

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**  
SEC Accession No. **0000950131-94-000631**

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### FILER

#### **ASSOCIATED NATURAL GAS CORP**

CIK: **836666** | IRS No.: **841006841** | State of Incorporation: **DE** | Fiscal Year End: **0930**  
Type: **10-Q** | Act: **34** | File No.: **001-10381** | Film No.: **94528102**  
SIC: **4922** Natural gas transmission

Mailing Address	Business Address
370 17TH STREET, SUITE 900 DENVER CO 80202	370 17TH ST STE 900 DENVER CO 80202 3035953331

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

(X) Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

OR

( ) Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarter ended March 31, 1994

Commission file number 1-10008

ASSOCIATED NATURAL GAS CORPORATION  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE

84-1006841

(STATE OR OTHER JURISDICTION OF  
INCORPORATION OR ORGANIZATION)

(I.R.S. EMPLOYER IDENTIFICATION NO.)

370 17TH STREET, SUITE 900  
DENVER, COLORADO

80202

(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

(ZIP CODE)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (303) 595-3331

(FORMER NAME, FORMER ADDRESS AND FORMER FISCAL YEAR,  
IF CHANGED SINCE LAST REPORT)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the close of the period covered by this report.

Class	Outstanding at March 31, 1994
Common Stock, \$.05 par value	13,450,191 shares

ASSOCIATED NATURAL GAS CORPORATION  
FORM 10-Q

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PART I

ITEM 1. FINANCIAL STATEMENTS

ASSOCIATED NATURAL GAS CORPORATION  
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS  
(UNAUDITED)

<TABLE>  
<CAPTION>

ASSETS -----	MARCH 31, 1994 -----	SEPTEMBER 30, 1993 -----
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents	\$ 53,799,849	44,910,764
Accounts receivable, net of allowance	160,800,486	147,709,668
Natural gas, crude oil and petroleum product inventories	15,304,811	27,312,207
Notes receivable	3,403,193	3,728,258
Income taxes receivable	364,913	1,236,271
Other	714,637	270,108
	-----	-----
Total current assets	234,387,889	225,167,276
	-----	-----
Property, plant, and equipment, at cost:		
Natural gas processing facilities	92,740,148	86,531,133
Natural gas and crude oil pipelines	403,971,872	317,771,823
Construction in progress	9,651,527	16,485,662
Other equipment	20,762,268	16,626,726
	-----	-----
	527,125,815	437,415,344
Less accumulated depreciation	104,626,457	92,581,123
	-----	-----
Total property, plant and equipment, net	422,499,358	344,834,221
Other assets:		
Goodwill, net of applicable amortization of \$6,254,134 and \$5,199,878 respectively	25,373,537	26,427,793
Gas contracts and other intangibles, net of applicable amortization of \$369,949 at March 31, 1994	8,645,362	650,000
Other	2,590,122	1,568,241
	-----	-----
Total other assets	36,609,021	28,646,034
	-----	-----
	\$693,496,268	598,647,531
	=====	=====

</TABLE>

ASSOCIATED NATURAL GAS CORPORATION  
AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS, CONTINUED  
(UNAUDITED)

	MARCH 31, 1994	SEPTEMBER 30, 1993
<TABLE>		
<CAPTION>		
LIABILITIES AND STOCKHOLDERS' EQUITY		
-----	----	----
<S>	<C>	<C>
Current liabilities:		
Accounts payable:		
Trade	\$183,500,663	171,562,416
Other	3,224,305	3,253,915
	-----	-----
	186,724,968	174,816,331
Outstanding checks in excess of bank balances	29,280,542	26,697,341
Accrued interest expense	4,599,779	4,427,292
Dividends payable	403,506	394,607
Current portion of long-term debt (note 5)	4,000,000	4,000,000
	-----	-----
Total current liabilities	225,008,795	210,335,571
	-----	-----
Deferred income taxes	41,382,000	37,956,000
Long-term debt (note 5)	209,000,000	153,000,000
	-----	-----
Total liabilities	475,390,795	401,291,571
	-----	-----
Stockholders' equity (note 4):		
Common stock, \$.05 par value. Authorized 40,000,000 shares; issued and outstanding 13,450,191 and 13,153,555 shares, respectively	672,510	1,315,355
Additional paid-in capital	163,488,177	151,578,087
Unamortized restricted stock compensation award	(1,317,468)	(548,668)
Retained earnings	55,262,254	45,011,186
	-----	-----
Total stockholders' equity	218,105,473	197,355,960
	-----	-----
	\$693,496,268	598,647,531
	=====	=====
</TABLE>		

See accompanying notes to consolidated financial statements.

