ATMOS ENERGY CORP
Form 8-K/A
September 13, 2001

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K/A
(AMENDMENT NO. 1)

Current Report Pursuant to Section 13 or
15(d) of the Securities Exchange Act of 1934

July 1, 2001
Date of Report (Date of Earliest Event Reported)

ATMOS ENERGY CORPORATION
(Exact Name of Registrant as Specified in its Charter)

TEXAS AND VIRGINIA	1-10042	75-1743247
(State or Other Jurisdiction of Incorporation or Organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

1800 THREE LINCOLN CENTRE, 5430 LBJ FREEWAY, DALLAS, TEXAS	75240
(Address of Principal Executive Offices)	(Zip Code)

(972) 934-9227
(Registrant's Telephone Number, Including Area Code)

Not Applicable
(Former Name or Former Address, if Changed Since Last Report)

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ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS

(a) Financial Statements of Businesses Acquired:

The following financial statements of the Louisiana Gas Division of Citizens Communications Company are filed with this report:

Audited Combined Financial Statements as of and for the Years Ended December 31, 2000 and 1999

Unaudited Condensed Combined Financial Statements as of and for the six months ended June 30, 2001

(b) Pro Forma Financial Information:

The following unaudited pro forma condensed financial statements are filed with this report:

Description of the Transaction and Pro Forma Financial Statements:

Effective July 1, 2001, the Registrant acquired the assets of the Louisiana Gas Service Company division ("LGS") of Citizens Communications Company (formerly known as Citizens Utilities Company, "Citizens") as well as the assets of LGS Natural Gas Company ("LGSN"), a wholly-owned subsidiary of Citizens (collectively, the "Acquisition").

The purchase price of approximately $365 million, paid in cash, was determined through arms-length negotiations between the parties. Prior to the acquisition, the Registrant had no material relationship with Citizens. The Registrant financed the acquisition primarily through the offer and sale of its Senior Notes in the cumulative amount of $350 million on May 22, 2001.

The assets acquired from Citizens consist of the property, plant and equipment and certain other assets and the assumption of certain liabilities used in Citizens' regulated natural gas sales and distribution business in the State of Louisiana, as well as Citizens' unregulated natural gas-related operations in the State of Louisiana.

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Effective July 1, 2001, the Registrant combined the assets and operations of the former LGS division of Citizens with its then existing assets and operations in Louisiana.

The accompanying pro forma financial statements show (1) The pro forma condensed balance sheet of the Registrant and the assets acquired and liabilities assumed in the Acquisition as of June 30, 2001 and (2) The pro forma condensed statements of income of the Registrant and the operations assumed in the Acquisition for the fiscal year ended September 30, 2000 and the nine months ended June 30, 2001.

The pro forma combined balance sheet shows the combined balance sheet as if the Acquisition had occurred on June 30, 2001. The pro forma statements of operations show the combined operations as if the Acquisition had occurred at the beginning of each period shown. Descriptions of each pro forma adjustment are included with each pro forma financial statement.

(c) Exhibits

None

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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 hereunto duly authorized.

ATMOS ENERGY CORPORATION
(Registrant)

Date: September 13, 2001 By: /s/ F.E. MEISENHEIMER

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

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[KPMG LOGO]

LOUISIANA GAS DIVISION

OF CITIZENS COMMUNICATIONS COMPANY

Combined Financial Statements

December 31, 2000 and 1999

(With Independent Auditors' Report Thereon)

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[KPMG LETTERHEAD]

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Citizens Communications Company:

We have audited the accompanying combined balance sheets of the Louisiana Gas Division of Citizens Communications Company as of December 31, 2000 and 1999 and the related combined statements of operations and cash flows for each of the years then ended. These combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Louisiana Gas Division of Citizens Communications Company as of December 31, 2000 and 1999 and the results of their operations and their cash flows for each of the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

New York, New York

August 17, 2001

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LOUISIANA GAS DIVISION
COMBINED BALANCE SHEETS
DECEMBER 31, 2000 AND 1999

