts	\$ (1,279)	\$ 33,461
Fair value adjustment for natural gas inventory designated as the hedged item	5,586	(37,666)
Total impact on revenue	\$ 4,307	\$ (4,205)
The impact on revenue is comprised of the following:		
Basis ineffectiveness	\$ (509)	\$ (512)
Timing ineffectiveness	4,816	(3,693)
	\$ 4,307	\$ (4,205)

	<b>Six Months Ended March 31</b>	
	<b>2011</b>	<b>2010</b>
	<b>(In thousands)</b>	
Commodity contracts	\$ (3,003)	\$ 30,821
Fair value adjustment for natural gas inventory designated as the hedged item	21,211	11,517
Total impact on revenue	\$ 18,208	\$ 42,338
The impact on revenue is comprised of the following:		
Basis ineffectiveness	\$ 412	\$ (449)
Timing ineffectiveness	17,796	42,787

\$ 18,208      \$ 42,338

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.

**Table of Contents****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 and six months ended March 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.

	<b>Three Months Ended March 31, 2011</b>			
	<b>Natural Gas Distribution</b>	<b>Regulated Transmission and Storage</b>	<b>Nonregulated</b>	<b>Consolidated</b>
	<b>(In thousands)</b>			
Loss reclassified from AOCI into revenue for effective portion of commodity contracts	\$	\$	\$ (7,328)	\$ (7,328)
Loss arising from ineffective portion of commodity contracts			(233)	(233)
Total impact on revenue			(7,561)	(7,561)
Loss on settled Treasury lock agreements reclassified from AOCI into interest expense	(669)			(669)
Gain on unwinding of Treasury lock reclassified from AOCI into miscellaneous income	21,803	6,000		27,803
Total Impact from Cash Flow Hedges	\$ 21,134	\$ 6,000	\$ (7,561)	\$ 19,573

	<b>Three Months Ended March 31, 2010</b>			
	<b>Natural Gas Distribution</b>	<b>Regulated Transmission and Storage</b>	<b>Nonregulated</b>	<b>Consolidated</b>
	<b>(In thousands)</b>			
Loss reclassified from AOCI into revenue for effective portion of commodity contracts	\$	\$	\$ (8,556)	\$ (8,556)
Loss arising from ineffective portion of commodity contracts			(739)	(739)
Total impact on revenue			(9,295)	(9,295)
Loss on settled Treasury lock agreements reclassified from AOCI into interest expense	(669)			(669)
Total Impact from Cash Flow Hedges	\$ (669)	\$	\$ (9,295)	\$ (9,964)



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	<b>Natural Gas Distribution</b>	<b>Six Months Ended March 31, 2011</b>		<b>Consolidated</b>
		<b>Regulated Transmission and Storage</b>	<b>Nonregulated</b>	
			<b>(In thousands)</b>	
Loss reclassified from AOCI into revenue for effective portion of commodity contracts	\$	\$	\$ (21,581)	\$ (21,581)
Loss arising from ineffective portion of commodity contracts			(677)	(677)
Total impact on revenue			(22,258)	(22,258)
Loss on settled Treasury lock agreements reclassified from AOCI into interest expense	(1,339)			(1,339)
Gain on unwinding of Treasury lock reclassified from AOCI into miscellaneous income	21,803	6,000		27,803
Total Impact from Cash Flow Hedges	\$ 20,464	\$ 6,000	\$ (22,258)	\$ 4,206

	<b>Natural Gas Distribution</b>	<b>Six Months Ended March 31, 2010</b>		<b>Consolidated</b>
		<b>Regulated Transmission and Storage</b>	<b>Nonregulated</b>	
			<b>(In thousands)</b>	
Loss reclassified from AOCI into revenue for effective portion of commodity contracts	\$	\$	\$ (31,673)	\$ (31,673)
Loss arising from ineffective portion of commodity contracts			(1,957)	(1,957)
Total impact on revenue			(33,630)	(33,630)
Loss on settled Treasury lock agreements reclassified from AOCI into interest expense	(1,339)			(1,339)
Total Impact from Cash Flow Hedges	\$ (1,339)	\$	\$ (33,630)	\$ (34,969)

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## 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 and six months ended March 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 March 31		Six Months Ended March 31	
	2011	2010	2011	2010
	(In thousands)			
<i>Increase (decrease) in fair value:</i>				
Treasury lock agreements	\$ 6,667	\$	\$ 38,092	\$
Forward commodity contracts	(446)	(15,104)	1,211	(22,551)
<i>Recognition of (gains) losses in earnings due to settlements:</i>				
Treasury lock agreements	(17,094)	421	(16,672)	843
Forward commodity contracts	4,471	5,219	13,164	19,320
Total other comprehensive income (loss) from hedging, net of tax <sup>(1)</sup>	\$ (6,402)	\$ (9,464)	\$ 35,795	\$ (2,388)

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

Deferred losses recorded in AOCI associated with our Treasury lock agreements are recognized in earnings as they are amortized, 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 losses recorded in AOCI associated with our financial instruments, based upon the fair values of these financial instruments as of March 31, 2011. However, the table below does not include the expected recognition in earnings of three Treasury lock agreements entered into on September 30, 2010 related to the anticipated issuance of long-term debt in June 2011 as those instruments have not yet settled.

	Treasury Lock Agreements	Commodity Contracts	Total
	(In thousands)		
Next twelve months	\$ (1,687)	\$ (4,588)	\$ (6,275)
Thereafter	(3,281)	(3,146)	(6,427)
Total <sup>(1)</sup>	\$ (4,968)	\$ (7,734)	\$ (12,702)

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

*Financial Instruments Not Designated as Hedges*

The impact of financial instruments that have not been designated as hedges on our condensed consolidated income statements for the three months ended March 31, 2011 and 2010 was an increase (decrease) in revenue of \$4.0 million and \$(3.0) million. For the six months ended March 31, 2011 and 2010 revenue increased \$8.2 million and \$12.3 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.



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**ATMOS ENERGY CORPORATION**

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

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 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, 2010. During the three and six months ended March 31, 2011, there were no changes in these methods.

Fair value measurements also apply to the valuation of our pension and postretirement 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 8 to the financial statements in our Annual Report on Form 10-K for the fiscal year ending September 30, 2010.

***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 tables summarize, by level within the fair value hierarchy, our assets and liabilities that were accounted for at fair value on a recurring basis as of March 31, 2011 and

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September 30, 2010. Assets and liabilities are categorized in their entirety based on the lowest level of input that is significant to the fair value measurement.

	<b>Quoted Prices in</b>	<b>Significant Other</b>	<b>Significant Other</b>	<b>Netting and Cash Collateral<sup>(2)</sup></b>	<b>March 31, 2011</b>
	<b>Active Markets (Level 1)</b>	<b>Observable Inputs (Level 2)<sup>(1)</sup></b>	<b>Unobservable Inputs (Level 3) (In thousands)</b>		
<b>Assets:</b>					
Financial instruments					
Natural gas distribution segment	\$	\$ 33,923	\$	\$	\$ 33,923
Nonregulated segment	4,375	21,802		(15,023)	11,154
Total financial instruments	4,375	55,725		(15,023)	45,077
Hedged portion of gas stored underground	84,629				84,629
Available-for-sale securities	43,453				43,453
Total assets	\$ 132,457	\$ 55,725	\$	\$ (15,023)	\$ 173,159
<b>Liabilities:</b>					
Financial instruments					
Natural gas distribution segment	\$	\$ 3,390	\$	\$	\$ 3,390
Nonregulated segment	15,668	23,451		(32,076)	7,043
Total liabilities	\$ 15,668	\$ 26,841	\$	\$ (32,076)	\$ 10,433

	<b>Quoted Prices in</b>	<b>Significant Other</b>	<b>Significant Other</b>	<b>Netting and Cash Collateral<sup>(3)</sup></b>	<b>September 30, 2010</b>
	<b>Active Markets (Level 1)</b>	<b>Observable Inputs (Level 2)<sup>(1)</sup></b>	<b>Unobservable Inputs (Level 3) (In thousands)</b>		
<b>Assets:</b>					
Financial instruments					
Natural gas distribution segment	\$	\$ 2,266	\$	\$	\$ 2,266
Nonregulated segment	18,544	42,462		(41,760)	19,246

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Total financial instruments	18,544	44,728		(41,760)	21,512
Hedged portion of gas stored underground	57,507				57,507
Available-for-sale securities	41,466				41,466
Total assets	\$ 117,517	\$ 44,728	\$	\$ (41,760)	\$ 120,485
<b>Liabilities:</b>					
Financial instruments					
Natural gas distribution segment	\$	\$ 51,866	\$	\$	\$ 51,866
Nonregulated segment	41,430	31,950		(66,649)	6,731
Total liabilities	\$ 41,430	\$ 83,816	\$	\$ (66,649)	\$ 58,597

(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

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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.

- (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 March 31, 2011, we had \$17.1 million of cash held in margin accounts to collateralize certain financial instruments. Of this amount, \$9.6 million was used to offset current risk management liabilities under master netting arrangements and the remaining \$7.5 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, 2010 we had \$24.9 million of cash held in margin accounts to collateralize certain financial instruments. Of this amount, \$12.6 million was used to offset current risk management liabilities under master netting arrangements and the remaining \$12.3 million is classified as current risk management assets.

**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 March 31, 2011:

	<b>March 31, 2011 (In thousands)</b>
Carrying Amount	\$ 2,162,630
Fair Value	\$ 2,370,532

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Long-term debt at March 31, 2011 and September 30, 2010 consisted of the following:

	<b>March 31, 2011</b>	<b>September 30, 2010</b>
	<b>(In thousands)</b>	
Unsecured 7.375% Senior Notes, due May 2011	\$ 350,000	\$ 350,000
Unsecured 10% Notes, due December 2011	2,303	2,303
Unsecured 5.125% Senior Notes, due 2013	250,000	250,000
Unsecured 4.95% Senior Notes, due 2014	500,000	500,000
Unsecured 6.35% Senior Notes, due 2017	250,000	250,000
Unsecured 8.50% Senior Notes, due 2019	450,000	450,000
Unsecured 5.95% Senior Notes, due 2034	200,000	200,000
Medium term notes		
Series A, 1995-2, 6.27%, due December 2010		10,000
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	327	393
Total long-term debt	2,162,630	2,172,696
Less:		
Original issue discount on unsecured senior notes and debentures	(2,873)	(3,014)
Current maturities	(352,434)	(360,131)
	\$ 1,807,323	\$ 1,809,551

As noted above, our Unsecured 7.375% Senior Notes will mature in May 2011 and our Unsecured 10% Notes will mature in December 2011; accordingly, these have been classified within the current maturities of long-term debt.

*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.

As of March 31, 2011, we financed our short-term borrowing requirements through a combination of a \$566.7 million commercial paper program and four committed revolving credit facilities with third-party lenders that provided approximately \$1.0 billion of working capital funding. On April 13, 2011, our \$200 million 180-day unsecured credit facility expired and was not replaced. On May 2, 2011, we replaced our \$566.7 million unsecured credit facility with a

new five-year \$750 million unsecured credit facility with an accordion feature that could increase our borrowing capacity to \$1.0 billion. As a result of these changes, we have \$975 million of working capital funding from our commercial paper program and three committed revolving credit facilities with third-party lenders.

At March 31, 2011, there were no short-term debt borrowings outstanding. At September 30, 2010, there was a total of \$126.1 million outstanding under our commercial paper program. We also use intercompany

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

credit facilities to supplement the funding provided by these third-party committed credit facilities. These facilities are described in greater detail below.