ASSOCIATED NATURAL GAS CORPORATION  
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS  
(UNAUDITED)

<TABLE>  
<CAPTION>

Three Months Ended  
March 31,

Six Months Ended  
March 31,

	1994	1993	1994	1993
<S>	<C>	<C>	<C>	<C>
Operating revenue:				
Natural gas and petroleum products sales	\$436,392,712	322,469,298	855,157,439	683,050,523
Transportation	4,358,753	2,716,996	7,816,941	5,103,352
Other	3,994,031	1,930,143	7,018,446	3,371,577
	444,745,496	327,116,437	869,992,826	691,525,452
Operating expenses:				
Natural gas and petroleum products purchases	407,998,256	297,054,057	799,786,999	631,124,009
Operations	10,453,101	8,491,254	20,715,546	16,349,359
General and administrative	5,423,470	3,694,738	9,961,803	7,632,693
Depreciation and amortization	7,093,902	5,422,971	13,558,868	10,613,123
	430,968,729	314,663,020	844,023,216	665,719,184
Income from operations	13,776,767	12,453,417	25,969,610	25,806,268
Other income (expense):				
Interest expense	(3,706,159)	(3,268,590)	(7,217,930)	(6,498,176)
Interest income	150,817	283,892	336,689	439,058
Other, net	(481)	(228,357)	18,764	(199,471)
	(3,555,823)	(3,213,055)	(6,862,477)	(6,258,589)
Earnings before income taxes	10,220,944	9,240,362	19,107,133	19,547,679
Provision for income taxes expense:				
Current	2,608,000	2,365,000	4,493,000	4,914,000
Deferred	1,752,000	1,282,000	3,557,000	2,867,000
	4,360,000	3,647,000	8,050,000	7,781,000
Net earnings	\$ 5,860,944	5,593,362	11,057,133	11,766,679
Net earnings per common share	\$.44	.43	.83	.91
Weighted average common shares outstanding (Note 6)	13,434,048	12,996,743	13,379,647	12,989,642
Common stock dividends (note 4)	\$.03	.03	.06	.06

</TABLE>

See accompanying notes to consolidated financial statements

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ASSOCIATED NATURAL GAS CORPORATION  
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED MARCH 31, 1994 AND 1993  
(UNAUDITED)

<TABLE>  
<CAPTION>

	1994	1993
<S>	<C>	<C>
Cash flows from operating activities:		
Net earnings	\$ 11,057,133	11,766,679
Adjustments to reconcile net earnings to net cash		

provided by operating activities:		
Depreciation and amortization	13,558,868	10,613,123
Amortization of deferred financing costs	83,805	71,379
Deferred income tax expense	3,557,000	2,867,000
Amortization of restricted stock award	270,703	205,757
Loss (gain) on disposition of assets	(18,764)	199,471
	-----	-----
Change in working capital items and other	11,424,531	1,799,838
	-----	-----
Net cash provided by operating activities	39,933,276	27,523,247
	-----	-----
Cash flows from investing activities:		
Capital expenditures for property, plant and equipment	(79,830,452)	(36,578,626)
Capital expenditures for gas contracts and other intangibles	(8,365,311)	--
Notes receivable, net	325,065	(592,044)
Proceeds from disposition of assets	63,531	226,860
Changes in other assets	(1,105,810)	119,204
	-----	-----
Net cash used by investing activities	(88,912,977)	(36,824,606)
	-----	-----
Cash flows from financing activities:		
Borrowings	74,000,000	17,000,000
Repayments of debt	(18,000,000)	(15,000,000)
Net proceeds from issuance of common stock	82,751	677,877
Dividends paid	(797,166)	(778,955)
Increase in outstanding checks in excess of bank balances	2,583,201	3,786,661
	-----	-----
Net cash provided by financing activities	57,868,786	5,685,583
	-----	-----
Net increase (decrease) in cash and cash equivalents	8,889,085	(3,615,776)
Cash and cash equivalents, beginning of period	44,910,764	40,026,549
	-----	-----
Cash and cash equivalents, end of period	\$ 53,799,849	36,410,773
	=====	=====

</TABLE>

(continued on following page)

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ASSOCIATED NATURAL GAS CORPORATION  
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED MARCH 31, 1994 AND 1993  
(UNAUDITED)

(continued from previous page)

<TABLE>

<CAPTION>

	1994	1993
	-----	-----
<S>	<C>	<C>
Change in working capital items and other:		
Increase in accounts receivable	\$(13,090,818)	(14,566,006)
Decrease in natural gas, crude oil and petroleum product inventories	12,007,396	14,879,575
Decrease in income taxes receivable	871,358	--
Increase in other current assets	(444,529)	(183,316)
Increase (decrease) in accounts payable	11,908,637	(518,799)
Increase in accrued interest expense	172,487	56,425
Increase in current income tax payable	--	2,131,959
	-----	-----
	\$ 11,424,531	1,799,838
	=====	=====