	2000	1999
ASSETS		
Property, plant and equipment net	$ 197,947,458	203,632,549
Current assets:		
Cash	161,791	--
Accounts receivable:		
Utilities	74,021,181	26,413,564
Other	1,101,499	235,022
Allowance for doubtful accounts	(50,042)	(73,690)
Materials and supplies	791,565	804,639
Gas inventory	4,619,932	6,310,536
Prepaids and other current assets	131,166	344,225
Total current assets	80,777,092	34,034,296
Regulatory assets	15,330,472	11,999,150
Deferred gas costs	21,363,076	13,063,429
Total assets	$ 315,418,098	$ 262,729,424
LIABILITIES AND PARENT FUNDING		
Current liabilities:		
Long-term capital lease due within one year	$ 69,626	$ 64,054
Accounts payable and accrued expenses	105,355,828	18,979,465
Other taxes accrued	2,423,485	653,038
Interest accrued	753,449	725,911
Customers' deposits	16,179,834	15,822,986
Other current liabilities	407,896	417,181
Total current liabilities	125,190,118	36,662,635
Deferred income taxes	33,416,815	28,825,194
Postretirement benefit cost	11,919,718	12,022,117
Customer advances for construction	781,783	681,408
Contributions in aid of construction	12,567,807	12,329,543
Long term capital lease	585,156	654,782
Deferred credits	810,833	810,047
Total liabilities	185,272,230	91,985,716
Parent funding	130,145,868	170,743,708
Total liabilities and parent funding	$ 315,418,098	$ 262,729,424

See the accompanying notes to the combined financial statements

LOUISIANA GAS DIVISION
COMBINED STATEMENTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 2000 AND 1999

	2000	1999
Operating revenues	$ 220,304,274	$ 166,162,737
Operating expenses:		
Natural gas purchased	173,031,779	93,035,592
Operating and maintenance expenses	39,807,424	38,970,336
Depreciation and amortization	12,514,097	10,508,236
Taxes other than income	7,918,282	8,007,266
Total operating expenses	233,271,582	150,521,430
Operating income (loss)	(12,967,308)	15,641,307
Other income (expense):		
Interest expense, net	(68,511)	(951,726)
Nonoperating income (expense)	436,607	4,421,837
Income (loss) before income taxes	(12,599,212)	19,111,418
Income tax expense (benefit)	(5,167,360)	6,992,047
Net income (loss)	$ (7,431,852)	$ 12,119,371

See the accompanying notes to the combined financial statements

LOUISIANA GAS DIVISION
COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2000 AND 1999

	2000	1999
OPERATING ACTIVITIES		
Net income (loss)	$ (7,431,852)	$12,119,371
Adjustments to reconcile net income (loss) to net cash from operations:		
Depreciation and amortization	12,514,097	10,508,236
Gain on sale of assets	(436,607)	(3,781,296)
Bad Debt Expense	25,750	--
Deferred income taxes and investment tax credits	4,591,631	373,298
Changes in assets and liabilities:		
Accounts receivables	(48,523,492)	(5,538,043)
Materials and supplies inventory	13,074	2,787
Gas inventory	1,690,604	(1,322,191)
Prepaid and Other Current Assets	213,059	1,315,872
Regulatory assets	(3,331,322)	(189,146)
Deferred gas costs	(8,299,647)	(8,368,376)
Accounts payable and accrued expenses	86,376,363	(1,139,441)
Other accrued taxes	1,770,447	439,077
Interest accrued	27,538	24,444
Customers' deposits	356,848	464,649
Other current liabilities	(9,285)	45,761
Post retirement benefit costs	(102,399)	(194,544)
Customer advances	100,375	22,363
Deferred credits	786	6,179
Other	2,150	1,195
Net cash provided by operations	39,548,118	4,790,195
INVESTING ACTIVITIES		
Capital expenditures	(11,805,195)	(13,395,986)
Allowance for other funds used during construction	(2,150)	(1,195)
Proceeds from sale of assets	3,400,000	4,698,975
Removal cost in excess of salvage	1,456,195	(181,791)
Contributions in aid of construction	238,264	178,897
Net cash used in investing activities	(6,712,886)	(8,701,100)
FINANCING ACTIVITIES		
Net cash flows from Citizens	(32,609,387)	(992,402)
Principal payments on capital leases	(64,054)	(58,930)
Net cash used in financing activities	(32,673,441)	(1,051,332)
Increase (Decrease) in cash	161,791	(4,962,237)
Cash		
Beginning of period	--	4,962,237
End of period	$ 161,791	$ --

See the accompanying notes to the combined financial statements

LOUISIANA GAS DIVISION

NOTES to Combined Financial Statements
December 31, 2000 and 1999

(1) Summary of Significant Accounting Policies:

(a) Description of Business:

The accompanying combined financial statements of Louisiana Gas Division (LGD), of Citizens Communications Company (Citizens), include the accounts of Louisiana Gas Services Company (LGS), LGS Intrastate Company (LGI) and LGS Natural Gas Company (LGN). LGD is also referred to as "we", "us", "our", or "the Company" in this report.

