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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 fiscal period ended June 30, 2002

or

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

For the transition period from to

Commission file number 1-10042

**Atmos Energy Corporation**

*(Exact name of registrant as specified in its charter)*

**Texas and Virginia**  
*(State or other jurisdiction of  
incorporation or organization)*

**75-1743247**  
*(IRS Employer  
Identification No.)*

**Three Lincoln Centre, Suite 1800  
5430 LBJ Freeway, Dallas, Texas**  
*(Address of principal executive offices)*

**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

Number of shares outstanding of each of the issuer's classes of common stock, as of August 5, 2002.

<u>Class</u>	<u>Shares Outstanding</u>
No Par Value	41,519,759

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**PART I.**  
**FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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

	<b>June 30, 2002</b>	<b>September 30, 2001</b>
	<b>(Unaudited)</b>	
	<b>(In thousands)</b>	
<b>ASSETS</b>		
Property, plant and equipment .....	\$2,210,815	\$2,109,867
Less accumulated depreciation and amortization .....	<u>826,226</u>	<u>774,469</u>
Net property, plant and equipment .....	1,384,589	1,335,398
Current assets		
Cash and cash equivalents .....	7,003	15,263
Cash held on deposit in margin account .....	10,376	66,666
Accounts receivable, net .....	158,924	124,046
Inventories .....	4,895	6,041
Gas stored underground .....	55,614	89,555
Assets from risk management activities .....	27,178	95,968
Deferred gas cost .....	—	10,999
Other current assets and prepayments .....	<u>8,190</u>	<u>15,713</u>
Total current assets .....	272,180	424,251
Intangible assets .....	11,071	12,125
Goodwill .....	67,386	64,745
Noncurrent assets from risk management activities .....	7,359	29,771
Deferred charges and other assets .....	<u>178,387</u>	<u>169,890</u>
	<u>\$1,920,972</u>	<u>\$2,036,180</u>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>		
Shareholders' equity		
Common stock .....	\$ 207	\$ 204
Additional paid-in capital .....	503,415	489,948
Retained earnings .....	124,006	95,132
Accumulated other comprehensive income (loss) .....	<u>(1,251)</u>	<u>(1,420)</u>
Shareholders' equity .....	626,377	583,864
Long-term debt .....	<u>675,756</u>	<u>692,399</u>
Total capitalization .....	1,302,133	1,276,263
Current liabilities		
Current maturities of long-term debt .....	20,413	20,695
Short-term debt .....	45,492	201,247
Accounts payable and accrued liabilities .....	144,452	84,471
Taxes payable .....	21,365	11,620
Customers' deposits .....	31,312	32,351
Liabilities from risk management activities .....	20,129	119,484
Deferred gas cost .....	19,219	—
Other current liabilities .....	<u>48,779</u>	<u>41,161</u>
Total current liabilities .....	351,161	511,029
Deferred income taxes .....	157,488	138,934
Noncurrent liabilities from risk management activities .....	2,767	7,412
Deferred credits and other liabilities .....	<u>107,423</u>	<u>102,542</u>
	<u>\$1,920,972</u>	<u>\$2,036,180</u>

See accompanying notes to condensed consolidated financial statements

**ATMOS ENERGY CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

	Three Months Ended June 30	
	2002	2001
	(Unaudited) (In thousands, except per share data)	
Operating revenues .....	\$161,800	\$164,260
Purchased gas cost .....	87,967	102,981
Gross profit .....	73,833	61,279
Gas trading margin .....	12,259	(3,195)
Operating expenses		
Operation and maintenance .....	37,832	31,197
Depreciation and amortization .....	20,362	16,129
Taxes, other than income .....	8,720	7,584
Total operating expenses .....	66,914	54,910
Operating income .....	19,178	3,174
Miscellaneous income (expense) .....	(182)	644
Interest charges, net .....	13,823	9,232
Income (loss) before income taxes .....	5,173	(5,414)
Provision (benefit) for income taxes .....	1,919	(2,014)
Net income (loss) .....	\$ 3,254	\$ (3,400)
Basic net income (loss) per share .....	\$ 0.08	\$ (0.08)
Diluted net income (loss) per share .....	\$ 0.08	\$ (0.08)
Cash dividends declared per share .....	\$ .295	\$ .290
Weighted average shares outstanding:		
Basic .....	41,265	40,395
Diluted .....	41,370	40,395

See accompanying notes to condensed consolidated financial statements

**ATMOS ENERGY CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

	Nine Months Ended June 30	
	2002	2001
	(Unaudited) (In thousands, except per share data)	
Operating revenues .....	\$812,623	\$1,282,163
Purchased gas cost .....	479,542	972,612
Gross profit .....	333,081	309,551
Gas trading margin .....	29,026	(3,195)
Operating expenses		
Operation and maintenance .....	122,614	102,140
Depreciation and amortization .....	60,875	47,815
Taxes, other than income .....	29,661	30,395
Total operating expenses .....	213,150	180,350
Operating income .....	148,957	126,006
Equity in earnings of Woodward Marketing, L.L.C. ....	—	8,062
Miscellaneous income (expense) .....	(893)	(1,426)
Interest charges, net .....	44,304	31,295
Income before income taxes .....	103,760	101,347
Provision for income taxes .....	38,495	37,701
Net income .....	\$ 65,265	\$ 63,646
Basic net income per share .....	\$ 1.59	\$ 1.71
Diluted net income per share .....	\$ 1.59	\$ 1.70
Cash dividends declared per share .....	\$ .885	\$ .870
Weighted average shares outstanding:		
Basic .....	41,049	37,318
Diluted .....	41,144	37,422

See accompanying notes to condensed consolidated financial statements

**ATMOS ENERGY CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Nine Months Ended June 30	
	2002	2001
	(Unaudited) (In thousands)	
Cash Flows From Operating Activities		
Net income .....	\$ 65,265	\$ 63,646
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization:		
Charged to depreciation and amortization .....	60,875	47,815
Charged to other accounts .....	1,931	2,068
Deferred income taxes (benefit) .....	18,454	(191)
Other .....	(3,223)	—
Net assets/liabilities from risk management activities .....	(10,780)	—
Net change in operating assets and liabilities .....	169,144	32,180
Net cash provided by operating activities .....	301,666	145,518
Cash Flows From Investing Activities		
Capital expenditures .....	(89,768)	(70,305)
Acquisitions .....	(15,747)	—
Retirements of property, plant and equipment, net .....	(1,930)	(515)
Assets for leasing activities .....	(6,880)	(4,890)
Increase in cash from acquisition .....	—	13,129
Proceeds from sale of assets, net .....	—	6,625
Net cash used in investing activities .....	(114,325)	(55,956)
Cash Flows From Financing Activities		
Net decrease in short-term debt .....	(155,755)	(125,810)
Cash dividends paid .....	(36,391)	(32,314)
Repayment of long-term debt .....	(16,925)	(13,803)
Net proceeds from issuance of long-term debt .....	—	347,099
Issuance of common stock .....	13,470	10,327
Net proceeds from equity offering .....	—	142,043
Net cash provided (used) by financing activities .....	(195,601)	327,542
Net increase (decrease) in cash and cash equivalents .....	(8,260)	417,104
Cash and cash equivalents at beginning of period .....	15,263	7,379
Cash and cash equivalents at end of period .....	\$ 7,003	\$ 424,483

See accompanying notes to condensed consolidated financial statements

**ATMOS ENERGY CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**  
**June 30, 2002**

**1. Unaudited Interim Financial Information**

In the opinion of management, all material adjustments (consisting of only normal recurring accruals) necessary for a fair presentation have been made to the unaudited interim period financial statements. Because of seasonal and other factors, the results of operations for the nine month period ended June 30, 2002 are not indicative of expected results of operations for the year ending September 30, 2002. These interim financial statements and notes 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 in its Annual Report on Form 10-K for the fiscal year ended September 30, 2001.

*Principles of consolidation* — The accompanying condensed consolidated financial statements include the accounts of Atmos Energy Corporation and its wholly-owned subsidiaries. All material intercompany transactions have been eliminated.

Prior to April 1, 2001, we owned a 45 percent interest in Woodward Marketing, L.L.C. and accounted for that ownership using the equity method of accounting for investments. Beginning April 1, 2001, we owned 100 percent of Woodward Marketing and have accounted for that ownership on a consolidated basis.

*Common stock* — As of June 30, 2002, we had 100,000,000 shares of common stock, no par value (stated at \$.005 per share), authorized and 41,445,585 shares outstanding. At September 30, 2001, we had 40,791,501 shares outstanding.

*Goodwill* — Total goodwill was \$67.4 million and \$64.7 million at June 30, 2002 and September 30, 2001. Goodwill applicable to the utility segment was \$37.5 million and \$36.9 million at June 30, 2002 and September 30, 2001. Goodwill applicable to the non-regulated segment was \$29.9 million and \$27.8 million at June 30, 2002 and September 30, 2001. Goodwill applicable to the utility segment resulted from the acquisition of the Louisiana Gas Service Company assets on July 1, 2001 and is not subject to amortization under the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"). Goodwill applicable to the non-regulated segment was amortized over 20 years until September 30, 2001. Effective October 1, 2001, goodwill applicable to the non-regulated segment was not amortized under the provisions of SFAS No. 142. The proforma effect on goodwill amortization of adopting SFAS No. 142 is not material.

Under the provisions of SFAS No. 142, we evaluate our goodwill balance annually for impairment. The initial evaluation took place during the second quarter of our current fiscal year. No impairment of our goodwill balance was indicated as a result of this evaluation.

*Impairment of Intangible Assets* — We periodically evaluate whether events or circumstances have occurred that indicate that the value of intangible assets may have been impaired. When such events or circumstances are present, we assess the value of intangible assets by determining whether the carrying amount will be recovered through the expected future cash flows. In the event the sum of the expected future cash flows resulting from the use of the asset is less than the carrying amount, an impairment loss equal to the excess of the asset's carrying value over its fair value is recorded. To date, no such impairment has been recognized.

*Revenue recognition* — Sales of natural gas are billed on a monthly cycle basis; however, the billing cycle periods for certain classes of customers do not necessarily coincide with accounting periods used for financial reporting purposes. We follow the revenue accrual method of accounting for natural gas revenues whereby revenues applicable to gas delivered to customers, but not yet billed under the cycle billing method, are estimated and accrued and the related costs are charged to expense. Estimated losses due to credit risk are reserved at the time revenue is recognized.

**ATMOS ENERGY CORPORATION**

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

*Accounts receivable and allowance for doubtful accounts* — Accounts receivable consists of natural gas sales to residential, commercial, industrial, agricultural and other customers. The allowance for doubtful accounts is computed based on the aging of outstanding accounts receivable and historical collections experience and, in management’s opinion, represents an adequate allowance to provide for probable uncollectable accounts. The allowance for doubtful accounts was \$17.9 million and \$16.2 million at June 30, 2002 and September 30, 2001.