*Regulated Operations*

Through March 31, 2011 we funded our regulated operations as needed, primarily through our commercial paper program and three committed revolving credit facilities with third-party lenders that provided approximately \$800 million of working capital funding. The first facility was a five-year \$566.7 million unsecured facility that was replaced on May 2, 2011 with a new five-year \$750 million unsecured credit facility. The former facility bore interest at a base rate or at a LIBOR-based rate for the applicable interest period, plus a spread ranging from 0.30 percent to 0.75 percent, based on the Company's credit ratings. At March 31, 2011, there were no borrowings under this facility nor was there any commercial paper outstanding. The new credit facility bears interest at a base rate or at a LIBOR-based rate for the applicable interest period, plus a spread ranging from zero percent to 2 percent, based on the Company's credit ratings. This new credit facility also serves as a backup liquidity facility for our commercial paper program.

The second facility was a \$200 million unsecured 180-day facility that expired in April 2011 and was not replaced. The facility bore interest at a base rate or at a LIBOR-based rate for the applicable interest period, plus a spread ranging from 1.50 percent to 2.75 percent, based on the Company's credit ratings. At March 31, 2011, there were no borrowings outstanding under this facility.

The third facility is a \$25 million unsecured facility that bears interest at a daily negotiated rate, generally based on the Federal Funds rate plus a variable margin. This facility was renewed effective April 1, 2011. At March 31, 2011, there were no borrowings outstanding under this facility.

The availability of funds under these credit facilities is subject to conditions specified in the respective credit agreements, all of which we currently satisfy. These conditions include our compliance with financial covenants and the continued accuracy of representations and warranties contained in these agreements. We are required by the financial covenants in each of these facilities to maintain, at the end of each fiscal quarter, a ratio of total debt to total capitalization of no greater than 70 percent. At March 31, 2011, our total-debt-to-total-capitalization ratio, as defined, was 50 percent. In addition, both the interest margin over the Eurodollar rate and the fees that we pay on unused amounts under each of these facilities are subject to adjustment depending upon our credit ratings.

In addition to these third-party facilities, our regulated operations have a \$350 million intercompany revolving credit facility with AEH. This facility bears interest at the lower of (i) the one-month LIBOR rate plus 0.45 percent or (ii) the marginal borrowing rate available to the Company on the date of borrowing. The marginal borrowing rate is defined as the lower of (i) a rate based upon the lower of the Prime Rate or the Eurodollar rate under the five year revolving credit facility, (ii) a rate based upon the lower of the Prime Rate or the Eurodollar rate under the 180-day revolving credit facility or (iii) the lowest rate outstanding under the commercial paper program. Applicable state regulatory commissions have approved our use of this facility through December 31, 2011. There was \$163.9 million outstanding under this facility at March 31, 2011.

*Nonregulated Operations*

Atmos Energy Marketing, LLC (AEM), a wholly-owned subsidiary of AEH has a three-year \$200 million committed revolving credit facility 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.

At AEM's option, borrowings made under the credit facility are based on a base rate or an offshore rate, in each case plus an applicable margin. The base rate is a floating rate equal to the higher of: (a) 0.50 percent per annum above the latest Federal Funds rate; (b) the per annum rate of interest established by BNP Paribas



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

from time to time as its prime rate or base rate for U.S. dollar loans; (c) an offshore rate (based on LIBOR with a three-month interest period) as in effect from time to time; or (d) the cost of funds rate which is the cost of funds as reasonably determined by the administrative agent. The offshore rate is a floating rate equal to the higher of (a) an offshore rate based upon LIBOR for the applicable interest period; or (b) a cost of funds rate referred to above. In the case of both base rate and offshore rate loans, the applicable margin ranges from 1.875 percent to 2.25 percent per annum, depending on the excess tangible net worth of AEM, as defined in the credit facility. This facility has swing line loan features, which allow AEM to borrow, on a same day basis, an amount ranging from \$6 million to \$30 million based on the terms of an election within the agreement. This facility is collateralized by substantially all of the assets of AEM and is guaranteed by AEH.

At March 31, 2011, there were no borrowings outstanding under this credit facility. However, at March 31, 2011, AEM letters of credit totaling \$35.6 million had been issued under the facility, which reduced the amount available by a corresponding amount. The amount available under this credit facility is also limited by various covenants, including covenants based on working capital. Under the most restrictive covenant, the amount available to AEM under this credit facility was \$114.4 million at March 31, 2011.

AEM is required by the financial covenants in this facility to maintain a ratio of total liabilities to tangible net worth that does not exceed a maximum of 5 to 1. At March 31, 2011, AEM's ratio of total liabilities to tangible net worth, as defined, was 1.4 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 March 31, 2011, AEM's net working capital was \$137.9 million and its tangible net worth was \$150.6 million.

To supplement borrowings under this facility, AEH has a \$350 million intercompany demand credit 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, 2011. There were no borrowings outstanding under this facility at March 31, 2011.

***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. Due to certain restrictions imposed by one state regulatory commission on our ability to issue securities under the new registration statement, we will be able to issue a total of \$950 million in debt securities and \$350 million in equity securities. At March 31, 2011, no securities have been issued under the shelf registration statement.

***Debt Covenants***

In addition to the financial covenants described above, 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.

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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 March 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.

**6. 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 and six months ended March 31, 2011 and 2010 are calculated as follows:

	<b>Three Months Ended March 31</b>		<b>Six Months Ended March 31</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>(In thousands, except per share amounts)</b>			
<b>Basic Earnings Per Share</b>				
Net income	\$ 132,209	\$ 114,126	\$ 206,206	\$ 207,456
Less: Income allocated to participating securities	1,384	1,142	2,162	2,088
Net income available to common shareholders	\$ 130,825	\$ 112,984	\$ 204,044	\$ 205,368
Basic weighted average shares outstanding	90,246	92,518	90,157	92,336
Net income per share - Basic	\$ 1.45	\$ 1.22	\$ 2.26	\$ 2.22
<b>Diluted Earnings Per Share</b>				
Net income available to common shareholders	\$ 130,825	\$ 112,984	\$ 204,044	\$ 205,368
Effect of dilutive stock options and other shares	3	3	5	5
Net income available to common shareholders	\$ 130,828	\$ 112,987	\$ 204,049	\$ 205,373
Basic weighted average shares outstanding	90,246	92,518	90,157	92,336
Additional dilutive stock options and other shares	287	335	298	345
Diluted weighted average shares outstanding	90,533	92,853	90,455	92,681

Net income per share	Diluted	\$	1.45	\$	1.22	\$	2.26	\$	2.22
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There were no out-of-the-money stock options excluded from the computation of diluted earnings per share for the three and six months ended March 31, 2010 and 2011 as their exercise price was less than the average market price of the common stock during that period.

On, July 1, 2010, we entered into an accelerated share repurchase agreement with Goldman Sachs & Co. under which we repurchased \$100 million of our outstanding common stock in order to offset stock grants made under our various employee and director incentive compensation plans.

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We paid \$100 million to Goldman Sachs & Co. on July 7, 2010 for shares of Atmos Energy common stock in a share forward transaction and received and retired 2,958,580 shares. On March 4, 2011, we received and retired an additional 375,468 common shares which concluded our share repurchase agreement. In total, we received and retired 3,334,048 common shares under the repurchase agreement. The final number of shares we ultimately repurchased in the transaction was based generally on the average of the daily volume-weighted average share price of our common stock over the duration of the agreement. As a result of this transaction, beginning in our fourth fiscal quarter of 2010, the number of outstanding shares used to calculate our earnings per share was reduced by the number of shares received and the \$100 million purchase price was recorded as a reduction in shareholders' equity.

**7. Interim Pension and Other Postretirement Benefit Plan Information**

The components of our net periodic pension cost for our pension and other postretirement benefit plans for the three and six months ended March 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.

In August 2010, the Board of Directors of Atmos Energy approved a proposal to close the Pension Account Plan (PAP) to new participants, effective October 1, 2010. Employees participating in the PAP as of October 1, 2010 were allowed to make a one-time election to migrate from the PAP into our defined contribution plan with enhanced features, effective January 1, 2011. Participants who chose to remain in the PAP will continue to earn benefits and interest allocations with no changes to their existing benefits. During the election period, a limited number of participants chose to join the new plan, which resulted in an immaterial curtailment gain and a revaluation of the net periodic pension cost for the remainder of fiscal 2011. The curtailment gain was recorded in our second fiscal quarter. The revaluation of the net periodic pension cost resulted in an increase in the discount rate, effective January 1, 2011 to 5.68 percent, which will reduce our net periodic pension cost by approximately \$1.8 million for the remainder of the fiscal year. All other actuarial assumptions remained the same.

	<b>Three Months Ended March 31</b>			
	<b>Pension Benefits</b>		<b>Other Benefits</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>(In thousands)</b>			
Components of net periodic pension cost:				
Service cost	\$ 4,257	\$ 3,994	\$ 3,601	\$ 3,359
Interest cost	7,055	6,523	3,203	3,017
Expected return on assets	(6,285)	(6,320)	(682)	(615)
Amortization of transition asset			378	378
Amortization of prior service cost	(105)	(194)	(363)	(375)
Amortization of actuarial loss	2,748	2,823	86	94
Curtailment gain	(40)			
Net periodic pension cost	\$ 7,630	\$ 6,826	\$ 6,223	\$ 5,858



Table of Contents**ATMOS ENERGY CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	<b>Six Months Ended March 31</b>			
	<b>Pension Benefits</b>		<b>Other Benefits</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>(In thousands)</b>			
Components of net periodic pension cost:				
Service cost	\$ 8,637	\$ 7,987	\$ 7,202	\$ 6,719
Interest cost	13,979	13,047	6,406	6,035
Expected return on assets	(12,248)	(12,640)	(1,364)	(1,230)
Amortization of transition asset			756	756
Amortization of prior service cost	(217)	(387)	(725)	(750)
Amortization of actuarial loss	6,242	5,645	173	187
Curtailment gain	(40)			
Net periodic pension cost	\$ 16,353	\$ 13,652	\$ 12,448	\$ 11,717

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

	<b>Pension</b>		<b>Other</b>		<b>Other Benefits</b>	
	<b>Account Plan</b>	<b>Pension Benefits</b>	<b>Pension Benefits</b>	<b>Other Benefits</b>	<b>Other Benefits</b>	<b>Other Benefits</b>
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Discount rate	5.68%	5.52%	5.39%	5.52%	5.39%	5.52%
Rate of compensation increase	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
Expected return on plan assets	8.25%	8.25%	8.25%	8.25%	5.00%	5.00%

The discount rate used to compute the present value of a plan's liabilities generally is based on rates of high-grade corporate bonds with maturities similar to the average period over which the benefits will be paid. Generally, our funding policy has been to contribute annually an amount in accordance with the requirements of the Employee Retirement Income Security Act of 1974. In accordance with the Pension Protection Act of 2006 (PPA), we determined the funded status of our plans as of January 1, 2011. Based upon this valuation, we expect we will be required to contribute less than \$2 million to our pension plans by September 15, 2011.

We contributed \$5.6 million to our other post-retirement benefit plans during the six months ended March 31, 2011. We expect to contribute a total of approximately \$11 million to these plans during fiscal 2011.

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

estimated fair value and the other-than-temporary impairment is recognized in the income statement.