LGS is a division of Citizens, which provides natural gas distribution service to over 278,000 residential and commercial customers in approximately 190 communities in southeastern and northeastern Louisiana having a population of over 600,000 persons. LGI is a division of Citizens, which provides sales and transportation services to approximately 200 industrial customers. LGN is a wholly-owned subsidiary of Citizens with 3 customers, which purchases all of LGS' and LGI's supply needs for its customers and charges the cost of service back to LGS and LGI. In addition, LGS is a regulated entity governed by the Louisiana Public Service Commission (LPSC) and Federal Energy Regulatory Commission (FERC), while LGI and LGN are unregulated entities.

On August 24, 1999, Citizens Board of Directors approved a plan of divestiture by sale of its public services businesses, which include gas, electric and water and wastewater businesses. On April 13, 2000, Citizens announced that it had agreed to sell its Louisiana Gas operations to Atmos Energy Corporation for $365,000,000 in cash less the assumption of certain liabilities. This transaction closed on July 1, 2001. The proceeds from the sale amounted to $364,400,000.

(b) Basis of Presentation and Use of Estimates:

As required by generally accepted accounting principles, all significant intercompany transactions between LGS, LGI and LGN have been eliminated in the accompanying combined financial statements of LGD.

The preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

(c) Revenue Recognition:

We recognize revenues from connection services when the services are provided. Earned but unbilled revenue is accrued for and included in accounts receivable and revenue. Installation fees and related costs (up to the amount of installation revenue) are deferred and recognized over the average contract life. Installation costs in excess of installation fees are expensed when incurred.

In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin 101 (SAB 101), "Revenue Recognition in

Financial Statements," which provides additional guidance in applying generally accepted accounting principles for revenue recognition in consolidated financial statements. SAB 101 was effective beginning in the fourth quarter of 2000 and did not have a material impact on these financial statements.

(d) Construction Costs and Maintenance Expense:

Property, plant and equipment are stated at original cost, including general overhead and an allowance for funds used during construction (AFUDC) for regulated businesses and capitalized interest for unregulated businesses. The book value, net of salvage, of routine property, plant and equipment dispositions is charged against accumulated depreciated for regulated operations.

Interest expense, net includes interest on customer deposits, interest on a capital lease, interest on deferred gas costs, and allowance for equity funds used during construction (AFUDC). AFUDC represents borrowing costs and a return on common equity of funds used to finance construction of regulated assets. AFUDC does not represent current cash earnings; however, under established regulatory rate-making practices, after the related plant is placed in service, we

are permitted to include in the rates charged for regulated services a fair return on and depreciation of such AFUDC included in plant in service. For the years ended December 31, 2000 and 1999 AFUDC is $2,150 and $1,195, respectively.

Interest paid was $762,034 and $745,639 in 2000 and 1999, respectively.

(e) Gas Inventory:

Gas Inventory represents gas held in storage within our own facilities and within third party facilities. The inventory is determined using the weighted average cost of gas.

(f) Regulatory Assets and Liabilities:
Our regulated operations are subject to the provisions of Statement of Financial Accounting Standards (SFAS) No. 71, "Accounting for the Effects of Certain Types of Regulation." SFAS 71 requires regulated entities to record regulatory assets and liabilities as a result of actions of regulators.

We continuously monitor the applicability of SFAS 71. SFAS 71 may, at some future date, be deemed inapplicable due to changes in the regulatory and competitive environments and/or a decision by LGD to accelerate deployment of new technology. If LGD were to discontinue the application of SFAS 71, LGD would be required to write off its regulatory assets and regulatory liabilities and would be required to adjust the carrying amount of any other assets, including property, plant and equipment, that would be deemed not recoverable related to those operations. LGD believes its regulated operations continue to meet the criteria for SFAS 71 and that the carrying value of its regulated property, plant and equipment is recoverable in accordance with established ratemaking practices.

At December 31, 2000 and 1999, Regulatory Assets were $15,330,472 and $11,999,150, respectively. Of these amounts, $14,236,092 and $10,718,796 were related to the deferred income taxes (see Note (h)). The remaining $1,094,380 and $1,280,354 were related to deferred Year 2000 costs. We have received approval from the LPSC to amortize these costs over a 60 month period beginning January 1, 2001.