*Risk management assets and liabilities, utility segment* — Our business units entered into financial instruments for the 2001-2002 heating season. The purpose of entering into these financial instruments was to protect us and our customers from unusually large winter period gas price increases. We use the mark-to-market method to account for these activities in accordance with Statement of Financial Accounting Standards No. 133, “Accounting for Derivative Instruments and Hedging Activities,” as amended. In accordance with Financial Accounting Standards No. 71, “Accounting for the Effects of Certain Types of Regulation”, current period changes in the assets and liabilities from risk management activities were recorded as deferred gas costs on the condensed consolidated balance sheet as these costs will ultimately be recovered from ratepayers. Accordingly, there was no earnings impact as a result of the use of these financial instruments. Upon maturity, the contracts were recognized in purchased gas cost.

*Risk management assets and liabilities, non-regulated segment* — We use storage, transportation and requirements contracts, forwards, over-the-counter and exchange-traded options, futures and swap contracts to conduct our risk management activities.

We use the mark-to-market method to account for these activities in accordance with Emerging Issues Task Force Issue No. 98-10, “Accounting for Energy Trading and Risk Management Activities.” Under this method, the aforementioned contracts are reflected at fair value, inclusive of future servicing costs and valuation adjustments, with resulting unrealized gains and losses recorded as assets or liabilities from risk management activities on the condensed consolidated balance sheet. Current period changes in the assets and liabilities from risk management activities are recognized as net gains or losses on the condensed consolidated statement of income as gas trading margin. Changes in the assets and liabilities from risk management activities result primarily from changes in the valuation of the portfolio of contracts, maturity and settlement of contracts and newly originated transactions. Market prices used to value these transactions reflect our best estimate considering various factors including closing exchange and over-the-counter quotations, time value and volatility factors underlying the contracts. Values are adjusted to reflect the potential impact of liquidating our positions in an orderly manner over a reasonable period of time under present market conditions. Changes in market prices directly affect our estimate of the fair value of these transactions. Current period changes in assets and liabilities from risk management activities do not impact cash in the current period. Cash is impacted when outstanding contracts are closed.

*Comprehensive income* — The following table presents the components of comprehensive income, net of related tax, for the three-month and nine-month periods ended June 30, 2002 and 2001:

	<b>Three Months Ended June 30</b>	
	<b>2002</b>	<b>2001</b>
	<b>(In thousands)</b>	
Net income (loss) .....	\$3,254	\$(3,400)
Unrealized holding gains (losses) on investments .....	(92)	60
Comprehensive income (loss) .....	<u>\$3,162</u>	<u>\$(3,340)</u>

**ATMOS ENERGY CORPORATION**

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

	Nine Months Ended June 30	
	2002	2001
	(In thousands)	
Net income .....	\$65,265	\$63,646
Unrealized holding gains (losses) on investments .....	169	(2,221)
Comprehensive income .....	\$65,434	\$61,425

The only components of accumulated other comprehensive income (loss), net of related tax, relate to unrealized holding gains and losses associated with certain available for sale investments.

*Use of estimates* — The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Recently issued accounting standards not yet adopted* — In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143, “Accounting for Asset Retirement Obligations.” This Statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. This Statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. We are currently in the process of evaluating the impact the adoption of this Statement will have on our financial condition, results of operations and net cash flows.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.” This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001. We are currently in the process of evaluating the impact the adoption of this Statement will have on our financial condition, results of operations and net cash flows.

*Reclassifications* — Certain prior year amounts have been reclassified to conform with the current year presentation.

**2. Contingencies**

*Litigation*

*Greeley Gas Division*

On September 23, 1999, a suit was filed in the District Court of Stevens County, Kansas, by Quinque Operating Company, Tom Boles and Robert Ditto, against more than 200 companies in the natural gas industry including us and our Greeley Gas Division. The original plaintiffs have since withdrawn from the case and on December 31, 2001, were substituted with Will Price, Stixon Petroleum Inc., Tom Boles and The Cooper Clark Foundation as plaintiffs. The plaintiffs, who purport to represent a class consisting of gas producers, royalty owners, overriding royalty owners, working interest owners and state taxing authorities, accuse the defendants of underpaying royalties on gas taken from wells situated on non-federal and non-Indian lands throughout the United States and offshore waters predicated upon allegations that the defendants’ gas measurements are simply inaccurate and that the defendants failed to comply with applicable regulations and industry standards over the last 25 years. Although the plaintiffs do not specifically allege an amount of damages, they contend that this suit is brought to recover billions of dollars in revenues that the defendants have allegedly unlawfully diverted from the plaintiffs to themselves. On April 10, 2000, this case was

## ATMOS ENERGY CORPORATION

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

consolidated for pre-trial proceedings with other similar pending litigation in federal court in Wyoming in which we are also a defendant along with over 200 other defendants in the case of In Re Natural Gas Royalties Quitam Litigation. In January 2001, the federal court in Wyoming remanded this case back to the Kansas state court. A reconsideration of remand was filed, but it was denied. The Kansas state court now has jurisdiction over this proceeding and has issued a preliminary case management order. We believe that the plaintiffs' claims are lacking in merit, and we intend to vigorously defend this action. While the results of this litigation cannot be predicted with certainty, we believe the final outcome of such litigation will not have a material adverse effect on our financial condition, results of operations or net cash flows because we believe that we have adequate insurance and/or reserves to cover any damages that may ultimately be awarded.

#### *Energas Division*

On May 18, 2001, a suit was filed in the 99th District Court of Lubbock County, Texas, by the City of Lubbock, Texas, and the West Texas Municipal Agency against Stewart & Stevenson Energy Products, Inc., a division of GE Packaged Power, Inc. ("GE") and our Energas Division. The action arises out of (i) the construction and installation of a gas-fired electric generating facility designed and installed by GE and (ii) the design and installation by our Energas Division of the natural gas pipeline that provides natural gas to the facility. The plaintiffs allege that they incurred damages as a result of certain corrosive products that were introduced into the facility's turbine that damaged the turbine and necessitated repair costs of approximately \$0.9 million and consequential damages of approximately \$4.7 million, as a result of electric power purchases made by the plaintiffs from other sources while the facility was inoperative or operating below specifications. The causes of action asserted by the plaintiffs against the Energas Division include breach of contract, breach of warranty and negligence. We have denied any liability and intend to vigorously defend against the plaintiffs' claims. While the results of this litigation cannot be predicted with certainty, we believe the final outcome of such litigation will not have a material adverse effect on our financial condition, results of operations or net cash flows because we believe that we have adequate insurance and/or reserves to cover any damages that may ultimately be awarded.

On February 13, 2002, a suit was filed in the 287th District Court of Parmer County, Texas by Anderson Brothers, a Partnership, against Atmos Energy Corporation, et al. The plaintiffs' claims arise out of an alleged breach of contract by us and by a number of our divisions and subsidiaries concerning the sale of natural gas used in irrigation activities since 1998 and an alleged violation of the Texas Agricultural Gas Users Act of 1985. The Court has ruled proper venue to be in Parmer County, Texas. We have been responding to numerous discovery requests from the plaintiffs. We have also filed suit in Travis County, Texas to have the Texas Agricultural Gas Users Act of 1985 to be declared unconstitutional. The plaintiffs seek class action status and to recover unspecified damages plus attorney's fees. We have denied any liability and intend to vigorously defend against the plaintiffs' claims.

We have a receivable from a supplier related to over payment for deliveries of gas. A lawsuit was filed and we believe the receivable is fully recoverable.

#### *Atmos Energy Louisiana Gas Division*

Prior to our acquisition of the assets of Louisiana Gas Service Company, a division of Citizens Communications Company, on July 1, 2001, Louisiana Gas Service Company was involved in a proceeding with the Louisiana Public Service Commission relating to past costs associated with the purchase of gas that it charged to its customers. Subsequent to our acquisition of the Louisiana Gas assets on July 1, 2001, we agreed to take responsibility for assuring the payment of refunds and/or credits to ratepayers that may arise from Citizens Communications' past activities with respect to purchased gas costs. On April 10, 2002, the Louisiana Public Service Commission issued a Report of Proceedings in which it approved a Stipulation and

## ATMOS ENERGY CORPORATION

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Agreement between Citizens Communications, Atmos and the Commission Staff. This Stipulation and Agreement resulted in no refunds being due to customers.

#### *United Cities Propane Gas, Inc.*

United Cities Propane Gas, Inc., one of our wholly-owned subsidiaries, is a party to a suit filed in June 2000 which is pending in the Circuit Court of Sevier County, Tennessee. The plaintiffs' claims arise out of injuries alleged to have been caused by a low-level propane explosion. The plaintiffs seek to recover damages of \$13.0 million. Discovery activities have begun in this case. We have denied any liability, and we intend to vigorously defend against the plaintiffs' claims. While the results of this litigation cannot be predicted with certainty, we believe the final outcome of such litigation will not have a material adverse effect on our financial condition, results of operations or net cash flows because we believe that we have adequate insurance and/or reserves to cover any damages that may ultimately be awarded.

We are a party to other litigation and claims that arise in the ordinary course of our business. While the results of such litigation and claims cannot be predicted with certainty, we believe the final outcome of such litigation and claims will not have a material adverse effect on our financial condition, results of operations or net cash flows because we believe that we have adequate insurance and/or reserves to cover any damages that may ultimately be awarded.

#### **Environmental Matters**

##### *Manufactured Gas Plant Sites*

Our United Cities Gas Division is the owner or previous owner of manufactured gas plant sites in Johnson City and Bristol, Tennessee and Hannibal, Missouri which were used to supply gas prior to availability of natural gas. The gas manufacturing process resulted in certain by-products and residual materials including coal tar. The manufacturing process used by our predecessors was an acceptable and satisfactory process at the time such operations were being conducted. Under current environmental protection laws and regulations, we may be responsible for response actions with respect to such materials if response actions become necessary.

United Cities Gas Company and the Tennessee Department of Environment and Conservation entered into a consent order effective January 23, 1997, to facilitate the investigation, removal and remediation of the Johnson City site. United Cities began the implementation of the consent order in the first quarter of 1997 which has continued through June 30, 2002. The investigative phase of the work at the site has been completed. An interim removal action was completed in June 2001. United Cities is in the process of conducting a risk assessment at the site.