**Table of Contents****ATMOS ENERGY CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

	<b>Amortized Cost</b>	<b>Gross Unrealized Gain</b>	<b>Gross Unrealized Loss</b>	<b>Fair Value</b>
	<b>(In thousands)</b>			
<b>As of March 31, 2011:</b>				
Domestic equity mutual funds	\$ 29,118	\$ 7,744	\$	\$ 36,862
Foreign equity mutual funds	4,515	1,448		5,963
Money market funds	628			628
	\$ 34,261	\$ 9,192	\$	\$ 43,453
<b>As of September 30, 2010:</b>				
Domestic equity mutual funds	\$ 29,540	\$ 5,698	\$	\$ 35,238
Foreign equity mutual funds	4,753	976		5,729
Money market funds	499			499
	\$ 34,792	\$ 6,674	\$	\$ 41,466

**8. Commitments and Contingencies*****Litigation and Environmental Matters***

With respect to the specific litigation and environmental-related matters or claims that were disclosed in Note 12 to the financial statements in our Annual Report on Form 10-K for the fiscal year ended September 30, 2010, except as noted below, there were no material changes in the status of such litigation and environmental-related matters or claims during the six months ended March 31, 2011. We continue to believe that the final outcome of such litigation and environmental-related matters or claims will not have a material adverse effect on our financial condition, results of operations or cash flows.

Since April 2009, Atmos Energy and two subsidiaries of AEH, AEM and Atmos Gathering Company, LLC, have been involved in a lawsuit filed in the Circuit Court of Edmonson County, Kentucky 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. However, the total punitive damages award was reduced from \$27.5 million to \$24.7 million. On

**Table of Contents****ATMOS ENERGY CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

March 30, 2011, we filed a notice of appeal of this ruling. We strongly believe that the trial court erred in not granting our motion to dismiss the lawsuit prior to trial and that the verdict is unsupported by law. After consultation with counsel, we believe that it is probable that any judgment based on this verdict would be overturned on appeal.

We have accrued what we believe is an adequate amount for the anticipated resolution of this matter; however, the amount accrued does not reflect 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 believe that the final outcome will not have a material adverse effect on our financial condition, results of operations or cash flows.

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

***Purchase Commitments***

AEH has commitments to purchase physical quantities of natural gas under contracts indexed to the forward NYMEX strip or fixed price contracts. At March 31, 2011, AEH was committed to purchase 92.8 Bcf within one year, 37.6 Bcf within one to three years and 4.5 Bcf after three years under indexed contracts. AEH is committed to purchase 1.6 Bcf within one year and 0.4 Bcf within one to three years under fixed price contracts with prices ranging from \$4.02 to \$6.36 per Mcf. Purchases under these contracts totaled \$438.9 million and \$538.6 million for the three months ended March 31, 2011 and 2010 and \$773.1 million and \$892.7 million for the six months ended March 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.

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 March 31, 2011 are as follows (in thousands):

2011	\$ 67,814
2012	94,485
2013	5,294
2014	1,863
2015	
Thereafter	
	\$ 169,456

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

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Report on Form 10-K for the fiscal year ended September 30, 2010. There were no material changes to the estimated storage and transportation fees for the six months ended March 31, 2011.

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**ATMOS ENERGY CORPORATION**

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

***Regulatory Matters***

As previously described in Note 12 to the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended September 30, 2010, 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. There have been no material developments in this matter during the six months ended March 31, 2011. We have accrued what we believe is an adequate amount for the anticipated resolution of this proceeding. While the ultimate resolution of this investigation cannot be predicted with certainty, we believe that the final outcome will not have a material adverse effect on our financial condition, results of operations or cash flows.

We have been replacing certain steel service lines in our Mid-Tex Division since our acquisition of the natural gas distribution system in 2004. Since early 2010, we have been discussing the financial and operational details of an accelerated steel service line replacement program with representatives of 440 municipalities served by our Mid-Tex Division. As previously discussed in Note 12 to the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended September 30, 2010, all of the cities our Mid-Tex Division serves have agreed to a program of installing 100,000 replacements during the next two years, with approved recovery of the associated return, depreciation and taxes. Under the terms of the agreement, the accelerated replacement program commenced in the first quarter of fiscal 2011, replacing 14,939 lines for a cost of \$21.7 million as of March 31, 2011. The program is progressing on schedule for completion in September 2012.

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, to establish regulations for implementation of many of the provisions of the Dodd-Frank Act, which we expect will 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. We may also incur additional costs associated with compliance with new regulations and anticipate additional reporting and disclosure obligations.

As of March 31, 2011, rate cases were in progress in our Atmos Pipeline Texas service area and an annual rate filing mechanism was in progress in our Mississippi service area. In addition, there were other ratemaking activities in progress in our Mid-Tex, West Texas, Georgia and Louisiana service areas. These regulatory proceedings are discussed in further detail below in *Management's Discussion and Analysis - Recent Ratemaking Developments and Regulated Transmission and Storage Segment*.

***Other Matters***

As we previously discussed in Note 9 to the consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended September 30, 2010, in February 2008, Atmos Pipeline and Storage, LLC, a subsidiary of AEH, announced plans to construct and operate a salt-cavern storage project in Franklin Parish, Louisiana. In March 2010, we entered into an option and acquisition agreement with a third party, which provided the third party with the exclusive option to develop the proposed Fort Necessity salt-dome natural gas storage project. In July 2010, we agreed with the third party to extend the option period to March 2011. In January 2011, the third party developer notified us that it did not plan to commence the activities required to allow it to exercise the option by March 2011, accordingly,

the option was terminated. We have evaluated our strategic alternatives and concluded the project's returns do not meet our investment objectives. Accordingly, in March 2011, we recorded a \$19.3 million pretax noncash impairment loss to write off substantially all of our investment in the project.

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**ATMOS ENERGY CORPORATION**

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

**9. Concentration of Credit Risk**

Information regarding our concentration of credit risk is disclosed in Note 14 to the financial statements in our Annual Report on Form 10-K for the fiscal year ended September 30, 2010. During the six months ended March 31, 2011, there were no material changes in our concentration of credit risk.

**10. Segment Information**

Through November 30, 2010, our operations were divided into four segments:

The *natural gas distribution segment*, which included our regulated natural gas distribution and related sales operations.

The *regulated transmission and storage segment*, which included the regulated pipeline and storage operations of our Atmos Pipeline Texas Division.

The *natural gas marketing segment*, which included a variety of nonregulated natural gas management services.

The *pipeline, storage and other segment*, which included our nonregulated natural gas gathering transmission and storage services.

As a result of the appointment of a new CEO effective October 1, 2010, during the first quarter of fiscal 2011, we revised the information used by the chief operating decision maker to manage the Company. As a result of this change, effective December 1, 2010, we began dividing our operations into the following three segments:

The *natural gas distribution segment*, remains unchanged and includes our regulated natural gas distribution and related sales operations.

The *regulated transmission and storage segment*, remains unchanged and includes the regulated pipeline and storage operations of our Atmos Pipeline Texas Division.

The *nonregulated segment*, is comprised of our nonregulated natural gas management, nonregulated natural gas transmission, storage and other services which were previously reported in the natural gas marketing and pipeline, storage and other segments.

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, 2010. We evaluate performance based on net income or loss of the respective operating units.

**Table of Contents****ATMOS ENERGY CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Income statements for the three and six month periods ended March 31, 2011 and 2010 by segment are presented in the following tables to reflect our business structure as of March 31, 2011. Prior-year amounts have been restated accordingly.

	<b>Three Months Ended March 31, 2011</b>				
	<b>Natural Gas Distribution</b>	<b>Regulated Transmission and Storage</b>	<b>Nonregulated</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>(In thousands)</b>				
Operating revenues from external parties	\$ 1,112,968	\$ 21,597	\$ 482,722	\$	\$ 1,617,287
Intersegment revenues	236	33,379	100,809	(134,424)	
	1,113,204	54,976	583,531	(134,424)	1,617,287
Purchased gas cost	723,046		563,473	(134,054)	1,152,465
Gross profit	390,158	54,976	20,058	(370)	464,822
Operating expenses					
Operation and maintenance	94,483	15,231	7,035	(370)	116,379
Depreciation and amortization	50,224	5,798	1,114		57,136
Taxes, other than income	50,633	4,113	(643)		54,103
Asset impairment			19,282		19,282
Total operating expenses	195,340	25,142	26,788	(370)	246,900
Operating income (loss)	194,818	29,834	(6,730)		217,922
Miscellaneous income (expense)	20,141	5,861	306	(121)	26,187
Interest charges	29,622	8,085	306	(121)	37,892
Income (loss) before income taxes	185,337	27,610	(6,730)		206,217
Income tax expense (benefit)	66,727	9,871	(2,590)		74,008
Net income (loss)	\$ 118,610	\$ 17,739	\$ (4,140)	\$	\$ 132,209
Capital expenditures	\$ 109,762	\$ 11,818	\$ 1,921	\$	\$ 123,501



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	<b>Three Months Ended March 31, 2010</b>				
	<b>Natural Gas Distribution</b>	<b>Regulated Transmission and Storage</b>	<b>Nonregulated (In thousands)</b>	<b>Eliminations</b>	<b>Consolidated</b>
Operating revenues from external parties	\$ 1,365,736	\$ 21,643	\$ 552,887	\$	\$ 1,940,266
Intersegment revenues	252	33,538	124,145	(157,935)	
	1,365,988	55,181	677,032	(157,935)	1,940,266
Purchased gas cost	980,603		662,871	(157,529)	1,485,945
Gross profit	385,385	55,181	14,161	(406)	454,321
Operating expenses					
Operation and maintenance	87,542	20,248	9,704	(406)	117,088
Depreciation and amortization	46,748	5,282	1,050		53,080
Taxes, other than income	55,531	2,949	1,133		59,613
Total operating expenses	189,821	28,479	11,887	(406)	229,781
Operating income	195,564	26,702	2,274		224,540
Miscellaneous income (expense)	776	(20)	637	(1,344)	49
Interest charges	29,256	7,954	3,716	(1,344)	39,582
Income (loss) before income taxes	167,084	18,728	(805)		185,007
Income tax expense (benefit)	64,353	6,658	(130)		70,881
Net income (loss)	\$ 102,731	\$ 12,070	\$ (675)	\$	\$ 114,126
Capital expenditures	\$ 95,765	\$ 20,063	\$ 1,362	\$	\$ 117,190

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	<b>Six Months Ended March 31, 2011</b>				
	<b>Natural Gas Distribution</b>	<b>Regulated Transmission and Storage</b>	<b>Nonregulated (In thousands)</b>	<b>Eliminations</b>	<b>Consolidated</b>
Operating revenues from external parties	\$ 1,839,962	\$ 42,830	\$ 891,490	\$	\$ 2,774,282
Intersegment revenues	437	61,153	167,681	(229,271)	
	1,840,399	103,983	1,059,171	(229,271)	2,774,282
Purchased gas cost	1,150,469		1,013,935	(228,504)	1,935,900
Gross profit	689,930	103,983	45,236	(767)	838,382
Operating expenses					
Operation and maintenance	185,816	30,805	17,119	(767)	232,973
Depreciation and amortization	99,502	11,597	2,198		113,297
Taxes, other than income	85,609	7,666	1,524		94,799
Asset impairment			19,282		19,282
Total operating expenses	370,927	50,068	40,123	(767)	460,351
Operating income	319,003	53,915	5,113		378,031
Miscellaneous income	19,432	5,579	596	(157)	25,450
Interest charges	59,341	16,149	1,476	(157)	76,809
Income before income taxes	279,094	43,345	4,233		326,672
Income tax expense	103,166	15,504	1,796		120,466
Net income	\$ 175,928	\$ 27,841	\$ 2,437	\$	\$ 206,206
Capital expenditures	\$ 219,261	\$ 24,557	\$ 2,845	\$	\$ 246,663