(g) Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of:

We adopted the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," on January 1, 1996. This Statement requires that long-lived assets and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances, including the actions of regulators, indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(h) Income Taxes, Deferred Income Taxes and Investment Tax Credits:

We are included in the consolidated federal income tax return of Citizens and have recorded our tax provision on a "stand alone" basis utilizing the asset and liability method of accounting for income taxes. Accordingly, that portion of the current consolidated federal income tax liability (benefit) allocated to LGD is included in the Parent Funding account. Under the asset and liability method, deferred income taxes are recorded for the tax effect of temporary differences between the financial statement and the tax bases of assets and liabilities using tax rates expected to be in effect when the temporary differences are expected to turn around. Regulatory assets and liabilities (see Note 1(f)) include income tax benefits previously flowed through to customers and from the AFUDC, the effects of tax law changes and the tax benefit associated with unamortized deferred investment tax credits. These regulatory assets and liabilities represent the probable net increase in revenue that will be reflected through future ratemaking proceedings. The investment tax credits relating to regulated operations, as defined by applicable regulatory authorities, have been deferred and are being amortized to income over the lives of the related properties.

(i) Customer Deposits:

Customer deposits represent amounts received from utility customers in order to provide service. Deposits are refundable upon termination of service.

(j) Deferred Gas Costs:

Deferred gas costs represent amounts paid for gas but not yet billed to customers under the purchased gas adjustment provisions contained in the related tariffs.

(2) Property, Plant and Equipment:

The components of property, plant and equipment at December 31, 2000 and 1999 are as follows:

	2000	1999	Depreciable Lives
Transmission and distribution facilities	$ 280,024,686	$ 270,188,978	5-30
Administrative facilities	51,601,227	61,895,062	3-24
Storage facilities	7,596,837	7,596,837	20
Other	3,307,379	3,307,379	24-40
Intangible assets	622,908	421,511	--
Assets held for sale	1,390,573	1,375,713	--
Construction work in progress	773,410	2,145,865	--
	345,317,020	346,931,345	
Less: accumulated depreciation	(147,369,562)	(143,298,796)	
Property, plant, and equipment, net	$ 197,947,458	$ 203,632,549	

Assets held for sale represents the fuel cell and other minor assets which Citizens was authorized to sell prior to Closing. In accordance with FAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of, assets will not be depreciated while they are held for disposal. The fuel cell in addition to other minor assets is included in Assets held for sale without being further depreciated. The net book value of the fuel cell at December 31, 2000 and 1999 is $843,858 and $828,997, respectively and is classified in property, plant, and equipment on the balance sheet.

Depreciation expense, calculated using the straight-line method, is based upon the estimated service lives of various classifications of property, plant and equipment. For LGS, it represents a composite rate of approximately 4.1% for 2000 and 1999 of the gross depreciable property, plant and equipment excluding vehicle depreciation expense. For LGI, it represents a composite rate of approximately 8.09% and 8.49% for 2000 and 1999, respectively. For LGN, it represents a composite rate of approximately 4.93% and 4.65% for 2000 and 1999, respectively.

For LGS, retirements, sales, and abandonments are charged to Accumulated Depreciation.

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LOUISIANA GAS DIVISION

Notes to Combined Financial Statements
December 31, 2000 and 1999

(3) Affiliate Transactions:

Citizens bills us for direct costs and an allocation of direct of indirect costs. The current practice of allocating indirect costs is based on four factors: our plant assets, operating expenses, number of customers and payroll expenses. We believe that this allocation method and the resultant amounts are reasonable. In addition, we reimburse third party costs incurred by Citizens on our behalf. We believe that the amounts charged by Citizens do not exceed comparable amounts that would be charged by an unaffiliated third party. Also, we believe that the accompanying financial statements include all of our costs of doing business. Expenses charged by Citizens for the years ended December 31, 2000 and 1999 are $6,205,658 and $8,123,570, respectively. These expenses are classified in Operations and Maintenance expense on the income statement.

(4) Contributions in Aid of Construction:

Contributions in Aid of Construction (CIAC) represents any amount of money, services or property received by LGD from any person or governmental agency, any portion of which is provided at no cost to the utility, which represents an addition or transfer to the capital of the utility and which is utilized to offset the acquisition, improvement or construction costs of the utility's property, facilities, or equipment used to provide utility services to the public. CIAC also represents amounts transferred from Advances for Construction, representing unrefunded balances of expired contracts or discounts resulting from termination of contracts.

CIAC is amortized over the life of the related plant and is presented as a reduction of depreciation and amortization expense. Amortization of CIAC amounted to $261,706 and $257,249 in 2000 and 1999, respectively. CIAC is shown gross of amortization on the financial statements. Accumulated amortization of contributions at December 31, 2000 and 1999 is $9,277,263 and $9,015,557 and is included as a reduction of accumulated depreciation.

(5) Parent Funding:

Parent Funding represents Citizens investment in LGD, accumulated earnings of LGD and net intercompany activity with Citizens.