In February 2002, the Tennessee Department of Environment and Conservation contacted our United Cities Gas Division concerning the former manufactured gas plant in Bristol, Tennessee. In May 2002, our United Cities Gas Division completed a preliminary assessment of this location to learn more about the history and operation of the manufactured gas plant, including limited sampling activities. Our United Cities Gas Division is in the process of identifying and locating other potentially responsible parties and intends to contact them in an effort to have them join in any future remedial activities at the site.

On July 22, 1998, we entered into an Abatement Order on Consent with the Missouri Department of Natural Resources addressing the former manufactured gas plant located in Hannibal, Missouri. Through our United Cities Gas Division, we agreed to perform a removal action, a subsequent site evaluation and to reimburse the response costs incurred by the State of Missouri in connection with the property. The removal action was conducted and completed in August 1998, and the site evaluation field work was conducted in August 1999. A risk assessment for the site is currently being performed. On March 9, 1999, the Missouri Public Service Commission issued an Order authorizing us to defer the costs associated with this site until

## ATMOS ENERGY CORPORATION

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

March 9, 2001. A renewal of the Order has been requested. The matter is still pending before the Commission.

As of June 30, 2002, we had incurred costs of approximately \$0.9 million for the investigations of the Johnson City and Bristol, Tennessee and Hannibal, Missouri sites and had a remaining accrual relating to these sites of \$0.7 million.

#### *Mercury Contamination Sites*

We have completed investigation and remediation activities pursuant to Consent Orders between the Kansas Department of Health and Environment and United Cities Gas Company. The Orders provided for the investigation and remediation of mercury contamination at gas pipeline sites which utilize or formerly utilized mercury meter equipment in Kansas. The Final Interim Characterization and Remediation Report has been submitted to the Kansas Department of Health. We have agreed to amendments of the Orders with the Kansas Department of Health to include all mercury meters that belonged to our Greeley Gas Division before the merger with United Cities Gas Company on July 31, 1997. These sites will be investigated in 2003 and any necessary remediation will be performed. As of June 30, 2002, we had incurred costs of \$0.1 million for these sites and had a remaining accrual of \$0.3 million for recovery. The Kansas Corporation Commission has authorized us to defer these costs and seek recovery in a future rate case.

We are a party to other environmental matters and claims, including those discussed above, that arise in the ordinary course of our business. While the ultimate results of response actions to these environmental matters and claims cannot be predicted with certainty, we believe the final outcome of such response actions will not have a material adverse effect on our financial condition, results of operations or net cash flows because we believe that the expenditures related to such response actions will either be recovered through rates, shared with other parties or covered by adequate insurance or reserves.

### **3. Short-term Debt**

At June 30, 2002, short-term debt was composed of \$30.0 million of commercial paper and \$15.5 million outstanding under bank credit facilities.

#### *Committed credit facilities*

We have short-term committed credit facilities totaling \$318.0 million. One short-term unsecured credit facility is for \$300.0 million and serves as a backup liquidity facility for our commercial paper program. Effective July 31, 2002, this credit facility was renegotiated for \$300.0 million. Our commercial paper is rated A-2 by Standard and Poor's, P-2 by Moody's and F-2 by Fitch. At June 30, 2002, \$30.0 million of commercial paper was outstanding. We have a second credit facility in place for \$18.0 million. At June 30, 2002, \$15.5 million was outstanding under this credit facility. These credit facilities are negotiated at least annually and are used for working capital purposes.

#### *Uncommitted credit facilities*

Our Woodward Marketing subsidiary has an uncommitted demand credit facility for \$125.0 million which is used for its non-regulated business. Atmos Energy Marketing, LLC, our wholly-owned subsidiary, is the sole guarantor of all amounts outstanding under this facility. At June 30, 2002, no amount was outstanding under this credit facility. Related letters of credit totaling \$55.6 million reduced the amount available under this facility. This facility is used for working capital purposes. Effective July 1, 2002, this facility was renegotiated to increase the amount available to \$210.0 million and change the sole guarantor to Atmos Energy Holdings, Inc., also our wholly-owned subsidiary and parent company of Atmos Energy Marketing, LLC.

**ATMOS ENERGY CORPORATION**

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

We also have an unsecured short-term uncommitted credit line for \$20.0 million. No amounts were outstanding under this credit facility at June 30, 2002. This uncommitted line is renewed or renegotiated at least annually with varying terms, and we pay no fee for the availability of the line. Borrowings under this line are made on a when- and as-available basis at the discretion of the bank. This facility is also used for working capital purposes.

In addition, Woodward Marketing has up to \$100.0 million of credit available from Atmos Energy Marketing, LLC for its non-regulated business. At June 30, 2002, \$8.0 million was outstanding. Effective July 1, 2002, Atmos Energy Holdings, Inc. replaced Atmos Energy Marketing, LLC as the provider of such credit to Woodward Marketing. This intercompany facility is subordinated in terms of repayment to the \$210.0 million uncommitted demand credit facility described above.

**4. Earnings Per Share**

Basic earnings per share has been computed by dividing net income for the period by the weighted average number of common shares outstanding during the period. Diluted earnings per share has been computed by dividing net income for the period by the weighted average number of common shares outstanding during the period adjusted for the assumed exercise of restricted stock and other contingently issuable shares of common stock. Net income for basic and diluted earnings per share are the same, as there are no contingently issuable shares of stock whose issuance would have impacted net income. A reconciliation between basic and diluted weighted average common shares outstanding follows:

	<b>For the Three Months Ended June 30</b>	
	<b>2002</b>	<b>2001</b>
	<b>(In thousands)</b>	
Weighted average common shares — basic .....	41,265	40,395
Effect of dilutive securities:		
Restricted stock .....	67	—
Stock options .....	38	—
Weighted average common shares — assuming dilution .....	<u>41,370</u>	<u>40,395</u>
	<b>For the Nine Months Ended June 30</b>	
	<b>2002</b>	<b>2001</b>
	<b>(In thousands)</b>	
Weighted average common shares — basic .....	41,049	37,318
Effect of dilutive securities:		
Restricted stock .....	67	92
Stock options .....	28	12
Weighted average common shares — assuming dilution .....	<u>41,144</u>	<u>37,422</u>

**5. Derivative Instruments and Hedging Activities**

Effective October 1, 2000, we adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended. This Statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that all derivative financial instruments be

## ATMOS ENERGY CORPORATION

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

recognized in the financial statements and measured at fair value regardless of the purpose or intent for holding them. In our utility operations, changes in the fair value of derivative financial instruments are recognized periodically as deferred gas costs. The cumulative effect of the change in accounting for the adoption of this Statement did not have a material impact on our financial position, results of operations or net cash flows.

#### *Weather Hedges and Insurance*

In July 2000, we entered into an agreement to purchase weather hedges for our Texas and Louisiana operations effective for the 2000-2001 heating season. The hedges were designed to help mitigate the effects of weather that was at least seven percent warmer than normal in both Texas and Louisiana while preserving any upside. The cost of the weather hedges was approximately \$4.9 million which was amortized over the 2000-2001 heating season. No income was recognized for the 2000-2001 heating season for these weather hedges due to the colder than normal weather.

In June 2001, we purchased a three year weather insurance policy with an option to cancel in the third year if we obtain weather protection in our rate structures. The policy is for our Texas and Louisiana operations and covers the entire heating season of October to March beginning with the 2001-2002 heating season. The cost of the three year policy was approximately \$13.2 million which was prepaid and is being amortized over the appropriate heating seasons based on degree days. The insurance is designed to protect against weather that is at least seven percent warmer than normal for the entire heating season. During the 2001-2002 heating season, weather was not at least seven percent warmer than normal resulting in no claim having been filed under the insurance policy. Only the amortization of \$4.4 million of premiums was recognized during the heating season.

#### *Utility Hedging Activities*

Historically we have effectively hedged 20 percent of the gas supply required during our annual October through March heating season by utilizing our underground storage assets. For the 2001-2002 heating season, we covered approximately 64 percent of our anticipated flowing gas requirements through storage and futures and fixed forward contracts.

In accordance with Statement of Financial Accounting Standards No. 133, we use the mark-to-market method to account for our financial instruments discussed previously.

In accordance with Statement of Financial Accounting Standards No. 71 "Accounting for the Effects of Certain Types of Regulation", current period changes in the assets and liabilities from risk management activities are recorded as deferred gas costs on the condensed consolidated balance sheet as these costs will ultimately be recovered from ratepayers. Accordingly, there is no earnings impact as a result of the use of these financial instruments. Upon maturity, the contracts are recognized in purchased gas cost.

#### *Non-Regulated Hedging Activities*

At the close of business on June 30, 2002, we had outstanding contracts representing 1.0 Bcf of net notional volumes with average contract maturities of less than two years. These contracts were marked to market. Contracts representing 59 percent of the fair value of these contracts are scheduled to mature within one year. Contracts representing 39 percent of the remaining fair value are scheduled to mature within three years.

Effective April 1, 2001, natural gas sales from our natural gas trading operations have been netted against purchased gas costs and shown as gas trading margin on the condensed consolidated statements of income. For the three months ended June 30, 2002, our gas trading margin consisted of a \$2.8 million realized trading gain

## ATMOS ENERGY CORPORATION

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

and a \$9.5 million unrealized trading gain. For the nine months ended June 30, 2002, our gas trading margin consisted of a \$37.1 million realized trading gain and a \$8.1 million unrealized trading loss.

We acquired a 45 percent interest in Woodward Marketing, L.L.C. in 1997 as a result of the merger of Atmos and United Cities Gas Company, which had acquired that interest in 1995. On April 1, 2001, we acquired the 55 percent interest that we did not own from J.D. Woodward and others for 1,423,193 restricted shares of our common stock. Immediately following the acquisition, Mr. Woodward was elected as a Senior Vice President of Atmos in charge of all non-regulated business activities, a position he has held since April 1, 2001. Prior to that time, Mr. Woodward had not been an officer or employee of Atmos.

The principal business of Atmos Energy Marketing, including the activities of Woodward Marketing and Trans Louisiana Industrial Gas Company, Inc., is the overall management of natural gas requirements for municipalities, local gas utility companies and industrial customers located primarily in the southwestern and midwestern United States. This business involves the sale of natural gas by Woodward Marketing to its customers and the management of storage and transportation contracts for its customers under contracts generally having one to two-year terms. At June 30, 2002, Woodward Marketing had a total of 102 municipal and local gas utility customers and 324 industrial customers. Woodward Marketing also sells natural gas to certain of its industrial customers on a delivered burner tip basis under contract terms from 30 days to two years. In addition, Woodward Marketing supplies our regulated operations with a portion of our natural gas requirements on a competitive bid basis. Any mark-to-market gains or losses on these affiliate contracts are eliminated.