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	<b>Six Months Ended March 31, 2010</b>				
	<b>Natural Gas Distribution</b>	<b>Regulated Transmission and Storage</b>	<b>Nonregulated</b>	<b>Eliminations</b>	<b>Consolidated</b>
	<b>(In thousands)</b>				
Operating revenues from external parties	\$ 2,168,422	\$ 41,485	\$ 1,023,211	\$	\$ 3,233,118
Intersegment revenues	460	60,556	201,837	(262,853)	
	2,168,882	102,041	1,225,048	(262,853)	3,233,118
Purchased gas cost	1,488,870		1,141,112	(262,034)	2,367,948
Gross profit	680,012	102,041	83,936	(819)	865,170
Operating expenses					
Operation and maintenance	183,575	37,827	20,367	(819)	240,950
Depreciation and amortization	94,605	10,224	2,090		106,919
Taxes, other than income	93,521	6,216	2,428		102,165
Total operating expenses	371,701	54,267	24,885	(819)	450,034
Operating income	308,311	47,774	59,051		415,136
Miscellaneous income (expense)	1,433	23	1,013	(2,689)	(220)
Interest charges	58,934	15,922	6,123	(2,689)	78,290
Income before income taxes	250,810	31,875	53,941		336,626
Income tax expense	96,631	11,351	21,188		129,170
Net income	\$ 154,179	\$ 20,524	\$ 32,753	\$	\$ 207,456
Capital expenditures	\$ 196,227	\$ 33,822	\$ 2,580	\$	\$ 232,629

**Table of Contents****ATMOS ENERGY CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Balance sheet information at March 31, 2011 and September 30, 2010 by segment is presented to reflect our business structure as of March 31, 2011 in the following tables. Prior-year amounts have been restated accordingly.

	<b>March 31, 2011</b>				
	<b>Natural Gas Distribution</b>	<b>Regulated Transmission and Storage</b>	<b>Nonregulated (In thousands)</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>ASSETS</b>					
Property, plant and equipment, net	\$ 4,087,399	\$ 760,221	\$ 67,030	\$	\$ 4,914,650
Investment in subsidiaries	665,515		(2,096)	(663,419)	
Current assets					
Cash and cash equivalents	41,436		111,810		153,246
Assets from risk management activities	33,923		10,692		44,615
Other current assets	519,521	11,810	432,606	(177,710)	786,227
Intercompany receivables	505,915			(505,915)	
Total current assets	1,100,795	11,810	555,108	(683,625)	984,088
Intangible assets			520		520
Goodwill	572,262	132,341	34,711		739,314
Noncurrent assets from risk management activities			462		462
Deferred charges and other assets	330,253	11,487	15,050		356,790
	\$ 6,756,224	\$ 915,859	\$ 670,785	\$ (1,347,044)	\$ 6,995,824
<b>CAPITALIZATION AND LIABILITIES</b>					
Shareholders' equity	\$ 2,373,979	\$ 240,528	\$ 424,987	\$ (665,515)	\$ 2,373,979
Long-term debt	1,807,127		196		1,807,323
Total capitalization	4,181,106	240,528	425,183	(665,515)	4,181,302
Current liabilities					
Current maturities of long-term debt	352,303		131		352,434
Short-term debt	163,900			(163,900)	
Liabilities from risk management activities	3,390		2,760		6,150
Other current liabilities	494,037	5,340	231,737	(11,714)	719,400
Intercompany payables		505,019	896	(505,915)	

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Total current liabilities	1,013,630	510,359	235,524	(681,529)	1,077,984
Deferred income taxes	779,026	159,764	5,815		944,605
Noncurrent liabilities from risk management activities			4,283		4,283
Regulatory cost of removal obligation	364,709				364,709
Deferred credits and other liabilities	417,753	5,208	(20)		422,941
	\$ 6,756,224	\$ 915,859	\$ 670,785	\$ (1,347,044)	\$ 6,995,824

**Table of Contents****ATMOS ENERGY CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	<b>September 30, 2010</b>				
	<b>Natural Gas Distribution</b>	<b>Regulated Transmission and Storage</b>	<b>Nonregulated (In thousands)</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>ASSETS</b>					
Property, plant and equipment, net	\$ 3,959,112	\$ 748,947	\$ 85,016	\$	\$ 4,793,075
Investment in subsidiaries	620,863		(2,096)	(618,767)	
Current assets					
Cash and cash equivalents	31,952		100,000		131,952
Assets from risk management activities	2,219		18,356		20,575
Other current assets	528,655	19,504	325,348	(150,842)	722,665
Intercompany receivables	546,313			(546,313)	
Total current assets	1,109,139	19,504	443,704	(697,155)	875,192
Intangible assets			834		834
Goodwill	572,262	132,341	34,711		739,314
Noncurrent assets from risk management activities	47		890		937
Deferred charges and other assets	324,707	13,037	16,695		354,439
	\$ 6,586,130	\$ 913,829	\$ 579,754	\$ (1,315,922)	\$ 6,763,791
<b>CAPITALIZATION AND LIABILITIES</b>					
Shareholders equity	\$ 2,178,348	\$ 212,687	\$ 408,176	\$ (620,863)	\$ 2,178,348
Long-term debt	1,809,289		262		1,809,551
Total capitalization	3,987,637	212,687	408,438	(620,863)	3,987,899
Current liabilities					
Current maturities of long-term debt	360,000		131		360,131
Short-term debt	258,488			(132,388)	126,100
Liabilities from risk management activities	48,942		731		49,673
Other current liabilities	473,076	10,949	162,508	(16,358)	630,175
Intercompany payables		543,007	3,306	(546,313)	
Total current liabilities	1,140,506	553,956	166,676	(695,059)	1,166,079
Deferred income taxes	691,126	142,337	(4,335)		829,128

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Noncurrent liabilities from risk management activities	2,924		6,000		8,924
Regulatory cost of removal obligation	350,521				350,521
Deferred credits and other liabilities	413,416	4,849	2,975		421,240
	\$ 6,586,130	\$ 913,829	\$ 579,754	\$ (1,315,922)	\$ 6,763,791

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**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 as of March 31, 2011, the related condensed consolidated statements of income for the three-month and six-month periods ended March 31, 2011 and 2010, and the condensed consolidated statements of cash flows for the six-month periods ended March 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 as of September 30, 2010, 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 12, 2010, 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, 2010, 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  
May 5, 2011



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**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, 2010.

***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, 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 our 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.

Through our nonregulated businesses, we primarily provide natural gas management and marketing 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.

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As discussed in Note 10, 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, 2010 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 six months ended March 31, 2011.

## **RESULTS OF OPERATIONS**

We reported net income of \$132.2 million, or \$1.45 per diluted share for the three months ended March 31, 2011 compared with net income of \$114.1 million, or \$1.22 per diluted share in the prior-year quarter. Unrealized losses reduced net income by \$2.1 million, or \$0.02 per diluted share for the three months ended March 31, 2011, compared with net unrealized losses of \$25.5 million, or \$0.27 per diluted share for the prior-year quarter. In addition, net income for the second quarter includes the impact of several one-time items totaling \$11.1 million, or \$0.12 per

diluted share related to the following pre-tax amounts:

\$27.8 million favorable impact related to the cash gain recorded in association with the unwinding of two Treasury locks in conjunction with the cancellation of a planned debt offering in November 2011.

\$19.3 million unfavorable impact related to the non-cash impairment of assets in the Ft. Necessity storage project.

\$5.0 million favorable impact related to the administrative settlement of various income tax positions.

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Excluding the impact of unrealized margins and one-time items, diluted earnings per share decreased from \$1.44 in the prior-year quarter to \$1.35 in the current-year quarter, primarily due to decreased asset optimization margins in our nonregulated segment and a decline of 11 percent in consolidated throughput in our natural gas distribution segment.

We reported net income of \$206.2 million, or \$2.26 per diluted share for the six months ended March 31, 2011 compared with net income of \$207.5 million, or \$2.22 per diluted share in the prior-year period. Unrealized losses reduced net income by \$1.7 million, or \$0.02 per diluted share for the six months ended March 31, 2011. Regulated operations contributed 99 percent of our net income during this period with our nonregulated operations contributing the remaining 1 percent. The primary driver in the year-over-year decrease in net income was decreased asset optimization margins in our nonregulated segment and a decline of 11 percent in consolidated throughput in our natural gas distribution segment.

On March 4, 2011, we received and retired 375,468 common shares from Goldman Sachs & Co under our accelerated share repurchase agreement that commenced in the fourth quarter of fiscal 2010. The receipt and retirement of these additional shares concluded our share repurchase agreement under which we paid a total of \$100 million and received and retired an aggregate of 3,334,048 common shares. As a result of this transaction, our weighted-average shares outstanding used to calculate our earnings per share were reduced by the number of shares repurchased as they were delivered to us.

During the six months ended March 31, 2011, we executed on our strategy to streamline our credit facilities. In October 2010, we replaced our \$200 million 364-day revolving credit agreement prior to its expiration with a \$200 million 180-day revolving credit agreement, which expired in April 2011. As planned, we did not replace or extend this agreement. Additionally, in December 2010, we replaced Atmos Energy Marketing's (AEM) \$450 million 364-day revolving credit facility with a \$200 million three-year facility with an accordion feature that could increase AEM's borrowing capacity to \$500 million. Finally, on May 2, 2011, we replaced our five-year \$566.7 million unsecured credit facility, due to expire in December 2011, with a five-year \$750 million unsecured credit facility that contains an accordion feature that could increase our borrowing capacity to \$1.0 billion. After giving effect to these changes, we now have \$975 million of liquidity available to us from our commercial paper program and three committed credit facilities and have reduced our financing costs. We believe this availability provides sufficient liquidity to fund our working capital needs.

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

	<b>Three Months Ended March 31</b>		<b>Six Months Ended March 31</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	<b>(In thousands, except per share data)</b>			
Operating revenues	\$ 1,617,287	\$ 1,940,266	\$ 2,774,282	\$ 3,233,118
Gross profit	464,822	454,321	838,382	865,170
Operating expenses	246,900	229,781	460,351	450,034
Operating income	217,922	224,540	378,031	415,136
Miscellaneous income (expense)	26,187	49	25,450	(220)
Interest charges	37,892	39,582	76,809	78,290
Income before income taxes	206,217	185,007	326,672	336,626
Income tax expense	74,008	70,881	120,466	129,170

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Net income	\$ 132,209	\$ 114,126	\$ 206,206	\$ 207,456
Diluted net income per share	\$ 1.45	\$ 1.22	\$ 2.26	\$ 2.22

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Our consolidated net income during the three and six months ended March 31, 2011 and 2010 was earned in each of our business segments as follows:

	<b>Three Months Ended March 31</b>		
	<b>2011</b>	<b>2010</b>	<b>Change</b>
	<b>(In thousands)</b>		
Natural gas distribution segment	\$ 118,610	\$ 102,731	\$ 15,879
Regulated transmission and storage segment	17,739	12,070	5,669
Nonregulated segment	(4,140)	(675)	(3,465)
Net income	\$ 132,209	\$ 114,126	\$ 18,083

	<b>Six Months Ended March 31</b>		
	<b>2011</b>	<b>2010</b>	<b>Change</b>
	<b>(In thousands)</b>		
Natural gas distribution segment	\$ 175,928	\$ 154,179	\$ 21,749
Regulated transmission and storage segment	27,841	20,524	7,317
Nonregulated segment	2,437	32,753	(30,316)
Net income	\$ 206,206	\$ 207,456	\$ (1,250)

The following tables segregate our consolidated net income and diluted earnings per share between our regulated and nonregulated operations:

	<b>Three Months Ended March 31</b>		
	<b>2011</b>	<b>2010</b>	<b>Change</b>
	<b>(In thousands, except per share data)</b>		
Regulated operations	\$ 136,349	\$ 114,801	\$ 21,548
Nonregulated operations	(4,140)	(675)	(3,465)
Consolidated net income	\$ 132,209	\$ 114,126	\$ 18,083
Diluted EPS from regulated operations	\$ 1.49	\$ 1.23	\$ 0.26
Diluted EPS from nonregulated operations	(0.04)	(0.01)	(0.03)
Consolidated diluted EPS	\$ 1.45	\$ 1.22	\$ 0.23

	<b>Six Months Ended March 31</b>		
	<b>2011</b>	<b>2010</b>	<b>Change</b>

**(In thousands, except per share data)**

Regulated operations	\$ 203,769	\$ 174,703	\$ 29,066
Nonregulated operations	2,437	32,753	(30,316)
Consolidated net income	\$ 206,206	\$ 207,456	\$ (1,250)
Diluted EPS from regulated operations	\$ 2.23	\$ 1.87	\$ 0.36
Diluted EPS from nonregulated operations	0.03	0.35	(0.32)
Consolidated diluted EPS	\$ 2.26	\$ 2.22	\$ 0.04

***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,



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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 approximately 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.