Parent Funding from January 1, 1999 through December 31, 2000 consists of the following:

Balance January 1, 1999	$159,118,998
Net Income	12,119,371
Change In Due To (From) Parent	(494,661)

Balance December 31, 1999	170,743,708
Net Loss	(7,431,852)
Change In Due To (From) Parent	(33,165,988)
Balance December 31, 2000	$130,145,868

LGD is not charged interest by Citizens related to Parent Funding.

LOUISIANA GAS DIVISION

Notes to Combined Financial Statements
December 31, 2000 and 1999

(6) Income Taxes:

The provision for federal and state income taxes includes amounts both payable (receivable) currently and deferred for payment in future periods as indicated below:

	2000	1999
Current:		
Federal	$(4,893,864)	$ 4,311,224
State	(766,971)	675,659
Total current	(5,660,835)	4,986,883
Deferred:		
Federal	649,775	1,966,407
Investment tax credits	(268,059)	(279,346)
State	111,759	318,103
Total deferred	493,475	2,005,164
Income taxes charged (credited) to the income statement	$(5,167,360)	$ 6,992,047

The following is a reconciliation of the provision for income taxes at federal statutory rates to the effective rates:

	2000	1999

Income tax provision (benefit) at federal statutory rate	(35.0)%	35.0%
State income tax provisions (benefits), net of federal income tax benefit	(3.4)%	3.4%
Amortization of investment tax credits	(2.1)%	(1.5)%
Other	(0.5)%	(0.3)%
Total	(41.0)%	36.6%

State income taxes paid were $0 for 2000 and 1999. Federal income taxes are paid by Citizens and are reflected in the account titled Parent Funding in the combined balance sheet. LGD is charged its share of taxes by Citizens and receives credit for losses through the Parent Funding account.

The components of the net deferred tax liability at December 31, 2000 are as follows:

	2000	1999
Deferred income tax liabilities:		
Property, plant and equipment basis differences	$27,694,006	$24,157,246
Regulatory assets	6,200,802	5,147,351
Other, net	1,441,569	1,709,884
Total deferred income tax liabilities	35,336,377	31,014,481
Deferred income tax assets:		
Regulatory liabilities	1,366,189	1,533,043
Deferred investment tax credits	553,373	656,254
Total deferred income tax assets	1,919,562	2,189,297
Net deferred income tax liability	$33,416,815	$28,825,184

LOUISIANA GAS DIVISION

Notes to Combined Financial Statements
December 31, 2000 and 1999

(7) Pension and Post Retirement Benefit Plans:

LGD participates in Citizens Pension Plan (the "Pension Plan"). The Pension Plan is noncontributory and covers all employees who have met certain service and age requirements. The benefits are based on years of service and final average pay or career average pay. Contributions are made in amounts sufficient to fund the plan's net periodic pension cost while considering tax deductibility. Plan assets are invested in a diversified portfolio of equity and fixed-income securities. LGD's portion of the net periodic pension cost is allocated by Citizens and amounted to $660,736 in 2000 and $531,322 in 1999. Information about the fair value of LGD's plan assets, the components of the net periodic pension cost and the projected benefit obligation is not allocated and therefore is not available.

LGD provides certain medical, dental and life insurance benefits for retired employees, and their beneficiaries and covered dependents. These benefits are not funded. The following table sets forth the components of the net periodic postretirement benefit costs, for the years ended December 31, 2000 and 1999:

	2000
Service cost	$ 16,603
Interest cost	910,287
Amortization of transition obligation	14,014
Other	(27,377)
	$ 913,527

The accrual for the post retirement benefit obligation was $11,919,718 and $12,022,117 at December 31, 2000 and 1999, respectively. LGD's accumulated post retirement benefit obligation at December 31, 2000 and 1999 was $12,313,421 and $10,913,495, respectively. The Company is currently assessing the costs and benefits of alternative funding methods. For measurement purposes, the Company used a 7.5% and an 8.0% discount rate in 2000 and 1999, respectively, and a 9% annual rate of increase in the per capita cost of covered health care benefits, gradually decreasing to 5% in the year 2050 and remaining at that level thereafter. The effect of a 1% increase in the assumed health care cost trend rates for each future year on the aggregate of the service and interest cost components of the total postretirement benefit cost would be approximately $59,165 and the effect on the accumulated postretirement benefit obligation for health benefits would be $807,618. The effect of a 1% decrease in the assumed health care cost trend rates for each future year on the aggregate of the service and interest cost components of the total postretirement benefit cost would be approximately ($53,432) and the effect on the accumulated postretirement benefit obligation for health benefits would be ($732,146).

(8) Commitments and Contingencies:

Liabilities for loss contingencies, including environmental remediation costs, arising from claims, assessments, litigation, fines and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated.