In the management of natural gas requirements for municipal and other local utilities, Woodward Marketing sells physical natural gas to those customers for future delivery and manages the associated price risk through the use of gas futures, including forwards, over-the-counter and exchange-traded options and swap contracts with counterparties. These financial contracts are marked-to-market daily at the close of business. Woodward Marketing links gas futures to physical delivery of natural gas and balances its futures positions at the end of each trading day. Over-the-counter swap agreements require Woodward Marketing to receive or make payments based on the difference between a fixed price and the market price of natural gas on the settlement date. Woodward Marketing uses these futures and swaps to manage margins on offsetting fixed-price purchase or sale commitments for physical quantities of natural gas, which are also carried on a mark-to-market basis. Options held to manage price risk provide the right, but not the requirement, to buy or sell energy commodities at a fixed price. Woodward Marketing uses options to manage margins and to limit overall price risk exposure. At any point in time, Woodward Marketing may not have completely offset its price risk on these activities.

Energy related services provided by Woodward Marketing include the sale of natural gas to its various customer classes and management of transportation and storage assets and inventories. More specifically, energy services include contract negotiation and administration, load forecasting, storage acquisition, natural gas purchase and delivery and capacity utilization strategies. In providing these services, Woodward Marketing generates income from its utility, municipal and industrial customers through negotiated prices based on the volume of gas supplied to the customer. Woodward Marketing also generates income by taking advantage of the difference between near-term gas prices and prices for future delivery as well as the daily movement of gas prices by utilizing storage and transportation capacity that it controls.

Prior to May 2002, Woodward Marketing engaged in financial trading for speculative purposes. Financial trading involves utilizing financial instruments (futures, options, swaps, etc.) to hedge natural gas prices or to take a position in the market based on anticipated price movement. In some prior years, Woodward Marketing experienced losses in its financial speculative trading business. Effective in May 2002, Woodward Marketing's financial trading for speculative purposes was discontinued. Woodward Marketing will continue its financial trading for hedging (risk management purposes) related to its physical trading positions. With regard to its physical trading business, Woodward Marketing does engage in limited speculative natural gas trading for its

## ATMOS ENERGY CORPORATION

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

own account primarily related to its storage activity, subject to a risk management policy established by us which limits the level of trading loss to a maximum of \$8.9 million in fiscal 2002. Physical trading involves utilizing physical assets (storage and transportation) to sell and deliver gas to customers or to take a position in the market based on anticipated price movement. Compliance with such risk management policy is monitored on a daily basis. In addition, Woodward Marketing's bank credit facility limits trading positions that are not closed at the end of the day (open positions) to 5.0 Bcf of natural gas. At June 30, 2002, Woodward Marketing's net open positions in its trading operations totaled 1.0 Bcf. In its speculative trading, Woodward Marketing's open trading positions are monitored on a daily basis but are not required to be closed if they remain within the limits set by the bank loan agreement. In addition to the price risk of any net open position at the end of each trading day, the financial exposure that results from the daily fluctuations of gas prices and the potential for daily price movements constitutes a risk of loss since the price of natural gas purchased or sold for future delivery at the beginning of the day may not be hedged until later in the day.

Financial instruments, which subject Woodward Marketing to counterparty risk, consist primarily of financial instruments arising from trading and risk management activities and overnight repurchase agreements that are not insured. Counterparty risk is the risk of loss from nonperformance by financial counterparties to a contract. Exchange-traded future and option contracts are generally guaranteed by the exchanges.

Woodward Marketing's operations are concentrated in the natural gas industry, and its customers and suppliers may be subject to economic risks affecting that industry.

#### **6. Segment Information**

Our determination of reportable segments considers, in part, the strategic operating units under which we manage sales of various products and services to customers in differing regulatory environments. The accounting policies of the segments are the same as those described in the summary of significant accounting policies included in Note 1 of notes to consolidated financial statements in our Annual Report on Form 10-K for the year ended September 30, 2001. All intersegment sales prices are market based. We evaluate performance based on net income or loss of the respective operating units.

In accordance with Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information", we have identified the Utility and Non-regulated segments. For an expanded description of these segments, refer to Note 1 of notes to consolidated financial statements in our Annual Report on Form 10-K for the year ended September 30, 2001. We consider each business unit within our utility segment to be a reporting unit of the utility segment and not a reportable segment. Our chief executive officer makes decisions about allocating resources to the utility segment as a whole and not to individual reporting units. The individual operations that comprise the non-regulated segment are not currently material to our consolidated financial position or results of operations and therefore do not require separate reporting. Prior to April 1, 2001, we owned a 45 percent interest in Woodward Marketing and accounted for that ownership using the equity method of accounting for investments. Beginning April 1, 2001, we own 100 percent of Woodward Marketing and have accounted for that ownership on a consolidated basis.

**ATMOS ENERGY CORPORATION**

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

Summarized financial information concerning our reportable segments for the three months and nine months ended June 30, 2002 and 2001 are shown in the following tables:

	<u>Utility</u>	<u>Non-Regulated</u>	<u>Total</u>
	<b>(In thousands)</b>		
For the three months ended			
June 30, 2002:			
Operating revenues for reportable segments .....	\$159,493	\$ 4,058	\$163,551
Elimination of intersegment revenues .....	<u>(271)</u>	<u>(1,480)</u>	<u>(1,751)</u>
Total operating revenues .....	159,222	2,578	161,800
Net income (loss) .....	(1,954)	5,208	3,254
June 30, 2001:			
Operating revenues for reportable segments .....	\$155,868	\$ 9,519	\$165,387
Elimination of intersegment revenues .....	<u>(316)</u>	<u>(811)</u>	<u>(1,127)</u>
Total operating revenues .....	155,552	8,708	164,260
Net loss .....	(123)	(3,277)	(3,400)

	<u>Utility</u>	<u>Non-Regulated</u>	<u>Total</u>
	<b>(In thousands)</b>		
As of and for the nine months ended			
June 30, 2002:			
Operating revenues for reportable segments .....	\$ 801,460	\$ 21,357	\$ 822,817
Elimination of intersegment revenues .....	<u>(1,219)</u>	<u>(8,975)</u>	<u>(10,194)</u>
Total operating revenues .....	800,241	12,382	812,623
Net income .....	51,567	13,698	65,265
Total assets .....	1,748,231	310,675	2,058,906
June 30, 2001:			
Operating revenues for reportable segments .....	\$1,231,622	\$ 54,431	\$1,286,053
Elimination of intersegment revenues .....	<u>(1,434)</u>	<u>(2,456)</u>	<u>(3,890)</u>
Total operating revenues .....	1,230,188	51,975	1,282,163
Net income .....	58,656	4,990	63,646
Total assets .....	1,655,305	288,894	1,944,199

A reconciliation of total assets for the reportable segments to total consolidated assets for June 30, 2002 and 2001 is presented below:

	<u>June 30</u>	
	<u>2002</u>	<u>2001</u>
	<b>(In thousands)</b>	
Total assets for reportable segments .....	\$2,058,906	\$1,944,199
Elimination of intercompany accounts .....	<u>(137,934)</u>	<u>(71,394)</u>
Total consolidated assets .....	<u>\$1,920,972</u>	<u>\$1,872,805</u>

**ATMOS ENERGY CORPORATION**

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

**7. Supplemental Disclosures**

The following supplemental condensed financial statements show Atmos Energy Corporation, consisting of Atmos' regulated natural gas divisions; Atmos Energy Holdings Inc., consisting of Atmos' non-regulated subsidiaries; and the elimination of material intercompany transactions. The following supplemental condensed balance sheet is as of June 30, 2002.

	<u>Atmos Energy Corporation</u>	<u>Atmos Energy Holdings, Inc.</u>	<u>Eliminations</u>	<u>Consolidated</u>
	(In thousands)			
<b>ASSETS</b>				
Property, plant and equipment, net . . . . .	\$1,310,901	\$ 73,688	\$ —	\$1,384,589
Investment in subsidiaries . . . . .	120,024	(5,290)	(114,734)	—
Current assets				
Cash and cash equivalents . . . . .	(3,142)	10,145	—	7,003
Cash held on deposit in margin account . . . . .	—	10,376	—	10,376
Accounts receivable, net . . . . .	61,261	117,145	(19,482)	158,924
Inventories . . . . .	4,628	267	—	4,895
Gas stored underground . . . . .	25,004	30,610	—	55,614
Assets from risk management activities . . . . .	—	30,896	(3,718)	27,178
Other current assets and prepayments . . . . .	3,717	4,473	—	8,190
Intercompany receivables . . . . .	<u>57,707</u>	<u>(57,707)</u>	<u>—</u>	<u>—</u>
Total current assets . . . . .	149,175	146,205	(23,200)	272,180
Intangible assets . . . . .	—	11,071	—	11,071
Goodwill . . . . .	37,489	29,897	—	67,386
Noncurrent assets from risk management activities	—	7,359	—	7,359
Deferred charges and other assets . . . . .	<u>130,642</u>	<u>47,745</u>	<u>—</u>	<u>178,387</u>
	<u>\$1,748,231</u>	<u>\$310,675</u>	<u>\$(137,934)</u>	<u>\$1,920,972</u>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>				
Shareholders' equity . . . . .	\$ 626,377	\$120,024	\$(120,024)	\$ 626,377
Long-term debt . . . . .	<u>672,546</u>	<u>3,210</u>	<u>—</u>	<u>675,756</u>
Total capitalization . . . . .	1,298,923	123,234	(120,024)	1,302,133
Current liabilities				
Current maturities of long-term debt . . . . .	19,307	1,106	—	20,413
Short-term debt . . . . .	45,492	—	—	45,492
Liabilities from risk management activities . . . . .	423	19,706	—	20,129
Deferred gas cost . . . . .	13,963	5,256	—	19,219
Other current liabilities . . . . .	<u>126,046</u>	<u>137,772</u>	<u>(17,910)</u>	<u>245,908</u>
Total current liabilities . . . . .	205,231	163,840	(17,910)	351,161
Deferred income taxes . . . . .	144,602	12,886	—	157,488
Noncurrent liabilities from risk management activities . . . . .	—	2,767	—	2,767
Deferred credits and other liabilities . . . . .	<u>99,475</u>	<u>7,948</u>	<u>—</u>	<u>107,423</u>
	<u>\$1,748,231</u>	<u>\$310,675</u>	<u>\$(137,934)</u>	<u>\$1,920,972</u>

**ATMOS ENERGY CORPORATION**

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

The following supplemental condensed statement of income is for the three months ended June 30, 2002.