**Table of Contents****Three Months Ended March 31, 2011 compared with Three Months Ended March 31, 2010**

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

	<b>Three Months Ended March 31</b>		
	<b>2011</b>	<b>2010</b>	<b>Change</b>
	<b>(In thousands, unless otherwise noted)</b>		
<b>Gross profit</b>	\$ 390,158	\$ 385,385	\$ 4,773
Operating expenses	195,340	189,821	5,519
<b>Operating income</b>	194,818	195,564	(746)
Miscellaneous income	20,141	776	19,365
Interest charges	29,622	29,256	366
<b>Income before income taxes</b>	185,337	167,084	18,253
Income tax expense	66,727	64,353	2,374
<b>Net income</b>	\$ 118,610	\$ 102,731	\$ 15,879
Consolidated natural gas distribution sales volumes MMcf	136,838	158,530	(21,692)
Consolidated natural gas distribution transportation volumes MMcf	39,463	39,294	169
Total consolidated natural gas distribution throughput MMcf	176,301	197,824	(21,523)
Consolidated natural gas distribution average transportation revenue per Mcf	\$ 0.47	\$ 0.46	\$ 0.01
Consolidated natural gas distribution average cost of gas per Mcf sold	\$ 5.28	\$ 6.19	\$ (0.91)

The following table shows our operating income by natural gas distribution division, in order of total rate base, for the three months ended March 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.

	<b>Three Months Ended March 31</b>		
	<b>2011</b>	<b>2010</b>	<b>Change</b>
	<b>(In thousands)</b>		
Mid-Tex	\$ 82,476	\$ 79,843	\$ 2,633
Kentucky/Mid-States	35,177	31,000	4,177
Louisiana	23,235	22,831	404
West Texas	19,280	21,400	(2,120)
Colorado-Kansas	15,633	14,267	1,366
Mississippi	18,004	17,852	152
Other	1,013	8,371	(7,358)
Total	\$ 194,818	\$ 195,564	\$ (746)

The \$4.8 million increase in natural gas distribution gross profit primarily reflects a \$17.7 million net increase in rate adjustments, primarily in the Mid-Tex, Missouri, Louisiana, Kentucky, Kansas and Georgia service areas.

These increases in rate adjustments were partially offset by:

\$7.9 million decrease due to an 11 percent decrease in consolidated throughput caused principally by lower residential and commercial consumption combined with warmer weather this fiscal year compared to the same period last year in most of our service areas.

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\$4.2 million decrease in revenue-related taxes, primarily due to lower revenues on which the tax is calculated.

Operating expenses, which include operation and maintenance expense, provision for doubtful accounts, depreciation and amortization expense and taxes, other than income increased \$5.5 million, primarily due to the following:

\$7.4 million increase due to the absence of a state sales tax refund received in the prior year.

\$3.5 million increase in depreciation and amortization expense.

These increases were partially offset by:

\$4.9 million decrease in taxes, other than income, primarily due to lower revenue-related taxes.

Net income for this segment was also favorably impacted by a \$21.8 million gain recognized in March 2011 as a result of unwinding two Treasury locks and a \$5.0 million income tax benefit related to the administrative settlement of various income tax positions.

***Six Months Ended March 31, 2011 compared with Six Months Ended March 31, 2010***

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

	<b>Six Months Ended March 31</b>		
	<b>2011</b>	<b>2010</b>	<b>Change</b>
	<b>(In thousands, unless otherwise noted)</b>		
<b>Gross profit</b>	\$ 689,930	\$ 680,012	\$ 9,918
Operating expenses	370,927	371,701	(774)
<b>Operating income</b>	319,003	308,311	10,692
Miscellaneous income	19,432	1,433	17,999
Interest charges	59,341	58,934	407
<b>Income before income taxes</b>	279,094	250,810	28,284
Income tax expense	103,166	96,631	6,535
<b>Net income</b>	\$ 175,928	\$ 154,179	\$ 21,749
Consolidated natural gas distribution sales volumes MMcf	223,628	257,844	(34,216)
Consolidated natural gas distribution transportation volumes MMcf	73,217	74,501	(1,284)
Total consolidated natural gas distribution throughput MMcf	296,845	332,345	(35,500)
	\$ 0.48	\$ 0.46	\$ 0.02

Consolidated natural gas distribution average transportation revenue per  
Mcf

Consolidated natural gas distribution average cost of gas per Mcf sold    \$    5.14    \$    5.77    \$    (0.63)

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The following table shows our operating income by natural gas distribution division, in order of total rate base, for the six months ended March 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.

		<b>Six Months Ended March 31</b>		
	<b>2011</b>	<b>2010</b>	<b>(In thousands)</b>	<b>Change</b>
Mid-Tex	\$ 139,915	\$ 130,224		\$ 9,691
Kentucky/Mid-States	56,540	48,803		7,737
Louisiana	38,196	36,238		1,958
West Texas	28,800	33,157		(4,357)
Colorado-Kansas	23,645	22,873		772
Mississippi	28,219	27,654		565
Other	3,688	9,362		(5,674)
<b>Total</b>	<b>\$ 319,003</b>	<b>\$ 308,311</b>		<b>\$ 10,692</b>

The \$9.9 million increase in natural gas distribution gross profit primarily reflects a \$31.8 million net increase in rate adjustments, primarily in the Mid-Tex, Louisiana, Missouri, Kentucky, Kansas and Georgia service areas.

These increases were partially offset by:

\$13.2 million decrease due to an 11 percent decrease in consolidated throughput caused principally by lower residential and commercial consumption combined with warmer weather this fiscal year compared to the same period last year in most of our service areas.

\$7.0 million decrease in revenue-related taxes, primarily due to lower revenues on which the tax is calculated.

Operating expenses, which include operation and maintenance expense, provision for doubtful accounts, depreciation and amortization expense and taxes, other than income decreased \$0.8 million, primarily due to the following:

\$7.9 million decrease in taxes, other than income, due to lower revenue-related taxes.

\$5.3 million decrease in employee-related expenses.

\$1.4 million decrease in legal and other administrative costs.

These decreases were partially offset by:

\$7.4 million increase due to the absence of a state sales tax refund received in the prior year.

\$4.9 million increase in depreciation and amortization expense.

Net income also reflects the aforementioned Treasury lock gain and income tax benefit.

*Recent Ratemaking Developments*

Significant ratemaking developments that occurred during the six months ended March 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 commission's or other governmental authority's final ruling.

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Annual net operating income increases totaling \$25.2 million resulting from ratemaking activity became effective in the six months ended March 31, 2011 as summarized below:

<b>Rate Action</b>	<b>Annual Increase to Operating Income (In thousands)</b>
Annual rate filing mechanisms	\$ 23,122
Other rate activity	2,075
	\$ 25,197

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

<b>Division</b>	<b>Rate Action</b>	<b>Jurisdiction</b>	<b>Operating Income Requested (In thousands)</b>
Kentucky/Mid-States	PRP <sup>(1)</sup>	Georgia	\$ 1,192
Louisiana	TransLA RSC <sup>(2)</sup>	Louisiana	431
	LGS RSC	Louisiana	4,600
Mid-Tex	GRIP <sup>(3)(4)</sup>	Dallas & RRC	3,519
	Rate Review Mechanism (RRM)	Settled Cities	7,687
Mississippi	Annual Rate Filing <sup>(5)</sup>	Mississippi	
West Texas	Environs Rate Case	Amarillo	78
	RRM	Lubbock	2,136
	RRM	WT Cities	2,552
	GRIP <sup>(3)</sup>	RRC	342
			\$ 22,537

(1) The Pipeline Replacement Program (PRP) surcharge relates to a long-term cast iron replacement program.

(2) The Louisiana Commission Staff recommended an increase of \$0.4 million effective April 1, 2011, which the Commission accepted.

(3) Gas Reliability Infrastructure Program (GRIP) is a rate adjustment that allows utilities to recover additional invested capital without filing a full rate case.

(4) This GRIP filing is based on a Mid-Tex system-wide basis and made concurrently with the City of Dallas and the Texas Railroad Commission (RRC) for approval of their respective jurisdictional customers.



- <sup>(5)</sup> On April 5, 2011 the Mississippi Public Service Commission approved a Stipulation and Agreement for no increase in operating income.

*Rate 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 to our shareholders and ensure that we continue to deliver reliable, reasonably priced natural gas service to our customers. There were no rate cases completed during the first two quarters of fiscal 2011.

*GRIP Filings*

GRIP allows us to include in our rate base annually approved capital costs incurred in the prior calendar year provided that we file a complete rate case at least once every five years. There were no GRIP filings completed during the first two quarters of fiscal 2011.

**Table of Contents***Annual Rate Filing Mechanisms*

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 and Mississippi divisions and in significant portions of our Mid-Tex and West Texas divisions. These mechanisms are referred to as rate review mechanisms (RRM) in our Mid-Tex and West Texas divisions, stable rate filings in the Mississippi Division and a rate stabilization clause in the Louisiana Division. The following table summarizes filings made under our various annual rate filing mechanisms for the six months ended March 31, 2011.

<b>Division</b>	<b>Jurisdiction</b>	<b>Test Year Ended</b>	<b>Additional Annual Operating Income (In thousands)</b>	<b>Effective Date</b>
<i>2011 Filings:</i>				
Mid-Tex	Settled Cities	12/31/2009	\$ 23,122	10/1/2010
Total 2011 Filings			\$ 23,122	

*Other Ratemaking Activity*

The following table summarizes other ratemaking activity during the six months ended March 31, 2011:

<b>Division</b>	<b>Jurisdiction</b>	<b>Rate Activity</b>	<b>Additional Annual Operating Income (In thousands)</b>	<b>Effective Date</b>
<i>2011 Other Rate Activity:</i>				
Kentucky/Mid-States	Georgia	PRP Surcharge	\$ 764	10/01/2010
Colorado-Kansas	Colorado	AMI <sup>(1)</sup>	349	12/01/2010
Colorado-Kansas	Kansas	Ad Valorem <sup>(2)</sup>	685	01/01/2011
Kentucky/Mid-States	Missouri	ISRS <sup>(3)</sup>	277	02/14/2011
Total 2011 Other Rate Activity			\$ 2,075	

<sup>(1)</sup> Automated Meter Infrastructure (AMI) relates to a pilot program in the Weld County area of the Company's service area.