LGD conducts certain of its operations in leased premises pursuant to operating leases. Future minimum rental commitments for long-term non-cancelable operating leases are as follows:

LOUISIANA GAS DIVISION

Notes to Combined Financial Statements
December 31, 2000 and 1999

Year	Amount
2001	$506,891
2002	104,836
2003	82,685
2004	80,785
2005	59,135
Thereafter	122,720
	$957,052

The rental expense included in the Company's results of operations for the years ended December 31, 2000 and 1999 was $587,382 and $161,566, respectively.

LGD's only capital lease is the Fuel Cell. See Property Plant and Equipment (Footnote 2). Minimum future lease payments as of December 31, 2000, for each of the next five years and in the aggregate are:

Year	Amount
2001	$121,797
2002	121,797
2003	121,797
2004	121,797
2005	121,797
Thereafter	263,897
Net minimum lease payments	872,882
Less: amount representing interest	(218,100)
Present value of net minimum lease payments	$654,782

Interest rate on capitalized lease is 8.37% and is imputed based on the lower of Citizen's incremental borrowing rate at the inception of the lease or the lessor's implicit rate of return.

LGD has the following approximate gas purchase commitments with third party vendors:

Year	Amount
2001	$ 95,957,000
2002	64,996,000
2003	24,136,000
2004	14,748,000
2005	14,748,000
Thereafter	37,331,000
	$251,916,000

In November 1998, a class action lawsuit was filed in state District Court for Jefferson Parish, Louisiana, against LGN and Citizens. The lawsuit alleged that the other named defendants and we passed through in rates charged to Louisiana customers certain costs that plaintiffs contend were unlawful. The lawsuit sought compensatory damages in the amount of the alleged overcharges and punitive damages equal to three times the amount of any compensatory damages, as

allowed under Louisiana law. In addition, the Louisiana Public Service Commission had opened an investigation into the allegations raised in the lawsuit. Without admitting any wrongdoing, we agreed to refund customers a total of $27,000,000, which represents amounts collected through our purchase gas adjustment clause, including interest for the period 1992-1997. In addition, we agreed to pay attorneys' fees to counsel representing the class action plaintiffs in both the lawsuit and the Commission investigation. The Louisiana Public Service Commission approved an agreement to settle both the Commission investigation and the class action lawsuit and concluded its investigation by order dated December 13, 2000. The District Court approved the settlement agreement and entered its order dismissing the class action on January 4, 2001.

The settlement amount of $27,000,000 has been reflected as a reduction in revenues in 2000. Legal fees of $2,700,000 are reflected in Operations and

Maintenance expense for the year ended December 31, 2000.

In addition, we are party to other proceedings arising in the ordinary course of business. The outcome of individual matters is not predictable. However, we believe that the ultimate resolution of all such matters, after considering insurance coverage, will not have a material adverse effect on our financial position, results of operations, or our liquidity.

(9) Sale of Property, Plant and Equipment

(a) Sale of Administrative Office Complexes:

In February 2000, the Company sold its 71,750 square foot administrative office complex in Harvey, Louisiana for $3,400,000. Approximately $436,000 was reported as a gain, net of transaction costs of $427,000. The gain is reflected in non-operating income for the year ended December 31, 2000. Certain transaction costs amounting to $206,175 were incurred in 1999 in connection with the sale and are included in Prepaid and Other Current Assets at December 31, 1999.

In November 1999, the Company sold its 17,500 square foot complex in Metairie, Louisiana for $1,800,000. Approximately $1,011,851 was recorded as a gain, net of transaction costs of $228,075. The gain is reflected in non-operating income for the year ended December 31, 1999.

(b) Sale of Certain Non-Operating Assets:

In November 1999, the Company sold its interest in LGN as successor to LGS Exploration, Inc. for $2,900,000. LGS Exploration, Inc. was an oil and gas exploration and development company. LGN's sole assets were royalty interest in various production properties. LGD recognized a gain on this sale of $2,541,370, net of transaction costs of $358,630. The gain is reflected in non-operating income for the year ended December 31, 1999.