	<u>Atmos Energy Corporation</u>	<u>Atmos Energy Holdings, Inc.</u>	<u>Eliminations</u>	<u>Consolidated</u>
Operating revenues .....	\$159,493	\$272,426	\$(270,119)	\$161,800
Purchased gas cost .....	<u>89,088</u>	<u>270,596</u>	<u>(271,717)</u>	<u>87,967</u>
Gross profit .....	70,405	1,830	1,598	73,833
Gas trading margin .....	—	13,084	(825)	12,259
Operating expenses .....	<u>60,932</u>	<u>5,982</u>	<u>—</u>	<u>66,914</u>
Operating income .....	9,473	8,932	773	19,178
Miscellaneous income (expense) .....	1,098	(37)	(1,243)	(182)
Interest charges, net .....	<u>(14,040)</u>	<u>(1,026)</u>	<u>1,243</u>	<u>(13,823)</u>
Income (loss) before income taxes .....	(3,469)	7,869	773	5,173
Provision (benefit) for income taxes .....	<u>(1,515)</u>	<u>3,126</u>	<u>308</u>	<u>1,919</u>
Net income (loss) .....	<u>\$ (1,954)</u>	<u>\$ 4,743</u>	<u>\$ 465</u>	<u>\$ 3,254</u>

The following supplemental condensed statement of income is for the nine months ended June 30, 2002.

	<u>Atmos Energy Corporation</u>	<u>Atmos Energy Holdings, Inc.</u>	<u>Eliminations</u>	<u>Consolidated</u>
Operating revenues .....	\$801,460	\$820,374	\$(809,211)	\$812,623
Purchased gas cost .....	<u>480,693</u>	<u>772,116</u>	<u>(773,267)</u>	<u>479,542</u>
Gross profit .....	320,767	48,258	(35,944)	333,081
Gas trading margin .....	—	(10,905)	39,931	29,026
Operating expenses .....	<u>195,460</u>	<u>17,691</u>	<u>(1)</u>	<u>213,150</u>
Operating income .....	125,307	19,662	3,988	148,957
Miscellaneous income (expense) .....	253	2,577	(3,723)	(893)
Interest charges, net .....	<u>(44,429)</u>	<u>(3,598)</u>	<u>3,723</u>	<u>(44,304)</u>
Income before income taxes .....	81,131	18,641	3,988	103,760
Provision for income taxes .....	<u>29,564</u>	<u>7,360</u>	<u>1,571</u>	<u>38,495</u>
Net income .....	<u>\$ 51,567</u>	<u>\$ 11,281</u>	<u>\$ 2,417</u>	<u>\$ 65,265</u>

*Organization* — Atmos Energy Corporation distributes natural gas in 11 states through its operating divisions — Atmos Energy Louisiana, Energas Company, Greeley Gas Company, United Cities Gas Company and Western Kentucky Gas Company. Our nonutility operations are organized under Atmos Energy Holdings, Inc., which includes Atmos Energy Marketing, LLC, Atmos Pipeline and Storage, Inc., Atmos Power Systems, Inc. and an indirect equity interest in Heritage Propane Partners, L.P. Atmos Energy Marketing includes the operations of Woodward Marketing.

*Consolidating Financial Statements* — The column headed “Atmos Energy Corporation” includes operations of Atmos’ five operating divisions.

The column headed “Atmos Energy Holdings, Inc.” comprises our nonutility operations. Operating revenues and purchased gas costs from our natural gas marketing operations are shown on a gross basis in the Atmos Energy Holdings, Inc. column. Such natural gas marketing activities are reclassified in the elimination column as gas trading margin.

## ATMOS ENERGY CORPORATION

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Current and noncurrent assets and liabilities from risk management activities on the supplemental condensed consolidated balance sheet consist of the fair value, inclusive of future servicing costs and valuation adjustments, of our storage, transportation and requirements contracts, forwards, over-the-counter and exchange traded options, futures and swap contracts.

The gas trading margin on the supplemental condensed consolidated statement of income consists primarily of the difference between revenue arising from Atmos Energy Holdings' sale of physical natural gas to its customers less the cost to purchase natural gas and current period changes in assets and liabilities from risk management activities.

*Risk management assets and liabilities, Atmos Energy Holdings, Inc.* — We use storage, transportation and requirements contracts, forwards, over-the-counter and exchange-traded options, futures and swap contracts to conduct our risk management activities. We use the mark-to-market method to account for these activities in accordance with Emerging Issues Task Force Issue No. 98-10, "Accounting for Energy Trading and Risk Management Activities" and EITF 00-17, "Measuring the Fair Value of Energy-Related Contracts in Applying Issue No. 98-10." Under this method, the aforementioned contracts are reflected at fair value, inclusive of future servicing costs and valuation adjustments, with resulting unrealized gains and losses recorded as assets or liabilities from risk management activities on the condensed consolidated balance sheet. Current period changes in the assets and liabilities from risk management activities are recognized as gas trading margins on the condensed consolidated statement of income. Changes in the mark-to-market valuation of assets and liabilities from risk management activities result primarily from changes in the valuation of the portfolio of contracts, maturity and settlement of contracts and newly originated transactions. Market prices and models used to value these transactions reflect our best estimate considering various factors including closing exchange and over-the-counter quotations, time value and volatility factors underlying the contracts. Values are adjusted to reflect the potential impact of liquidating our positions in an orderly manner over a reasonable period of time under present market conditions. Changes in market prices directly affect our estimate of the fair value of these transactions.

*Related Party* — Included in purchased gas cost in the Atmos Energy Corporation column are natural gas purchases from Woodward Marketing. These purchases were made in a competitive open bidding process and reflect market prices. In addition, we have entered into contracts with Woodward Marketing to manage a significant portion of our underground storage facilities. Woodward Marketing has acted as agent in placing financial instruments for the various business units that protect us and our customers from unusually large winter period gas price increases.

## INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors  
Atmos Energy Corporation

We have reviewed the accompanying condensed consolidated balance sheet of Atmos Energy Corporation as of June 30, 2002 and the related condensed consolidated statements of income for the three-month periods and nine-month periods ended June 30, 2002 and 2001 and the condensed consolidated statements of cash flows for the nine-month periods ended June 30, 2002 and 2001. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, which will be performed for the full year with the objective of expressing an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

We have previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet of Atmos Energy Corporation as of September 30, 2001, 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 2, 2001, 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, 2001 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

ERNST & YOUNG LLP

Dallas, Texas  
August 9, 2002

## **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 contained in this Quarterly Report on Form 10-Q and Management's Discussion and Analysis contained in our Annual Report on Form 10-K for the year ended September 30, 2001.

We distribute and sell natural gas to approximately 1.4 million residential, commercial, industrial, agricultural and other customers. We operate through five divisions in service areas located in Colorado, Georgia, Illinois, Iowa, Kansas, Kentucky, Louisiana, Missouri, Tennessee, Texas and Virginia. Such business is subject to regulation by state and/or local authorities in each of the states in which we operate. In addition, our business is affected by seasonal weather patterns, competitive factors within the energy industry and economic conditions in the areas that we serve. We also transport natural gas for others through our distribution system.

We provide natural gas storage services and own or hold an interest in natural gas storage fields in Kansas, Kentucky and Louisiana to supplement natural gas used by customers in Kansas, Kentucky, Tennessee, Louisiana and other states. We also provide energy management and gas marketing services to industrial customers, municipalities and other local distribution companies. We also provide electrical power generation to meet peak load demands for a municipality regulated by the Tennessee Valley Authority. In addition, we market natural gas to industrial and agricultural customers primarily in West Texas and to industrial customers in Louisiana.

### ***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 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 the Company 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 the Company's documents or oral presentations, the words "anticipate," "expect," "estimate," "plans," "believes," "objective," "forecast," "goal" or 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 the Company's strategy, operations, markets, services, rates, recovery of costs, availability of gas supply and other factors. These risks and uncertainties include the following: adverse weather conditions such as warmer than normal weather in the Company's service territories; national, regional and local economic conditions, including competition from other energy suppliers as well as alternative forms of energy; recent national events; regulatory approvals, including the impact of rate proceedings before various state regulatory commissions; successful completion and integration of pending acquisition; inflation and increased gas costs, including their effect on commodity prices for natural gas; increased competition; further deregulation or "unbundling" of the natural gas distribution industry; hedging and market risk activities and other uncertainties, all of which are difficult to predict and many of which are beyond the control of the Company. A discussion of these risks and uncertainties may be found in the Company's Form 10-K for the year ended September 30, 2001. Accordingly, while the Company believes 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, the Company undertakes no obligation to update or revise any of its forward-looking statements whether as a result of new information, future events or otherwise.

### ***Weather and Seasonality***

Our natural gas distribution business and irrigation sales business is seasonal and dependent upon weather conditions in our service areas. Natural gas sales to residential, commercial and public authority customers are affected by winter heating season requirements. This generally results in higher operating revenues and net

income during the period from October through March of each year and lower operating revenues and either net losses or lower net income during the period from April through September of each year. Sales to industrial customers are much less weather sensitive. Sales to agricultural customers, who typically use natural gas to power irrigation pumps during the period from March through September, are affected by rainfall amounts and the price of natural gas. Weather, adjusted for service areas with weather normalized operations, for the nine months ended June 30, 2002 was 5 percent warmer than normal and 18 percent warmer than weather in the corresponding period of the prior year.

The effects of temperatures that are above or below normal are partially offset in the Tennessee and Georgia jurisdictions served by the United Cities Gas Division and in the Kentucky jurisdiction served by the Western Kentucky Gas Division through weather normalization adjustments. The Georgia Public Service Commission, the Tennessee Regulatory Authority and the Kentucky Public Service Commission have approved weather normalization adjustments. The weather normalization adjustments, effective October through May each year in Georgia, and November through April each year in Tennessee and Kentucky, allow the United Cities Gas Division and Western Kentucky Gas Division to increase the base rate portion of customers' bills when weather is warmer than normal and decrease the base rate when weather is colder than normal. The net effect of the weather normalization adjustments was an increase in revenues of approximately \$6.0 million for the nine months ended June 30, 2002, as compared with a decrease of approximately \$3.3 million for the nine months ended June 30, 2001. Approximately 373,000 or 27 percent of our meters in service are located in Georgia, Tennessee and Kentucky. We did not have weather normalization adjustments in our other service areas during the nine months ended June 30, 2002.

In July 2000, we entered into an agreement to purchase weather hedges for our Texas and Louisiana operations effective for the 2000-2001 heating season. The hedges were designed to help mitigate the effects of weather that was at least seven percent warmer than normal in both Texas and Louisiana while preserving any upside. The cost of the weather hedges was approximately \$4.9 million which was amortized over the 2000-2001 heating season. The cost of the weather hedges was more than offset by the positive effects of colder weather on our gross profit.