Supplemental disclosures of cash flow information:

Cash paid for:		
Interest, net of amount capitalized	\$ 7,045,443	6,441,751
	=====	=====
Income taxes	\$ 3,621,642	2,784,500
	=====	=====
Supplemental schedule of noncash investing and financing activities:		
Accrued common stock dividends	\$ 403,506	390,935
	=====	=====
Issuance of common stock pursuant to purchase of assets from Endeveco	\$ 10,013,991	--
	=====	=====
Tax effect of stock option compensation	\$ 131,000	155,000
	=====	=====

</TABLE>

See accompanying notes to consolidated financial statements.

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ASSOCIATED NATURAL GAS CORPORATION  
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 1994  
(UNAUDITED)

(1) UNAUDITED INTERIM FINANCIAL INFORMATION

The accompanying unaudited consolidated financial statements reflect all adjustments, in the opinion of management, necessary to a fair statement of the financial position and results of operations of Associated Natural Gas Corporation and Subsidiaries (the Company) for the interim periods presented. All adjustments, in the opinion of management, are of a normal recurring nature.

Certain amounts have been reclassified for comparability with the 1994 presentation.

(2) NATURE OF BUSINESS

The Company is engaged in the business of purchasing, gathering, transporting, processing and marketing natural gas, natural gas liquids (NGLs) and crude oil to industrial end users, local distribution companies, liquid petroleum gas wholesalers and retailers and refiners. The Company currently owns and operates a significant complex of crude oil, NGLs and natural gas gathering, processing/fractionation and transportation facilities situated in major oil and natural gas-producing basins in the Rocky Mountain, Mid Continent and Gulf Coast Regions of the United States.

(3) ACQUISITIONS

Effective November 1, 1993, the Company purchased four natural gas gathering/transportation pipeline systems and certain contractual gas storage rights from the former noteholders of Endeveco, Inc. ("Endeveco") pursuant to Endeveco's Plan of Reorganization. The total purchase price consisted of approximately \$20.5 million in cash and 264,089 shares of the Company's common stock. The acquisition included the 465 mile intrastate Mississippi Fuels gas transportation system; the 63 mile Ada gas gathering system in Bienville and Webster Parishes, Louisiana; the 7 mile Chalybeat Springs gas transportation system in Claiborne Parish, Louisiana and Columbia County, Arkansas; the 12 mile Leaf River gas transportation system in Perry and Forest Counties, Mississippi and storage rights for up to 300,000 MMBTU in the Hattiesburg gas storage facility in Mississippi. The Company transferred the assets of the Mississippi Fuels gas transportation system to AIM Pipeline Company, a wholly-owned subsidiary of Associated Natural Gas Corporation.

On November 9, 1993, the Company acquired from Dynamic Energy Resources, Inc. ("Dynamic") the right, title and interest in a Gas Sale and Purchase Agreement and related transportation rights by and between Dynamic and Oklahoma

Natural Gas Company. In addition, the Company and Dynamic entered into a gas purchase and processing agreement whereby the Company will be processing Dynamic's gas, through the Company's Milfay and/or Glenpool natural gas processing plants, pursuant to a percentage-of-proceeds contract.

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On November 12, 1993, the Company, through its wholly-owned subsidiary ATTCO NGL Pipeline Company, purchased for \$22.5 million cash all of the outstanding common stock of Dean Pipeline Company ("Dean"), an indirect wholly owned subsidiary of Tenneco, Inc. The assets of Dean consist of approximately 264 miles of mainline NGLs transportation pipeline with approximately 54 miles of supply laterals traversing the Gulf Coast of Texas. The pipeline has a current throughput capacity of 21,000 barrels per day and interconnects with underground storage and fractionation facilities in Mont Belvieu, Texas. Dean has subsequently been merged with and into ATTCO NGL Pipeline Company, the surviving entity.

Effective December 1, 1993, the Company purchased JN Exploration and Production Limited Partnership's natural gas gathering/transportation system located in Covington, Jefferson Davis, Lawrence and Marion Counties, Mississippi. This system consisted of approximately 49 miles of natural gas gathering pipeline connected to approximately 19 wells and is interconnected with the Company's AIM Pipeline gas transportation system acquired from Endeeco.

Effective February 1, 1994, the Company, through its wholly-owned subsidiary ATTCO Pipeline Company, purchased Shell Pipeline Corporation's Hope-Houston crude oil pipeline system in south Texas. This system consists of approximately 165 miles of crude oil gathering and trunkline pipeline with an interconnection to Exxon Pipeline. ATTCO Pipeline through this system is currently moving approximately 9,000 barrels a day of crude oil at its published tariff.