- (2) The Ad Valorem filing relates to a collection of property taxes in excess of the amount included in the Company's base rates.
- (3) Infrastructure System Replacement Surcharge (ISRS) relates to maintenance capital investments made since the previous rate case.

***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

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may be impacted by the timing of when costs and expenses are incurred and when these costs and expenses are recovered through its tariffs.

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

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

	<b>Three Months Ended March 31</b>		
	<b>2011</b>	<b>2010</b>	<b>Change</b>
	<b>(In thousands, unless otherwise noted)</b>		
Mid-Tex transportation	\$ 33,096	\$ 33,214	\$ (118)
Third-party transportation	16,811	16,335	476
Storage and park and lend services	2,219	2,673	(454)
Other	2,850	2,959	(109)
<b>Gross profit</b>	54,976	55,181	(205)
Operating expenses	25,142	28,479	(3,337)
<b>Operating income</b>	29,834	26,702	3,132
Miscellaneous income (expense)	5,861	(20)	5,881
Interest charges	8,085	7,954	131
<b>Income before income taxes</b>	27,610	18,728	8,882
Income tax expense	9,871	6,658	3,213
<b>Net income</b>	\$ 17,739	\$ 12,070	\$ 5,669
Gross pipeline transportation volumes MMcf	174,471	192,441	(17,970)
Consolidated pipeline transportation volumes MMcf	93,493	98,418	(4,925)

The \$0.2 million decrease in regulated transmission and storage gross profit was attributable primarily to a \$2.7 million decrease due to a nine percent decrease in through-system volumes primarily associated with declines in basis differentials, electric generation demand and Barnett Shale activity and a \$0.8 million quarter-over-quarter decrease from lower per-unit transportation margins, partially offset by a \$3.1 million increase associated with our GRIP filings.

Operating expenses decreased \$3.3 million primarily due to timing of pipeline maintenance activities and other operating expenses.

Miscellaneous income includes a \$6.0 million gain recognized in March 2011 as a result of unwinding two Treasury locks.

On April 18, 2011, the RRC issued an order in the rate case of Atmos Pipeline Texas that was originally filed in September 2010. The Commission approved an annual operating income increase of \$20.4 million as well as the following major provisions that will go into effect with bills rendered on and after May 1, 2011:

Authorized return on equity of 11.8 percent.

A capital structure of 49.5 percent debt/50.5 percent equity

Approval of a rate base of \$807.7 million, compared to the \$417.1 million rate base from the prior rate case.

Approval of a straight fixed variable rate design, under which all fixed costs associated with transportation and storage services are recovered through monthly charges.

**Table of Contents*****Six Months Ended March 31, 2011 compared with Six Months Ended March 31, 2010***

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

	<b>Six Months Ended</b>		
	<b>March 31</b>		
	<b>2011</b>	<b>2010</b>	<b>Change</b>
	<b>(In thousands, unless otherwise noted)</b>		
Mid-Tex transportation	\$ 60,631	\$ 59,925	\$ 706
Third-party transportation	33,323	31,577	1,746
Storage and park and lend services	4,389	5,278	(889)
Other	5,640	5,261	379
<b>Gross profit</b>	<b>103,983</b>	<b>102,041</b>	<b>1,942</b>
Operating expenses	50,068	54,267	(4,199)
<b>Operating income</b>	<b>53,915</b>	<b>47,774</b>	<b>6,141</b>
Miscellaneous income	5,579	23	5,556
Interest charges	16,149	15,922	227
<b>Income before income taxes</b>	<b>43,345</b>	<b>31,875</b>	<b>11,470</b>
Income tax expense	15,504	11,351	4,153
<b>Net income</b>	<b>\$ 27,841</b>	<b>\$ 20,524</b>	<b>\$ 7,317</b>
Gross pipeline transportation volumes MMcf	327,649	350,214	(22,565)
Consolidated pipeline transportation volumes MMcf	193,334	194,356	(1,022)

The \$1.9 million increase in regulated transmission and storage gross profit was attributable primarily to the following factors:

\$6.2 million increase associated with our GRIP filings.

\$2.4 million increase in fixed fee services.

These increases were partially offset by the following:

\$3.7 million decrease due to a decline in throughput to our Mid-Tex Division and a reduction in production.

\$2.3 million decrease resulting from lower per-unit transportation margins.

Operating expenses decreased \$4.2 million primarily due to timing of pipeline maintenance activities and other expenses.

Miscellaneous income reflects the aforementioned treasury lock gain recognized in March 2011.

***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. In addition, AEH utilizes proprietary and customer-owned transportation and storage assets to provide various delivered gas services our customers request, including furnishing natural gas supplies at fixed and market-based prices, contract negotiation and administration, load forecasting, gas storage acquisition and management services, transportation services, peaking sales and balancing services, capacity utilization

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strategies and gas price hedging through the use of financial instruments. As a result, AEH's gas delivery and related services margins arise from the types of commercial transactions we have structured with our customers and our ability to identify the lowest cost alternative among the natural gas supplies, transportation and markets to which it has access to serve those customers.

AEH's storage and transportation margins arise 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.

AEH also seeks to enhance its gross profit margin by maximizing, through asset optimization activities, the economic value associated with the storage and transportation capacity it owns or controls in our natural gas distribution and by its subsidiaries. We attempt to meet these objectives by engaging in natural gas storage transactions in which we seek to find and profit through the arbitrage of pricing differences in various locations and by recognizing pricing differences that occur over time. This process involves purchasing physical natural gas, storing it in the storage and transportation assets to which AEH has access and selling financial instruments at advantageous prices to lock in a gross profit margin.

AEH continually manages its net physical position to attempt to increase the future economic profit that was created when the original transaction was executed. Therefore, AEH may subsequently change its originally scheduled storage injection and withdrawal plans from one time period to another based on market conditions and recognize any associated gains or losses at that time. If AEH elects to accelerate the withdrawal of physical gas, it will execute new financial instruments to hedge the original financial instruments. If AEH elects to defer the withdrawal of gas, it will reset its positions by settling the original financial instruments and executing new financial instruments to correspond to the revised withdrawal schedule.

We use financial instruments, designated as fair value hedges, to hedge our natural gas inventory used in our natural gas marketing storage activities. These financial instruments are marked to market each month based upon the NYMEX price with changes in fair value recognized as unrealized gains and losses in the period of change. The hedged natural gas inventory is marked to market at the end of each month based on the Gas Daily index with changes in fair value recognized as unrealized gains and losses in the period of change. Changes in the spreads between the forward natural gas prices used to value the financial hedges designated against our physical inventory and the market (spot) prices used to value our physical storage result in unrealized margins until the underlying physical gas is withdrawn and the related financial instruments are settled. Once the gas is withdrawn and the financial instruments are settled, the previously unrealized margins associated with these net positions are realized.

AEH also uses financial instruments to capture additional storage arbitrage opportunities that may arise after the original physical inventory hedge and to attempt to insulate and protect the economic value within its asset optimization activities. Changes in fair value associated with these financial instruments are recognized as a component of unrealized margins until they are settled.

Due to the nature of these operations, natural gas prices and differences in natural gas prices between the various markets that we serve (commonly referred to as basis differentials), have a significant impact on our nonregulated businesses. Within our delivered gas activities, basis differentials impact our ability to create value from identifying the lowest cost alternative among the natural gas supplies, transportation and markets to which we have access. Further, 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, as well as competitive factors in the industry and general economic conditions may also cause customers to conserve or use alternative energy sources. Within our asset optimization activities, higher gas prices



could also lead to increased borrowings under our credit facilities resulting in higher interest expense.

Volatility in natural gas prices also has a significant impact on our nonregulated segment. Increased price volatility often has a significant impact on the spreads between the market (spot) prices and forward natural

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gas prices, which creates opportunities to earn higher arbitrage spreads within our asset optimization activities. Volatility could also impact the basis differentials we capture in our delivered gas activities. However, increased volatility impacts the amounts of unrealized margins recorded in our gross profit and could impact the amount of cash required to collateralize our risk management liabilities.

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

Financial and operational highlights for our nonregulated segment for the three months ended March 31, 2011 and 2010 are presented below. Gross profit margin consists primarily of margins earned from the delivery of gas and related services requested by our customers, margins earned from storage and transportation services and margins earned from asset optimization activities, which are derived from the utilization of our proprietary and managed third-party storage and transportation assets to capture favorable arbitrage spreads through natural gas trading activities.

Unrealized margins represent the unrealized gains or losses on our net physical gas position and the related financial instruments used to manage commodity price risk as described above. 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 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.

	<b>Three Months Ended March 31</b>		
	<b>2011</b>	<b>2010</b>	<b>Change</b>
	<b>(In thousands, unless otherwise noted)</b>		
<b>Realized margins</b>			
Gas delivery and related services	\$ 19,170	\$ 17,126	\$ 2,044
Storage and transportation services	3,522	3,093	429
Other	1,460	2,098	(638)
	24,152	22,317	1,835
Asset optimization <sup>(1)</sup>	(686)	31,385	(32,071)
<b>Total realized margins</b>	23,466	53,702	(30,236)
<b>Unrealized margins</b>	(3,408)	(39,541)	36,133
<b>Gross profit</b>	20,058	14,161	5,897
Operating expenses, excluding asset impairment	7,506	11,887	(4,381)
Asset impairment	19,282		19,282
<b>Operating income (loss)</b>	(6,730)	2,274	(9,004)
Miscellaneous income	306	637	(331)
Interest charges	306	3,716	(3,410)
<b>Loss before income taxes</b>	(6,730)	(805)	(5,925)
Income tax benefit	(2,590)	(130)	(2,460)

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<b>Net loss</b>		\$ (4,140)	\$ (675)	\$ (3,465)
Gross nonregulated delivered gas sales volumes	MMcf	127,377	123,877	3,500
Consolidated nonregulated delivered gas sales volumes	MMcf	107,566	104,893	2,673
Net physical position (Bcf)		17.7	23.7	(6.0)

<sup>(1)</sup> Net of storage fees of \$3.6 million and \$3.9 million.

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Realized margins for gas delivery, storage and transportation services and other services were \$24.2 million during the three months ended March 31, 2011 compared with \$22.3 million, for the prior-year quarter. The increase primarily reflects an increased number of customers in the current-year quarter which resulted in a three percent increase in consolidated delivered gas sales volumes and a \$2.0 million increase in margins from gas delivery and related services.

The \$32.1 million decrease in realized asset optimization margins from the prior-year quarter reflects the impact of continued weak natural gas market fundamentals, which have reduced price volatility and compressed spot to forward spread values resulting in less favorable trading opportunities. As a result, during the current quarter, AEH captured smaller spread values from its asset optimization activities. This contrasts to the prior quarter, when AEH recognized higher spread values that it had captured from rolling positions through the first quarter of fiscal 2010.

Weak market fundamentals have also reduced the demand and fees paid for storage. During the quarter, AEH started to capitalize on falling storage demand fees by replacing expiring storage contracts with new contracts with lower storage demand fees and allowing non-strategic contracts to expire without renewing them. This should improve AEH's ability to realize gains from its asset optimization activities in future periods.