In June 2001, we purchased a three year weather insurance policy with an option to cancel in the third year if we obtain weather protection in our rate structures. The policy is for our Texas and Louisiana operations and covers the entire heating season of October to March beginning with the 2001-2002 heating season. The cost of the three year policy was approximately \$13.2 million which was prepaid and is being amortized over the appropriate heating seasons based on degree days. The insurance is designed to protect against weather that is at least seven percent warmer than normal for the entire heating season. During the 2001-2002 heating season, weather was not at least seven percent warmer than normal resulting in no claim having been filed under the insurance policy. Only the amortization of \$4.4 million of premiums was recognized during the heating season.

Historically we have effectively hedged 20 percent of the gas supply required during our annual October through March heating season by utilizing our underground storage assets. For the 2001-2002 heating season, we covered approximately 64 percent of our anticipated flowing gas requirements through storage and futures and fixed forward contracts.

### *Status of Pending Acquisition*

In September 2001, we entered into a definitive agreement to acquire Mississippi Valley Gas Company, a privately held natural gas utility, for \$150.0 million, consisting of \$75.0 million cash and \$75.0 million of Atmos common stock. In addition, we will repay outstanding debt of Mississippi Valley Gas, net of working capital, of approximately \$45.0 million. Mississippi Valley Gas provides natural gas distribution service to more than 261,500 residential, commercial, industrial and other customers located primarily in the northern and central regions of Mississippi. The acquisition is subject to state and federal regulatory approval. It is anticipated that the acquisition will be completed in 2002.

### *Critical Accounting Policies and Estimates*

*General* — Our condensed consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States. Preparation of these financial statements required us to make estimates and judgments that affected 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 believed to be reasonable under the circumstances. On an on-going basis, we evaluate our estimates, including those related to risk management and trading activities, allowance for doubtful accounts, deferred income tax assets, intangible assets and goodwill. Actual results may differ from estimates.

*Regulation* — Our utility operations are subject to regulation with respect to rates, service, maintenance of accounting records and various other matters by the respective regulatory authorities in the states in which we operate. Our accounting policies recognize the financial effects of the ratemaking and accounting practices and policies of the various regulatory commissions. Regulated utility operations are accounted for in accordance with Statement of Financial Accounting Standards No. 71, “Accounting for the Effects of Certain Types of Regulation.” This statement requires 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.

*Risk Management and Trading Activities* — We use storage, transportation and requirements contracts, forwards, over-the-counter and exchange-traded options, futures and swap contracts to conduct our risk management and trading activities. Changes in the assets and liabilities from risk management activities result primarily from changes in the valuation of the portfolio of contracts, maturity and settlement of contracts, and newly originated transactions. The market prices and models used to value these transactions reflect management’s best estimate considering various factors including closing exchange and over-the-counter quotations, the time value of money and volatility factors underlying the contracts. We adjust the values to reflect the potential impact of liquidating our positions in an orderly manner over a reasonable period of time under present market conditions. Changes in market prices directly affect management’s estimate of the fair value of these transactions. Assumptions different from those used would impact these carrying values.

*Allowance for Doubtful Accounts* — For the majority of our receivables, we establish an allowance for doubtful accounts based on an aging of those receivable balances. We apply percentages to each aging category based on our collections experience. On certain other receivables where we are aware of a specific customer’s inability or reluctance to pay its receivable balance, we record an allowance for doubtful accounts against amounts due to reduce the net receivable balance to the amount we reasonably expect to collect. We believe our allowance for doubtful accounts is adequate. However, if circumstances change, our estimate of the recoverability of accounts receivable could be different.

*Deferred Income Tax Assets* — We have deferred income tax assets consisting of employee and retiree benefit liabilities not currently deductible, credit carryforwards and other items treated as expenses for book purposes but not currently deductible for tax purposes. We have not recorded any valuation allowance for these deferred income tax assets because we believe that it is more likely than not that our deferred income tax assets will be realized. Realization of these assets is based on estimates of future taxable income. Those estimates were prepared using the same assumptions used to prepare internal forecasts. We estimate that the credit carryforwards will be utilized before they expire. If our estimates of taxable income are reduced in the future, a valuation allowance could be required.

*Intangible Assets* — We acquired intangible assets valued at approximately \$12.0 million in fiscal year 2001. Those intangible assets relate to the value assigned to relationships with certain of our industrial customers and are being amortized over 10 years. If our assumptions of the useful lives of those assets change, the amount of amortization expense would be impacted.

*Goodwill* — At June 30, 2002, we had \$67.4 million of goodwill, \$37.5 million of which was attributable to our utility segment and \$29.9 million was attributable to our non-regulated segment. We evaluate our goodwill balances for impairment each year during our second fiscal quarter. Our evaluation during the quarter

ended March 31, 2002 resulted in no impairment. If our projections of estimated future cash flows change, those changes could result in a reduction in the carrying value of our goodwill.

### **Financial Condition**

For the nine months ended June 30, 2002, net cash provided by operating activities in the statement of cash flows totaled \$301.7 million compared with \$145.5 million for the nine months ended June 30, 2001. The increase in net cash provided by operating activities was primarily the result of a decrease in other current assets and prepayments compared to the previous period, a decrease in cash held on deposit in margin accounts and an increase in accounts payable and accrued liabilities and a smaller increase in deferred charges and other assets compared to the previous period. This increase was partially offset by an increase in accounts receivable compared to the previous period and a smaller increase in other current liabilities compared to the previous period. A slight increase in net income also added to the increase in net cash provided by operating activities. The increase in net income was primarily due to increases in gross profit and income from our gas marketing activities partially offset by higher operating expenses and interest expense.

For the nine months ended June 30, 2002, net cash used in investing activities totaled \$114.3 million compared with \$56.0 million for the nine months ended June 30, 2001. Major cash flows used in investing activities for the nine months ended June 30, 2002 included capital expenditures of \$89.8 million compared with \$70.3 million for the nine months ended June 30, 2001. Capital expenditures for fiscal 2002, excluding acquisitions, are expected to be in the range of \$125.0 million to \$130.0 million as compared with capital expenditures of \$113.1 million for fiscal 2001. Capital projects for fiscal 2002 include expenditures for additional mains, services, meters and equipment. In 2002, we plan to complete the Mississippi Valley Gas Company acquisition for \$75.0 million cash, \$75.0 million of Atmos common stock and the repayment of approximately \$45.0 million of long-term debt. Capital expenditures and acquisitions for fiscal 2002 are planned to be financed from internally generated funds and financing activities as discussed below. For the nine months ended June 30, 2002, investing activities included \$15.7 million, in our non-regulated operations, for the acquisition of Kentucky-based market area storage and associated pipeline facility assets, certain gas marketing assets and the common stock of Southern Resources, Inc. For the nine months ended June 30, 2002, we had expenditures for the acquisition of assets to be leased of \$6.9 million compared to \$4.9 million for the nine months ended June 30, 2001. In connection with our acquisition of Woodward Marketing in April 2001, we received \$13.1 million in cash for the nine months ended June 30, 2001. We also received net proceeds of \$6.6 million in connection with the sale of certain utility assets for the nine months ended June 30, 2001.

For the nine months ended June 30, 2002, net cash used by financing activities totaled \$195.6 million compared with net cash provided by financing activities of \$327.5 million for the nine months ended June 30, 2001. For the nine-month period ended June 30, 2002, short-term debt decreased \$155.8 million compared with a decrease of \$125.8 million for the nine months ended June 30, 2001. The decrease for the nine months ended June 30, 2002 was due primarily to more effective collection experience of customer accounts receivable balances which increased the amount of cash available to repay short-term debt. The decrease for the nine months ended June 30, 2001 was due to the net proceeds of approximately \$142.0 million from the equity offering in December 2000 being used to reduce the amount of short-term debt outstanding. Repayments of long-term debt totaled \$16.9 million for the nine months ended June 30, 2002 compared with \$13.8 million for the nine months ended June 30, 2001. We received \$347.1 million in net proceeds during the nine months ended June 30, 2001 from our \$350.0 million debt offering. The net proceeds were used to help finance the completion of the Louisiana Gas Service Company acquisition in July 2001. We paid \$36.4 million in cash dividends during the nine months ended June 30, 2002 compared with dividends paid of \$32.3 million during the nine months ended June 30, 2001. This reflects increases in the quarterly dividend rate and in the number of shares outstanding. During the nine months ended June 30, 2002, we issued 654,084 shares of common stock.

The following table presents the number of shares issued for the nine-month periods ended June 30, 2002 and 2001:

	Nine Months Ended June 30	
	<u>2002</u>	<u>2001</u>
Shares issued:		
Employee Stock Ownership Plan . . . . .	232,191	149,243
Direct Stock Purchase Plan . . . . .	369,596	300,970
Outside Directors Stock-for-Fee Plan . . . . .	1,832	1,642
United Cities Long-Term Stock Plan . . . . .	—	11,300
Long-Term Incentive Plan . . . . .	50,465	16,838
Acquisition of Woodward Marketing, L.L.C. . . . .	—	1,423,193
Equity Offering . . . . .	<u>—</u>	<u>6,741,500</u>
Total shares issued . . . . .	<u>654,084</u>	<u>8,644,686</u>

We believe that internally generated funds, our credit facilities, commercial paper program and access to the public debt and equity capital markets will provide necessary working capital and liquidity for capital expenditures and other cash needs for the remainder of fiscal 2002.

We have short-term committed credit facilities totaling \$318.0 million. One short-term unsecured credit facility is for \$300.0 million and serves as a backup liquidity facility for our commercial paper program. Effective July 31, 2002, this credit facility was renegotiated for \$300.0 million. Our commercial paper is rated A-2 by Standard and Poor's, P-2 by Moody's and F-2 by Fitch. At June 30, 2002, \$30.0 million of commercial paper was outstanding. We have a second credit facility in place for \$18.0 million. At June 30, 2002, \$15.5 million was outstanding under this credit facility. These credit facilities are negotiated at least annually and are used for working capital purposes.

Our Woodward Marketing subsidiary has an uncommitted demand credit facility for \$125.0 million which is used for its non-regulated business. Atmos Energy Marketing, LLC, our wholly-owned subsidiary, is the sole guarantor of all amounts outstanding under this facility. At June 30, 2002, no amount was outstanding under this credit facility. Related letters of credit totaling \$55.6 million reduced the amount available under this facility. This facility is used for working capital purposes. Effective July 1, 2002, this facility was renegotiated to increase the amount available to \$210.0 million and change the sole guarantor to Atmos Energy Holdings, Inc., also our wholly-owned subsidiary and parent company of Atmos Energy Marketing, LLC.

We also have an unsecured short-term uncommitted credit line for \$20.0 million. No amounts were outstanding under this credit facility at June 30, 2002. This uncommitted line is renewed or renegotiated at least annually with varying terms and we pay no fee for the availability of the line. Borrowings under this line are made on a when- and as-available basis at the discretion of the bank. This facility is also used for working capital purposes.