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LOUISIANA GAS DIVISION
OF CITIZENS COMMUNICATIONS COMPANY

COMBINED FINANCIAL STATEMENTS

AS OF AND FOR THE SIX MONTHS ENDED JUNE 30, 2001

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LOUISIANA GAS DIVISION
OF CITIZENS COMMUNICATIONS COMPANY

INDEX TO COMBINED FINANCIAL STATEMENTS

LOUISIANA GAS DIVISION
COMBINED BALANCE SHEET - UNAUDITED
AT JUNE 30, 2001
(In dollars)

ASSETS	
Property, plant and equipment	$336,045,606
Less accum. depreciation and amortization	153,119,016
Net property, plant and equipment	182,926,590
Current assets	
Cash and cash equivalents	579,907
Accounts receivable, net	23,029,495
Inventories of supplies and merchandise	755,205
Gas inventory	11,629,221
Prepayments	15,659
Total current assets	36,009,487
Deferred charges and other assets	3,554,335
TOTAL ASSETS	$222,490,412
LIABILITIES AND PARENT FUNDING	
Current liabilities	
Long-term capital lease due within one year	$ 72,591
Accounts payable and accrued liabilities	15,166,695
Taxes payable	8,100,570
Customers' deposits	15,951,602
Other current liabilities	1,911,374
Total current liabilities	41,202,832
Deferred income taxes	33,214,324
Long-term capital lease	548,103
Deferred credits and other liabilities	13,370,589
Total Liabilities	88,335,848
Parent Funding	134,154,564
LIABILITIES AND PARENT FUNDING	$222,490,412

LOUISIANA GAS DIVISION

COMBINED STATEMENTS OF OPERATIONS - UNAUDITED
FOR THE SIX MONTHS ENDED JUNE 30, 2001
(in dollars)

Operating revenues	$225,037,023
Purchased gas cost	184,923,764
Gross profit	40,113,259
Operating expenses	
Operation and maintenance	18,219,705
Depreciation and amortization	6,467,360
Taxes, other than income	4,291,475
Total operating expenses	28,978,540
Operating income	11,134,719
Interest expense, net	480,760
Income before income taxes	10,653,959
Income tax provision	4,581,202
Net income	$ 6,072,757

LOUISIANA GAS DIVISION
COMBINED STATEMENTS OF CASH FLOWS - UNAUDITED
FOR THE SIX MONTHS ENDED JUNE 30, 2001
(in dollars)

OPERATING ACTIVITIES	
Net income	$ 6,072,757
Adjustments to reconcile net income to net cash from operations	
Depreciation and amortization	6,467,360
Bad debt expense	422,239
Deferred income taxes and investment tax credits	(240,287)
Changes in assets and liabilities:	
Accounts receivable	51,620,904
Materials and supplies inventory	36,360
Gas inventory	(7,009,289)
Prepaids and other current assets	115,507
Regulatory assets	136,082
Deferred gas costs	33,003,131
Accounts payable and accrued expenses	(90,189,133)
Accrued income taxes	4,281,202
Other accrued taxes	1,395,883
Interest accrued	(333,387)
Customer deposits	(228,232)
Other current liabilities	1,083,416

Postretirement benefit costs	290,282
Customer advances	147,140
Deferred credits	(579,167)
Other	867
Net cash provided by operations	6,493,635
INVESTING ACTIVITIES	
Capital expenditures	(4,107,825)
Allowance for other funds used during construction	(867)
Removal cost in excess of salvage value	394,689
Contributions in aid of construction	123,087
Net cash used in investing activities	(3,590,916)
FINANCING ACTIVITIES	
Net cash flows from parent	(2,450,515)
Principal payments on capital leases	(34,088)
Net cash used in financing activities	(2,484,603)
Increase in cash and cash equivalents	418,116
Cash and cash equivalents at beginning of period	161,791
Cash and cash equivalents at end of period	$ 579,907

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ATMOS ENERGY CORPORATION
PRO FORMA CONDENSED BALANCE SHEET - UNAUDITED
AT JUNE 30, 2001
(In thousands)

	Atmos Energy Corporation	LGS Division	Pro Forma Adjustments
ASSETS			
Property, plant and equipment	$1,635,803	$ 336,045	$ 129,720(1)
Less accum. depreciation and amortization	634,075	153,119	--
Net property, plant and equipment	1,001,728	182,926	129,720
Current assets			
Cash and cash equivalents	424,483	580	(365,580)(2),
Accounts receivable, net	117,928	23,030	
Inventories of supplies and merchandise	10,490	755	
Gas inventory	52,327	11,629	
Gas contracts	--	--	11,699(7)
Prepayments	73,912	16	--

Total current assets	679,140	36,010	(353,881)
Deferred charges and other assets	191,937	3,554	49,537(4)
TOTAL ASSETS	$1,872,805	$ 222,490	$ (174,624)
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Common stock	$ 202	$ --	
Additional paid-in capital	485,872	--	
Retained earnings	114,486	--	
Accumulated other comprehensive income	44	--	
Parent funding	--	134,155	(134,155)(5)
Shareholders' equity	600,604	134,155	(134,155)
Long-term debt	700,517	548	(548)(2)
Total capitalization	1,301,121	134,703	(134,703)
Current liabilities			
Current maturities of long-term debt	16,444	73	(73)(2)
Short-term debt	124,237	--	
Accounts payable and accrued liabilities	77,903	15,167	1,150(6)
Taxes payable	30,411	8,101	(8,101)(2)
Customers' deposits	22,689	15,952	
Other current liabilities	83,033	1,910	--
Total current liabilities	354,717	41,203	(7,024)
Deferred income taxes	130,135	33,214	(32,897)(2)
Deferred credits and other liabilities	86,832	13,370	--
SHAREHOLDERS' EQUITY AND TOTAL LIABILITIES	$1,872,805	$ 222,490	$ (174,624)