The decrease in realized asset optimization margins was more than offset by a \$36.1 million increase in unrealized margins that reflects the quarter-over-quarter timing of realized margins coupled with lower natural gas price volatility.

Operating expenses decreased \$4.4 million primarily due to lower employee-related expenses.

An asset impairment charge of \$19.3 million was recorded in March 2011 related to our investment in Fort Necessity. As we previously discussed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2010, in February 2008, Atmos Pipeline and Storage, LLC, a subsidiary of AEH, announced plans to construct and operate a salt-cavern storage project in Franklin Parish, Louisiana. In March 2010, we entered into an option and acquisition agreement with a third party, which provided the third party with the exclusive option to develop the proposed Fort Necessity salt-dome natural gas storage project. In July 2010, we agreed with the third party to extend the option period to March 2011. In January 2011, the third party developer notified us that it did not plan to commence the activities required to allow it to exercise the option by March 2011, accordingly, the option was terminated. We have evaluated our strategic alternatives and concluded the project's returns do not meet our investment objectives. As such, we recorded a pretax noncash impairment to write off substantially all of our investment in the project during the second quarter of fiscal 2011.

Interest charges decreased \$3.4 million primarily due to a decrease in intercompany borrowings.

**Table of Contents*****Six Months Ended March 31, 2011 compared with Six Months Ended March 31, 2010***

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

	<b>Six Months Ended March 31</b>		
	<b>2011</b>	<b>2010</b>	<b>Change</b>
	<b>(In thousands, unless otherwise noted)</b>		
<b>Realized margins</b>			
Gas delivery and related services	\$ 35,211	\$ 33,213	\$ 1,998
Storage and transportation services	6,871	6,427	444
Other	2,779	2,562	217
	44,861	42,202	2,659
Asset optimization <sup>(1)</sup>	3,279	37,391	(34,112)
<b>Total realized margins</b>	48,140	79,593	(31,453)
<b>Unrealized margins</b>	(2,904)	4,343	(7,247)
<b>Gross profit</b>			
Operating expenses, excluding asset impairment	45,236	83,936	(38,700)
Asset impairment	20,841	24,885	(4,044)
	19,282		19,282
<b>Operating income</b>	5,113	59,051	(53,938)
Miscellaneous income	596	1,013	(417)
Interest charges	1,476	6,123	(4,647)
<b>Income before income taxes</b>	4,233	53,941	(49,708)
Income tax expense	1,796	21,188	(19,392)
<b>Net income</b>	\$ 2,437	\$ 32,753	\$ (30,316)
Gross nonregulated delivered gas sales volumes MMcf	235,089	226,138	8,951
Consolidated nonregulated delivered gas sales volumes MMcf	202,104	192,122	9,982
Net physical position (Bcf)	17.7	23.7	(6.0)

<sup>(1)</sup> Net of storage fees of \$6.9 million and \$6.7 million.

Realized margins for gas delivery, storage and transportation services and other services were \$44.9 million, or 93 percent of total realized margins during the six months ended March 31, 2011 compared with \$42.2 million, or 53 percent of total realized margins for the prior-year period. The increase primarily reflects a five percent increase in

consolidated delivered gas sales volumes and a \$2.0 million increase in margins from gas delivery and related services, attributable to an increased number of customers in the current year.

The \$34.1 million decrease in realized asset optimization margins from the prior-year period primarily reflects greater intramonth trading gains realized in the prior-year period from more favorable trading opportunities in the daily cash market, combined with lower realized gains in the current-year period due to continued weak natural gas market fundamentals.

Unrealized margins decreased \$7.2 million in the current period compared to the prior-year period. The decrease primarily reflects higher unrealized losses on certain basis swaps.

Operating expenses decreased \$4.0 million primarily due to lower employee expenses.

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Asset impairment includes the aforementioned pre-tax impairment charge related to the substantial write-off of the Fort Necessity project.

Interest charges decreased \$4.6 million primarily due to a decrease in intercompany borrowings.

**Asset Optimization Activities**

AEH monitors the impact of its asset optimization efforts by estimating the gross profit, before related fees, that it captured through the purchase and sale of physical natural gas and the execution of the associated financial instruments. This economic value, combined with the effect of the future reversal of unrealized gains or losses currently recognized in the income statement and related fees is referred to as the potential gross profit.

We define potential gross profit as the change in AEH's gross profit in future periods if its optimization efforts are executed as planned. This amount does not include other operating expenses and associated income taxes that will be incurred to realize this amount. Therefore, it does not represent an estimated increase in future net income. There is no assurance that the economic value or the potential gross profit will be fully realized in the future.

We consider this measure a non-GAAP financial measure as it is calculated using both forward-looking storage injection/withdrawal and hedge settlement estimates and historical financial information. This measure is presented because we believe it provides a more comprehensive view to investors of our asset optimization efforts and thus a better understanding of these activities than would be presented by GAAP measures alone. Because there is no assurance that the economic value or potential gross profit will be realized in the future, corresponding future GAAP amounts are not available.

The following table presents AEH's economic value and its potential gross profit (loss) at March 31, 2011 and 2010.

	<b>March 31</b>	
	<b>2011</b>	<b>2010</b>
	<b>(In millions, unless otherwise noted)</b>	
Economic value	\$	\$ 0.8
Associated unrealized losses	9.1	9.5
Subtotal	9.1	10.3
Related fees <sup>(1)</sup>	(16.5)	(14.2)
Potential gross profit (loss)	\$ (7.4)	\$ (3.9)
Net physical position (Bcf)	17.7	23.7

<sup>(1)</sup> Related fees represent the contractual costs to acquire the storage capacity utilized in our nonregulated segment's asset optimization activities. The fees primarily consist of demand fees and contractual obligations to sell gas below market index prices in exchange for the right to manage and optimize third party storage assets for the positions we have entered into as of March 31, 2011 and 2010.

During the six months ended March 31, 2011, our nonregulated segment's economic value increased from (\$7.5) million, or (\$0.48)/Mcf at September 30, 2010 to \$0.0 million, or (\$0.00)/Mcf. This compares unfavorably to economic value at March 31, 2010 of \$0.8 million, or \$0.03/Mcf.

For the six months ended March 31, 2011, the increase in our economic value reflected an increase in spread value resulting from realizing financial instruments with lower spread values, entering into financial hedges with higher average prices and rolling financial instruments to forward periods to capture incremental value. Additionally, as a result of falling natural gas prices, we injected a net 2.0 Bcf during the six months ended March 31, 2011, which reduced the weighted average cost of gas held in storage.

The economic value is based upon planned storage injection and withdrawal schedules and its realization is contingent upon the execution of this plan, weather and other execution factors. Since AEH actively



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manages and optimizes its portfolio to attempt to enhance the future profitability of its storage position, it may change its scheduled storage injection and withdrawal plans from one time period to another based on market conditions. Therefore, we cannot ensure that the economic value or the potential gross profit calculated as of March 31, 2011 will be fully realized in the future nor can we predict in what time periods such realization may occur. Further, if we experience operational or other issues which limit our ability to optimally manage our stored gas positions, our earnings could be adversely impacted.

## **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. During fiscal 2011, we have been executing our strategy of consolidating our short-term facilities used for our regulated operations into a single line of credit. In October 2010, we replaced our \$200 million 364-day revolving credit agreement with a \$200 million 180-day revolving credit agreement that expired in April 2011. As planned, we did not replace or extend this agreement. On May 2, 2011, we replaced our five-year \$566.7 million unsecured credit facility, due to expire in December 2011, with a five-year \$750 million unsecured credit facility with an accordion feature that could increase our borrowing capacity to \$1.0 billion. In our nonregulated segment, we replaced AEM's \$450 million 364-day facility with a \$200 million, three-year facility in December 2010. As a result of these changes, we now have \$975 million of availability from our commercial paper program and three committed revolving credit facilities with third parties.

Our \$350 million unsecured 7.375% Senior Notes will mature in May 2011. We intend to refinance this debt on a long-term basis through the issuance of \$300 million 30-year unsecured senior notes in June 2011. On September 30, 2010, we entered into three Treasury lock agreements to fix the Treasury yield component of the interest cost of financing the anticipated issuances of senior notes. We designated these Treasury lock agreements as cash flow hedges of an anticipated transaction. Any realized gain or loss incurred when these agreements are settled will be recognized as a component of interest expense over the life of the related long-term debt.

Additionally, we had planned to issue \$250 million of 30-year unsecured notes in November 2011 to fund our capital expenditure program. In September 2010, we entered into two Treasury lock agreements to fix the Treasury yield component of the interest cost associated with the anticipated issuance of these senior notes, which were designated as cash flow hedges of an anticipated transaction. Due to stronger than anticipated cash flows primarily resulting from the extension of the Bush tax cuts that allow the continued use of bonus depreciation on qualifying expenditures through December 31, 2011, the need to issue \$250 million of debt in November has been eliminated and the related Treasury lock agreements have been unwound. A pretax cash gain of approximately \$28 million was recorded in March 2011.

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 2011.

## **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.

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

	<b>Six Months Ended March 31</b>		
	<b>2011</b>	<b>2010</b>	<b>Change</b>
	<b>(In thousands)</b>		
Total cash provided by (used in)			
Operating activities	\$ 438,471	\$ 483,458	\$ (44,987)
Investing activities	(248,198)	(233,575)	(14,623)
Financing activities	(168,979)	(129,933)	(39,046)
Change in cash and cash equivalents	21,294	119,950	(98,656)
Cash and cash equivalents at beginning of period	131,952	111,203	20,749
Cash and cash equivalents at end of period	\$ 153,246	\$ 231,153	\$ (77,907)

*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.

For the six months ended March 31, 2011, we generated operating cash flow of \$438.5 million from operating activities compared with \$483.5 million for the six months ended March 31, 2010. The \$45.0 million decrease in operating cash flows primarily reflects the timing of customer collections and vendor payments, coupled with the timing of gas cost recovery under our purchased gas cost mechanisms.

*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 2011 are expected to range from \$580 million to \$595 million. For the six months ended March 31, 2011, capital expenditures were \$246.7 million compared with \$232.6 million for the six months ended March 31, 2010. The \$14.1 million increase in capital expenditures primarily reflects spending for the steel service line replacement program in the Mid-Tex Division and the development of a new customer service system in the current year, partially offset by the costs incurred in the prior fiscal year to relocate the company's information technology data center.

*Cash flows from financing activities*

For the six months ended March 31, 2011, our financing activities used \$169.0 million of cash compared with \$129.9 million of cash used in the prior-year period, primarily due to higher cash outflows associated with repayment of our short-term and long-term debt instruments and repurchases of equity awards, as follows:

\$53.0 million for short-term debt repayments. In the current-year period, \$128.9 million of short-term debt was repaid, compared with \$75.9 million in the prior-year period.

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\$10.0 million for scheduled long-term debt repayments. In the current-year period \$10.1 million of long-term debt was repaid compared with \$0.1 million of long-term debt in the prior-year period.

\$3.3 million for the repurchase of equity awards.

The higher repayment activity was partially offset by:

\$27.8 million cash received in March 2011 related to the unwinding of two Treasury locks.

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

	<b>Six Months Ended</b>	
	<b>March 31</b>	
	<b>2011</b>	<b>2010</b>
Shares issued:		
Direct Stock Purchase Plan		103,529
Retirement Savings Plan and Trust		79,722
1998 Long-Term Incentive Plan	663,555	409,535
Outside Directors Stock-for-Fee Plan	1,232	2,040
Total shares issued	664,787	594,826

The year-over-year change in the number of shares issued primarily reflects an increased number of shares issued under our 1998 Long-Term Incentive Plan due to the exercise of stock options during the current year. This increase was partially offset by the fact that we are purchasing shares in the open market rather than issuing new shares for the Direct Stock Purchase Plan and the Retirement Savings Plan. During the current period, we repurchased 124,185 shares attributable to equity awards and repurchased and retired 375,468 shares attributable to our accelerated share repurchase agreement which are not included in the table above.