In addition, Woodward Marketing has up to \$100.0 million of credit available from Atmos Energy Marketing LLC for its non-regulated business. At June 30, 2002, \$8.0 million was outstanding. Effective July 1, 2002, Atmos Energy Holdings, Inc. replaced Atmos Energy Marketing, LLC as the provider of such credit to Woodward Marketing. This intercompany facility is subordinated in terms of repayment to the \$210.0 million uncommitted demand credit facility described above.

In December 2001, we filed a shelf registration statement with the Securities and Exchange Commission to issue, from time to time, up to \$600.0 million in new common stock and/or debt. In connection with this filing, we filed applications for approval to issue securities with five state utility commissions and have received approval from all five commissions. The registration statement was declared effective by the Securities and Exchange Commission on January 30, 2002. The proceeds from any issuance of securities under the

registration statement are planned to be used for general corporate purposes, including acquisitions, debt repayment and other business-related matters.

The following tables provide information about contractual obligations and commercial commitments at June 30, 2002.

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
(In thousands)					
<b>CONTRACTUAL OBLIGATIONS</b>					
Long Term Debt .....	\$696,169	\$20,413	\$34,522	\$29,768	\$611,466
Capital Lease Obligations .....	5,973	219	1,752	1,276	2,726
Operating Leases .....	59,529	2,312	16,713	15,624	24,880
Total Contractual Obligations .....	<u>\$761,671</u>	<u>\$22,944</u>	<u>\$52,987</u>	<u>\$46,668</u>	<u>\$639,072</u>

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
(In thousands)					
<b>OTHER COMMERCIAL COMMITMENTS</b>					
Lines of Credit .....	\$45,492	\$45,492	\$—	\$—	\$—

#### *Risk Management and Trading Activities*

We conduct our risk management activities through both our utility and non-regulated segments. See Note 5 to the condensed consolidated financial statements for a description of our risk management activities. The following table shows our risk management assets and liabilities by segment at June 30, 2002.

	Utility	Non-Regulated	Total
(In thousands)			
Assets from risk management activities, current .....	\$ —	\$ 27,178	\$ 27,178
Assets from risk management activities, noncurrent .....	—	7,359	7,359
Liabilities from risk management activities, current .....	(423)	(19,706)	(20,129)
Liabilities from risk management activities, noncurrent .....	—	(2,767)	(2,767)
Net assets (liabilities) .....	<u>\$(423)</u>	<u>\$ 12,064</u>	<u>\$ 11,641</u>

In accordance with Financial Accounting Standards No. 71 “Accounting for the Effects of Certain Types of Regulation”, current period changes in the assets and liabilities from risk management activities related to our utility segment are recorded as deferred gas costs on the condensed consolidated balance sheet as these costs will ultimately be recovered from ratepayers. Accordingly, there is no earnings impact as a result of the use of these financial instruments. Upon maturity, the contracts are recognized in purchased gas cost.

To conduct our risk management and trading activities, Atmos Energy Marketing, a unit of our non-regulated segment, uses natural gas storage, transportation and requirements contracts, forwards, over-the-counter and exchange-traded options, futures and swap contracts. Prior to May 2002, Woodward Marketing engaged in financial trading for speculative purposes. Effective in May 2002, Woodward Marketing’s financial trading for speculative purposes was discontinued. The mark-to-market method is used to account for these activities, as prescribed in EITF Issue No. 98-10 and EITF Issue 00-17. Under these methods, the aforementioned contracts are reflected at fair value, inclusive of future servicing costs and valuation adjustments, with resulting unrealized gains and losses recorded as “Assets from risk management activities” and “Liabilities from risk management activities” on the balance sheet. Current period changes in the assets and liabilities from risk management activities are recognized as net gains or losses on the condensed consolidated statement of income as gas trading margin. Changes in assets and liabilities from risk

management activities result primarily from changes in valuation of the portfolio of contracts, maturity and settlement of contracts, and newly originated transactions.

Market prices are primarily used to value these transactions. In addition, a market price based model is used for valuing certain storage and transportation contracts. These values reflect management's best estimate considering various factors, including closing exchange and over-the-counter quotations, time value, and volatility factors underlying the contracts. The values are adjusted to reflect the potential impact of liquidating our position in an orderly manner over a reasonable time frame under present market conditions. Changes in market prices directly affect management's estimate of the fair value of these transactions.

The following table reflects the components of the change in fair value of our non-regulated energy trading contract activities for the three months ending June 30, 2002 (in thousands).

Fair value of contracts at March 31, 2002 .....	\$ 6,090
Contracts realized/settled .....	(1,628)
Fair value of new contracts .....	4,917
Other changes in value .....	<u>2,685</u>
Fair value of contracts at June 30, 2002 .....	<u>\$12,064</u>

The following table reflects the components of the change in fair value of our non-regulated energy trading contract activities for the nine months ending June 30, 2002 (in thousands).

Fair value of contracts at September 30, 2001 .....	\$ 28,349
Contracts realized/settled .....	(14,831)
Fair value of new contracts .....	37
Other changes in value .....	<u>(1,491)</u>
Fair value of contracts at June 30, 2002 .....	<u>\$ 12,064</u>

The fair value of our non-regulated energy trading contracts at June 30, 2002, is segregated below, by time period and fair value source.

	Fair Value of Contracts at June 30, 2002				Total Fair Value
	Maturity Less than 1 Year	Maturity 1-3 Years	Maturity 4-5 Years	Maturity Excess of 5 Years	
	(In thousands)				
<b>SOURCE OF FAIR VALUE</b>					
Prices actively quoted .....	\$(10,078)	\$ 934	\$ —	\$—	\$(9,144)
Prices provided by other external sources .....	15,598	1,951	159	7	17,715
Prices based on models and other valuation methods .....	<u>1,617</u>	<u>1,876</u>	<u>—</u>	<u>—</u>	<u>3,493</u>
Total Fair Value .....	<u>\$ 7,137</u>	<u>\$4,761</u>	<u>\$159</u>	<u>\$ 7</u>	<u>\$12,064</u>

## Results of Operations

### *Three Months Ended June 30, 2002, Compared with Three Months Ended June 30, 2001*

Operating revenues decreased by 2 percent to \$161.8 million for the three months ended June 30, 2002 from \$164.3 million for the three months ended June 30, 2001. The most significant factor contributing to the decrease in operating revenues was a 23 percent decrease in average sales price due to the decreased cost of gas. However, the decrease in operating revenues was offset by an 11 percent increase in sales volumes, excluding the additional sales volumes attributable to the Louisiana Gas Service operations acquired in July 2001, due to weather that was colder than in the corresponding quarter of the prior year. In addition, increased

revenues resulting from the Louisiana Gas Service acquisition in July 2001 helped to offset the decrease in operating revenues. The average sales price per Mcf sold decreased \$2.01 or 23 percent to \$6.72 primarily due to a decrease in the average cost of gas. The average cost of gas per Mcf sold decreased 31 percent to \$3.99 for the three months ended June 30, 2002 from \$5.79 for the three months ended June 30, 2001. During the quarter ended June 30, 2002, temperatures were 8 percent colder than in the corresponding quarter of the prior year and were 4 percent warmer than the 30-year normal for the quarter, adjusted for service areas with weather normalized operations. The total volume of gas sold, excluding the Louisiana Gas Service volumes, for the three months ended June 30, 2002 was 19.7 billion cubic feet compared with 17.7 billion cubic feet for the three months ended June 30, 2001. The addition of the Louisiana Gas Service operations added 2.7 billion cubic feet of sales volumes for the quarter ended June 30, 2002.

Gross profit increased to \$73.8 million for the three months ended June 30, 2002 from \$61.3 million for the three months ended June 30, 2001. The increase in gross profit was primarily due to the additional gross profit resulting from the Louisiana Gas Service acquisition in July 2001 and the increase in volumes sold to weather sensitive customers. Changes in the cost of gas do not directly affect gross profit because the fluctuations in gas prices are passed through to the customer.

On April 1, 2001, we completed our acquisition of the remaining 55 percent interest in Woodward Marketing, L.L.C. that we did not already own. As a result of this acquisition, the revenues and expenses of Woodward Marketing are now shown on a consolidated basis. For the three months ended June 30, 2002, Atmos Energy Marketing, which includes the operations of Woodward Marketing, had income of \$12.3 million in gas trading margin compared with a loss of \$3.2 million in gas trading margin for the three months ended June 30, 2001. The \$15.5 million change in gas trading margin was primarily due to gains on inventory sales and favorable pricing under natural gas sales contracts.

Operating expenses increased to \$66.9 million for the three months ended June 30, 2002 from \$54.9 million for the three months ended June 30, 2001. Operation and maintenance expense increased primarily due to the addition of \$6.3 million relating to the Louisiana Gas Service acquisition in July 2001 and an increase of \$0.9 million in pension costs. A decrease in the provision for doubtful accounts of \$2.2 million partially offset this increase. The decrease in the provision for doubtful accounts was attributable to the lower gas commodity prices during the third quarter of fiscal 2002 as well as our effective recovery of customer receivable balances. Depreciation and amortization increased \$4.2 million due to the addition of the assets from the Louisiana Gas Service acquisition in July 2001.

Operating income increased for the three months ended June 30, 2002 to \$19.2 million from \$3.2 million for the three months ended June 30, 2001. The increase in operating income resulted primarily from the increase in gross profit and the income from our gas trading margin described above partially offset by the increase in operating expenses.

Interest expense increased \$4.6 million, or 50 percent, for the three months ended June 30, 2002 compared with the three months ended June 30, 2001 due primarily to the interest expense on the \$350.0 million debt offering in May 2001.

Net income increased for the three months ended June 30, 2002 by \$6.7 million to \$3.3 million from a loss of \$3.4 million for the three months ended June 30, 2001. This increase in net income resulted primarily from the increase in operating income partially offset by the increase in interest expense discussed above.