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ATMOS ENERGY CORPORATION
NOTES TO PRO FORMA CONDENSED BALANCE SHEET - UNAUDITED
AT JUNE 30, 2001
(In thousands)

Pro Forma Adjustments:

(1) Additional valuation of assets to fair market value based on June 30, 2001 appraised values.

(2) Eliminate assets not acquired and liabilities not assumed:

Cash and equivalents	$ (580)
Long-term debt	548
Current maturities of long-term debt	73
Taxes payable	8,101

Deferred income taxes	32,897
	$ 41,039

(3) Reduce cash balance for $365 million purchase price.

(4) Record excess purchase price over fair market value of assets acquired.

(5) Eliminate parent funding balance.

(6) Accrue severance costs for those employees included in the plan of termination.

(7) Revalue physical gas contracts to fair market value at June 30, 2001

ATMOS ENERGY CORPORATION
PRO FORMA CONDENSED STATEMENTS OF INCOME - UNAUDITED
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2000
(in thousands, except per share amounts)

	Atmos Energy Corporation	LGS Division	Pro Forma Adjustments	Pro For
Operating revenues	$ 850,152	$ 186,175	$ --	$1,036,
Purchased gas cost	524,446	112,635	--	637,
Gross profit	325,706	73,540	--	399,
Operating expenses				
Operation and maintenance	147,897	34,983	--	182,
Depreciation and amortization	63,855	12,263	4,489(1)	80,
Taxes, other than income	28,638	7,947	--	36,
Total operating expenses	240,390	55,193	4,489	300,
Operating income (loss)	85,316	18,347	(4,489)	99,
Miscellaneous income	14,744	4,288	--	19,
Interest expense (income), net	43,823	883	25,813(2)	70,
Income (loss) before taxes	56,237	21,752	(30,302)	47,
Income tax provision (benefit)	20,319	9,604	(11,212)(3)	18,
Net income (loss)	$ 35,918	$ 12,148	$ (19,090)	$ 28,
Basic net income per share	$ 1.14			$ 0

Diluted net income per share	$ 1.14	$ 0
	==========	=======
Weighted average shares outstanding:		
Basic	31,461	31,
	==========	=======
Diluted	31,594	31,
	==========	=======

Pro Forma Adjustments:

(1) Increase in depreciation expense due to valuation of assets at fair market value.

(2) Increase interest expense to include interest on $350 million debt issue at 7 3/8 percent.

(3) Income tax effect of pro forma adjustments at statutory rates.

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ATMOS ENERGY CORPORATION
PRO FORMA CONDENSED STATEMENTS OF INCOME - UNAUDITED
FOR THE NINE MONTHS ENDED JUNE 30, 2001
(in thousands, except per share amounts)

	Atmos Energy Corporation	LGS Division	Pro Forma Adjustments
Operating revenues	$ 1,282,163	$ 306,212	$ --
Purchased gas cost	972,612	271,766	--
Gross profit	309,551	34,446	--
Gas trading margin of Woodward Marketing, LLC	(3,195)	--	--
Operating expenses			
Operation and maintenance	102,140	31,658	--
Depreciation and amortization	47,815	9,527	3,367(1
Taxes, other than income	30,395	6,211	--
Total operating expenses	180,350	47,396	3,367
Operating income (loss)	126,006	(12,950)	(3,367)
Miscellaneous income	6,636	--	--
Interest expense (income), net	31,295	(128)	19,360(2
Income (loss) before taxes	101,347	(12,822)	(22,727)

Income tax provision (benefit)	37,701	(5,513)	(8,409)(
Net income (loss)	$ 63,646	$ (7,309)	$ (14,318)
Basic net income per share	$ 1.71		
Diluted net income per share	$ 1.70		
Weighted average shares outstanding:			
Basic	37,318		
Diluted	37,422		

Pro Forma Adjustments:

(1) Increase in depreciation expense due to valuation of assets at fair market value.

(2) Increase interest expense to include interest on $350 million debt issue at 7 3/8 percent.

(3) Income tax effect of pro forma adjustments at statutory rates.