**Share Repurchase Agreement**

On, July 1, 2010, we entered into an accelerated share repurchase agreement with Goldman Sachs & Co. under which we repurchased \$100 million of our outstanding common stock in order to offset stock grants made under our various employee and director incentive compensation plans.

We paid \$100 million to Goldman Sachs & Co. on July 7, 2010 for shares of Atmos Energy common stock in a share forward transaction and received 2,958,580 shares. On March 4, 2011, we received and retired an additional 375,468 common shares, which concluded our share repurchase agreement. In total, we received and retired 3,334,048 common shares under the repurchase agreement. The final number of shares we ultimately repurchased in the transaction was based generally on the average of the daily volume-weighted average share price of our common stock over the duration of the agreement. As a result of this transaction, beginning in our fourth fiscal quarter of 2010, the number of outstanding shares used to calculate our earnings per share was reduced by the number of shares received and the \$100 million purchase price was recorded as a reduction in shareholders' equity.

**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.

As of March 31, 2011, we financed our short-term borrowing requirements through a combination of a \$566.7 million commercial paper program and four committed revolving credit facilities with third-party lenders that provided approximately \$1.0 billion of working capital funding. As of March 31, 2011, the amount available to us under our credit facilities, net of outstanding letters of credit, was approximately \$906 million. These facilities are described in further detail in Note 5 to the unaudited condensed consolidated financial statements.

**Table of Contents****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. Due to certain restrictions imposed by one state regulatory commission on our ability to issue securities under the new registration statement, we will be able to issue a total of \$950 million in debt securities and \$350 million in equity securities. At March 31, 2011, no securities had been issued under the shelf registration statement.

**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 March 31, 2011, S&P maintained a stable outlook, while Moody's and Fitch maintained their rating outlook as positive. On March 31, 2011, Moody's placed us under review for a possible upgrade. Our current debt ratings are all considered investment grade and are as follows:

	<b>S&amp;P</b>	<b>Moody's</b>	<b>Fitch</b>
Unsecured senior long-term debt	BBB+	Baa2	BBB+
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 or other events 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 is AAA for S&P, Aaa for Moody's and AAA for Fitch. The lowest investment grade credit rating is BBB- for S&P, Baa3 for Moody's and BBB- for Fitch. 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 March 31, 2011. Our debt covenants are described in greater detail in Note 5 to the unaudited condensed consolidated financial statements.





**Table of Contents****Capitalization**

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

	<b>March 31, 2011</b>		<b>September 30, 2010</b>		<b>March 31, 2010</b>				
	<b>(In thousands, except percentages)</b>								
Short-term debt	\$		\$	126,100	2.8%	\$			
Long-term debt		2,159,757	47.6%	2,169,682	48.5%	2,169,606	48.1%		
Shareholders' equity		2,373,979	52.4%	2,178,348	48.7%	2,338,843	51.9%		
Total	\$	4,533,736	100.0%	\$	4,474,130	100.0%	\$	4,508,449	100.0%

Total debt as a percentage of total capitalization, including short-term debt, was 47.6 percent at March 31, 2011, 51.3 percent at September 30, 2010 and 48.1 percent at March 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 8 to the unaudited condensed consolidated financial statements. There were no significant changes in our contractual obligations and commercial commitments during the six months ended March 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 and six months ended March 31, 2011 and 2010:

<b>Three Months Ended</b>		<b>Six Months Ended</b>	
<b>March 31</b>		<b>March 31</b>	
<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>(In thousands)</b>			

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Fair value of contracts at beginning of period	\$ 26,806	\$ (17,470)	\$ (49,600)	\$ (14,166)
Contracts realized/settled	(18,064)	(13,390)	(51,045)	(34,418)
Fair value of new contracts	540	(1,288)	1,071	(2,236)
Other changes in value	21,251	10,413	130,107	29,085
Fair value of contracts at end of period	\$ 30,533	\$ (21,735)	\$ 30,533	\$ (21,735)

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

Source of Fair Value	Fair Value of Contracts at March 31, 2011				Total Fair Value
	Less Than 1	Maturity in Years		Greater Than 5	
		1-3	4-5 (In thousands)		
Prices actively quoted	\$ 30,533	\$	\$	\$	\$ 30,533
Prices based on models and other valuation methods					
<b>Total Fair Value</b>	<b>\$ 30,533</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$ 30,533</b>

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

	Three Months Ended		Six Months Ended	
	March 31		March 31	
	2011	2010	2011	2010
	(In thousands)			
Fair value of contracts at beginning of period	\$ (10,681)	\$ 32,306	\$ (12,374)	\$ 26,698
Contracts realized/settled	(1,009)	(22,030)	(75)	(24,242)
Fair value of new contracts				
Other changes in value	(1,252)	3,951	(493)	11,771
Fair value of contracts at end of period	(12,942)	14,227	(12,942)	14,227
Netting of cash collateral	17,053	7,199	17,053	7,199
Cash collateral and fair value of contracts at period end	\$ 4,111	\$ 21,426	\$ 4,111	\$ 21,426

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

Source of Fair Value	Fair Value of Contracts at March 31, 2011				Total Fair Value
	Less Than 1	Maturity in Years		Greater Than 5	
		1-3	4-5 (In thousands)		
Prices actively quoted	\$ (9,121)	\$ (3,851)	\$ 30	\$	\$ (12,942)

Prices based on models and other valuation methods

Total Fair Value	\$ (9,121)	\$ (3,851)	\$ 30	\$	\$ (12,942)
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**Pension and Postretirement Benefits Obligations**

For the six months ended March 31, 2011 and 2010, our total net periodic pension and other benefits costs were \$28.8 million and \$25.4 million. Those costs relating to our natural gas distribution operations are 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 2011 costs were determined using a September 30, 2010 measurement date. As of September 30, 2010, interest and corporate bond rates utilized to determine our discount rates, were significantly higher than the interest and corporate bond rates as of September 30, 2009, the measurement date for our fiscal 2010 net periodic cost. Accordingly, we decreased our discount rate used to determine our fiscal 2011 pension and benefit costs to 5.39 percent. We maintained the expected return on our pension plan assets at

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8.25 percent, despite the recent decline in the financial markets as we believe this rate reflects the average rate of expected earnings on plan assets that will fund our projected benefit obligation. Accordingly, our fiscal 2011 pension and postretirement medical costs for the six months ended March 31, 2011 were significantly higher than the prior-year period.

In August 2010, the Board of Directors of Atmos Energy approved a proposal to close the Pension Account Plan (PAP) to new participants, effective October 1, 2010. Employees participating in the PAP as of October 1, 2010 were allowed to make a one-time election to migrate from the PAP into our defined contribution plan with enhanced features, effective January 1, 2011. Participants who chose to remain in the PAP will continue to earn benefits and interest allocations with no changes to their existing benefits. During the election period, a limited number of participants chose to join the new plan, which resulted in an immaterial curtailment gain and a revaluation of the net periodic pension cost for the remainder of fiscal 2011. An immaterial curtailment gain was recorded in our second fiscal quarter. The revaluation of the net periodic pension cost resulted in an increase in the discount rate, effective January 1, 2011 to 5.68 percent, which will reduce our net periodic pension cost by approximately \$1.8 million for the remainder of the fiscal year. All other actuarial assumptions remained the same.

In accordance with the Pension Protection Act of 2006 (PPA), we determined the funded status of our plans as of January 1, 2011. Based upon this valuation, we expect we will be required to contribute less than \$2 million to our pension plans by September 15, 2011. 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 a total of approximately \$11 million to these plans during fiscal 2011.

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.

**Table of Contents****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 and six month periods ended March 31, 2011 and 2010.

**Natural Gas Distribution Sales and Statistical Data**

	<b>Three Months Ended March 31</b>		<b>Six Months Ended March 31</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>METERS IN SERVICE, end of period</b>				
Residential	2,930,594	2,937,163	2,930,594	2,937,163
Commercial	269,537	272,925	269,537	272,925
Industrial	2,384	2,496	2,384	2,496
Public authority and other	10,516	9,461	10,516	9,461
Total meters	3,213,031	3,222,045	3,213,031	3,222,045
<b>INVENTORY STORAGE BALANCE Bcf</b>	30.1	24.4	30.1	24.4
<b>SALES VOLUMES MMcf</b>				
Gas sales volumes				
Residential	85,707	100,858	137,531	161,404
Commercial	40,879	46,615	67,773	77,105
Industrial	6,148	6,660	11,402	11,979
Public authority and other	4,104	4,397	6,922	7,356
Total gas sales volumes	136,838	158,530	223,628	257,844
Transportation volumes	40,656	40,545	75,409	76,786
Total throughput	177,494	199,075	299,037	334,630
<b>OPERATING REVENUES (000 \$)</b>				
Gas sales revenues				
Residential	\$ 725,904	\$ 897,249	\$ 1,184,585	\$ 1,405,160
Commercial	296,280	366,260	492,343	585,680
Industrial	35,187	41,777	64,638	72,810
Public authority and other	27,631	32,386	46,261	52,584
Total gas sales revenues	1,085,002	1,337,672	1,787,827	2,116,234
Transportation revenues	18,879	18,219	35,462	34,694
Other gas revenues	9,323	10,097	17,110	17,954
Total operating revenues	\$ 1,113,204	\$ 1,365,988	\$ 1,840,399	\$ 2,168,882
Average transportation revenue per Mcf	\$ 0.46	\$ 0.45	\$ 0.47	\$ 0.45
Average cost of gas per Mcf sold	\$ 5.28	\$ 6.19	\$ 5.14	\$ 5.77

See footnote following these tables.

**Table of Contents***Regulated Transmission and Storage and Nonregulated Operations Sales and Statistical Data*

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>March 31</b>		<b>March 31</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
<b>CUSTOMERS, end of period</b>				
Industrial	753	727	753	727
Municipal	62	62	62	62
Other	513	498	513	498
Total	1,328	1,287	1,328	1,287
<b>NONREGULATED INVENTORY STORAGE</b>				
<b>BALANCE Bcf</b>	23.3	21.3	23.3	21.3
<b>REGULATED TRANSMISSION AND STORAGE VOLUMES MMcf</b>	174,471	192,441	327,649	350,214
<b>NONREGULATED DELIVERED GAS SALES VOLUMES MMcf</b>	127,377	123,877	235,089	226,138
<b>OPERATING REVENUES (000 \$)</b>				
Regulated transmission and storage	\$ 54,976	\$ 55,181	\$ 103,983	\$ 102,041
Nonregulated	583,531	677,032	1,059,171	1,225,048
Total operating revenues	\$ 638,507	\$ 732,213	\$ 1,163,154	\$ 1,327,089

Note to preceding tables:

(1) 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, 2010. During the six months ended March 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 March 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.

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**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 second quarter of the fiscal year ended September 30, 2011 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 six months ended March 31, 2011, except as noted in Note 8 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 12 to our Annual Report on Form 10-K for the fiscal year ended September 30, 2010. 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 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.

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**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: May 5, 2011

**Table of Contents****EXHIBITS INDEX****Item 6**

<b>Exhibit Number</b>	<b>Description</b>	<b>Page Number or Incorporation by Reference to</b>
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.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.