#### ***Nine Months Ended June 30, 2002, Compared with Nine Months Ended June 30, 2001***

Operating revenues decreased by 37 percent to \$812.6 million for the nine months ended June 30, 2002 from \$1.3 billion for the nine months ended June 30, 2001. The most significant factors contributing to the decrease in operating revenues were a 35 percent decrease in average sales price due to the decreased cost of gas and a 15 percent decrease in sales volumes due to warmer weather, excluding the additional sales volumes attributable to the Louisiana Gas Service operations acquired in July 2001. During the nine-month period ended June 2002, temperatures were 18 percent warmer than in the corresponding period of the prior year and were 5 percent warmer than the 30-year normal, adjusted for service areas with weather normalized

operations. The total volume of gas sold, excluding the Louisiana Gas Service volumes, for the nine months ended June 30, 2002 was 111.9 billion cubic feet compared with 132.2 billion cubic feet for the nine months ended June 30, 2001. However, the decrease in sales volumes was partially offset by the additional sales volumes of 14.9 billion cubic feet attributable to the Louisiana Gas Service operations acquired in July 2001. The average sales price per Mcf sold decreased \$3.25 or 35 percent to \$6.10 primarily due to a decrease in the average cost of gas. The average cost of gas per Mcf sold decreased 48 percent to \$3.79 for the nine months ended June 30, 2002 from \$7.27 for the nine months ended June 30, 2001. However, the decrease in operating revenues was partially offset by increased revenues resulting from the Louisiana Gas Service acquisition in July 2001.

Gross profit increased to \$333.1 million for the nine months ended June 30, 2002 from \$309.6 million for the nine months ended June 30, 2001. The increase in gross profit was primarily due to the additional gross profit resulting from the Louisiana Gas Service acquisition in July 2001 partially offset by a decrease in volumes sold to weather sensitive customers. Changes in the cost of gas do not directly affect gross profit because the fluctuations in gas prices are passed through to the customer.

On April 1, 2001, we completed our acquisition of the remaining 55 percent interest in Woodward Marketing, L.L.C. that we did not already own. As a result of this acquisition, the revenues and expenses of Woodward Marketing are now shown on a consolidated basis. For the nine months ended June 30, 2002, Atmos Energy Marketing, which includes the operations of Woodward Marketing, had income of \$29.0 million in gas trading margin. For the nine months ended June 30, 2001, Atmos Energy Marketing had a loss of \$3.2 million in gas trading margin and an equity in earnings of Woodward Marketing of \$8.1 million. The increase for the nine months ended June 30, 2002 compared to the nine months ended June 30, 2001 was primarily due to gains on inventory sales and favorable pricing under natural gas sales contracts as well as our full consolidation of Woodward Marketing beginning April 2001.

Operating expenses increased to \$213.2 million for the nine months ended June 30, 2002 from \$180.4 million for the nine months ended June 30, 2001. Operation and maintenance expense increased due primarily to the addition of \$21.5 million relating to the Louisiana Gas Service acquisition in July 2001 and an increase of \$7.1 million in pension costs. In addition, operation and maintenance expense increased due to the full consolidation of Woodward Marketing's operations beginning April 1, 2001. A decrease in the provision for doubtful accounts of \$13.2 million partially offset this increase. The decrease in the provision for doubtful accounts was attributable to the lower gas commodity prices during the first nine months of fiscal 2002 as well as our effective recovery of customer receivable balances. Depreciation and amortization increased \$13.1 million due to the addition of the assets from the Louisiana Gas Service acquisition in July 2001.

Operating income increased 18 percent for the nine months ended June 30, 2002 to \$149.0 million from \$126.0 million for the nine months ended June 30, 2001. The increase in operating income resulted primarily from the increase in gross profit and the income from our gas trading margin described above partially offset by an increase in operating expenses.

Miscellaneous expense decreased \$0.5 million to \$0.9 million for the nine months ended June 30, 2002 compared to \$1.4 million for the nine months ended June 30, 2001. The primary reason for the decrease was due to an increase of \$0.5 million in net recoveries related to our performance based-ratemaking mechanisms and the recognition of \$0.5 million related to a large industrial contract we received during 2002 partially offset by a reduction in our equity earnings of Heritage Propane Partners, LLC.

Interest expense increased \$13.0 million, or 42 percent, for the nine months ended June 30, 2002 compared with the nine months ended June 30, 2001 due primarily to the interest expense on the \$350.0 million debt offering in May 2001.

Net income increased for the nine months ended June 30, 2002 by \$1.7 million to \$65.3 million from \$63.6 million for the nine months ended June 30, 2001. This increase in net income resulted primarily from the increase in operating income partially offset by the increase in interest expense discussed above.

### ***Quantitative and Qualitative Disclosures about Market Risk***

For a summary of our risk management and trading activities, see “Risk Management and Trading Activities” under “Financial Condition”. There have been no significant changes in our other market risks since September 30, 2001.

### **Utility and Non-regulated Operating Data**

Our utility business is composed of our five regulated utility divisions: Atmos Energy Louisiana Gas Division, Energas Division, Greeley Gas Division, United Cities Gas Division, Western Kentucky Gas Division and Shared Services. Beginning October 1, 2002, we will use the name Atmos Energy Corporation to identify all of our utility divisions. The non-regulated business includes gas marketing and energy management services, operation of natural gas storage fields, construction and operation of electrical power generating plants and associated facilities and non-regulated industrial sales. The following tables of operating statistics summarizes data of the utility and non-regulated segments for the three-month and nine month periods ended June 30, 2002 and 2001. Heating degree days are presented as adjusted for weather-normalized operations. Prior periods have been adjusted to reflect current period presentation. For further information regarding operating results of the segments, see Note 6 of notes to condensed consolidated financial statements.

**ATMOS ENERGY CORPORATION**  
**CONSOLIDATED OPERATING STATISTICS**

	<b>Three Months Ended June 30</b>	
	<b>2002</b>	<b>2001</b>
<b>HEATING DEGREE DAYS</b>		
Actual, adjusted for WNA (weighted average) .....	258	240
Percent of normal .....	96%	90%
<b>SALES VOLUMES — MMcf(1)</b>		
Residential .....	9,344	7,535
Commercial .....	4,956	4,047
Public authority and other .....	727	732
Industrial (including agricultural) .....	<u>7,327</u>	<u>5,399</u>
Total .....	22,354	17,713
Transportation volumes — MMcf(1) .....	<u>14,309</u>	<u>13,936</u>
Total throughput — MMcf(1) .....	<u><u>36,663</u></u>	<u><u>31,649</u></u>
<b>OPERATING REVENUES (000's)</b>		
Gas sales revenues		
Residential .....	\$ 80,029	\$ 80,348
Commercial .....	33,956	37,091
Public authority and other .....	4,223	5,890
Industrial (including agricultural) .....	<u>31,997</u>	<u>31,331</u>
Total gas sales revenues .....	150,205	154,660
Transportation revenues .....	8,538	5,099
Other revenues .....	<u>3,057</u>	<u>4,501</u>
Total operating revenues .....	<u><u>\$161,800</u></u>	<u><u>\$164,260</u></u>
Cost of gas (excluding non-regulated) .....	<u><u>\$ 89,088</u></u>	<u><u>\$102,503</u></u>
Average gas sales revenues per Mcf .....	\$ 6.72	\$ 8.73
Average transportation revenue per Mcf .....	\$ .60	\$ .37
Average cost of gas per Mcf sold .....	\$ 3.99	\$ 5.79

(1) Volumes are reported as metered in million cubic feet (MMcf).

**ATMOS ENERGY CORPORATION**  
**CONSOLIDATED OPERATING STATISTICS**

	Nine Months Ended June 30	
	2002	2001
<b>METERS IN SERVICE, end of period</b>		
Residential .....	1,246,111	972,982
Commercial .....	122,414	105,163
Public authority and other .....	7,342	7,444
Industrial (including agricultural) .....	12,949	13,317
Total meters .....	<u>1,388,816</u>	<u>1,098,906</u>
<b>HEATING DEGREE DAYS</b>		
Actual, adjusted for WNA (weighted average) .....	3,351	4,090
Percent of normal .....	95%	115%
<b>SALES VOLUMES — MMcf(1)</b>		
Residential .....	71,634	72,835
Commercial .....	31,696	32,565
Public authority and other .....	5,372	6,352
Industrial (including agricultural) .....	18,062	20,488
Total .....	126,764	132,240
Transportation volumes — MMcf(1) .....	<u>49,560</u>	<u>46,837</u>
Total throughput — MMcf(1) .....	<u>176,324</u>	<u>179,077</u>
<b>OPERATING REVENUES (000's)</b>		
Gas sales revenues		
Residential .....	\$ 476,019	\$ 724,452
Commercial .....	192,297	309,365
Public authority and other .....	28,585	54,760
Industrial (including agricultural) .....	<u>76,851</u>	<u>147,541</u>
Total gas sales revenues .....	773,752	1,236,118
Transportation revenues .....	28,631	20,215
Other revenues .....	<u>10,240</u>	<u>25,830</u>
Total operating revenues .....	<u>\$ 812,623</u>	<u>\$1,282,163</u>
Cost of gas (excluding non-regulated) .....	<u>\$ 480,693</u>	<u>\$ 961,887</u>
Average gas sales revenues per Mcf .....	\$ 6.10	\$ 9.35
Average transportation revenue per Mcf .....	\$ .58	\$ .43
Average cost of gas per Mcf sold .....	\$ 3.79	\$ 7.27

(1) Volumes are reported as metered in million cubic feet (MMcf).

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

There have been no material changes from the information provided in Item 7A of our Annual Report on Form 10-K for the year ended September 30, 2001.

**PART II.**

**OTHER INFORMATION**

**Item 1. *Legal Proceedings***

See Note 2 of notes to condensed consolidated financial statements herein for a description of legal proceedings.

**Item 6. *Exhibits and Reports on Form 8-K***

(a) *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.

The certifications pursuant to 18 U.S.C. Section 1350 by the Company's Chief Executive Officer and Chief Financial Officer, furnished as Exhibits 99.1 and 99.2, respectively, 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.

(b) *Reports on Form 8-K*

None.

**SIGNATURES**

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/ F.E. MEISENHEIMER            
          F.E. Meisenheimer  
          *Vice President and Controller*  
          *(Chief Accounting Officer*  
          *and duly authorized signatory)*

Date: August 14, 2002

## EXHIBITS INDEX

### Item 6(a)

<u>Exhibit Number</u>	<u>Description</u>	<u>Page Number</u>
10.1	Uncommitted Amended and Restated Credit Agreement, dated to be effective July 1, 2002, among Woodward Marketing, L.L.C., Fortis Capital Corp., BNP Paribas and the other financial institutions which may become parties hereto	
10.2	364-Day Revolving Credit Agreement, dated as of July 31, 2002, among Atmos Energy Corporation, Bank One, NA, Wachovia Bank, National Association, Suntrust Bank, CoBank ACB and Societe Generale, New York Branch	
12	Computation of ratio of earnings to fixed charges	
15	Letter regarding unaudited interim financial information	
99.1	Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by the Company's Chief Executive Officer*	
99.2	Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by the Company's Chief Financial Officer*	

\* These certifications pursuant to 18 U.S.C. Section 1350 by the Company's Chief Executive Officer and Chief Financial Officer, furnished as Exhibits 99.1 and 99.2, respectively, 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.