Effective March 1, 1994, the Company, through its wholly-owned subsidiary Associated Louisiana Intrastate Pipeline Company (ALIP), purchased from Gulf States Pipeline Corporation the other 50% interest, that it did not already own, in the Minden/Terryville natural gas pipeline system located in Lincoln, Jackson and Webster Parishes, Louisiana. This system is a 42 mile transmission pipeline with a throughput capacity of approximately 75,000 MCF per day that delivers residue gas from the tailgate of the Company's Minden, Louisiana natural gas processing plant to two interstate and one intrastate natural gas pipelines.

On February 21, 1994, the Company announced that it had signed a definitive agreement to merge with Grand Valley Gas Company ("Grand Valley"), an 11 year old natural gas marketing company with principal sales regions in the Pacific Northwest, Rocky Mountains, Western Canada and California. Consummation of the merger is conditioned on completion of due diligence by both companies, the approval of Grand Valley's shareholders and approval of all applicable regulatory authorities. It is anticipated that the merger will be completed and effective by July 1, 1994. Terms of the agreement call for the exchange of 0.25 shares of the Company's stock for each share of Grand Valley. Approximately 1.6 million shares of the Company's common stock will be issued.

#### (4) STOCK TRANSACTIONS

On November 1, 1993, the Company issued 264,089 shares of common stock (at a price of \$37.92) as partial consideration for the acquisition of four natural gas gathering/transportation systems from the former noteholders of Endeeco. On February 15, 1994, the Company granted 28,895 shares of restricted stock to key employees. Such shares were granted at \$36.25 per share and vest over a four year period.

During the six months ended March 31, 1994 and 1993, the Company received \$82,751 and \$677,877 respectively, under option agreements with employees for the acquisition of 33,299 and 3,962 shares, respectively, of common stock at various prices. On February 10, 1994, the Company declared a \$.03 per share cash dividend on its common stock payable on April 15, 1994 to the common shareholders of record on March 31, 1994.

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At the Company's annual stockholders meeting, held February 10, 1994, the stockholders approved a proposal to increase the number of authorized shares of



common stock from 20 to 40 million and to reduce the par value from \$.10 to \$.05 per share.

(5) LONG-TERM DEBT

Long-term debt is summarized as follows:

<TABLE>  
<CAPTION>

	March 31, 1994	September 30, 1993
<S>	<C>	<C>
9.55% senior notes (a)	\$ 55,000,000	55,000,000
9.90% senior notes (a)	45,000,000	45,000,000
12.75% senior notes (b)	8,000,000	12,000,000
Revolving Credit Agreement (c)	105,000,000	45,000,000
	-----	-----
	213,000,000	157,000,000
Less: current portion of long-term debt	(4,000,000)	(4,000,000)
	-----	-----
	\$209,000,000	153,000,000
	=====	=====

</TABLE>

(a) On May 8, 1991, the Company completed a private placement of \$100 million of senior unsecured notes with institutional investors. The 9.55% notes are payable in four annual installments of \$13,750,000 commencing April 30, 1996. The 9.90% notes are payable in four annual installments of \$11,250,000 commencing April 30, 2000. Interest is payable semi-annually on April 30 and October 31 of each year.

(b) The Company has issued to The Prudential Insurance Company of America senior notes in the aggregate principal amount of \$12,000,000 bearing interest at 12.75% payable semiannually. The principal of the senior notes is payable in three annual installments of \$4,000,000 commencing December 31, 1993.

(c) On January 13, 1994 the Company closed on an amendment effective December 31, 1993 to its Revolving Credit Agreement ("Revolver") dated June 1, 1992 with certain commercial lending institutions and Continental Bank N.A., as agent. The amendment expanded the committed amount of the Revolver from \$100 million to \$150 million subject to certain limitations based upon the total debt of the Company. The Revolver will become a three-year term loan, with quarterly principal payments equal to one twelfth of the balance outstanding on May 1, 1996, due commencing on August 1, 1996 with a maturity date of May 1, 1999. The outstanding principal under the facility and term loan bears interest at the Revolver's applicable margin above the adjusted Eurodollar Rate or Base Rate (4.3% at March 31, 1994). A non-use fee, currently 1/4 of one percent per annum, is charged on the unused portion of the facility. The Revolver contains certain covenants, including covenants regarding net worth; current ratio; fixed charge coverage ratio; dividends; loans, advances and investments; permitted indebtedness; environmental provisions and information requirements. At December 31, 1993, the Company was in compliance with the terms of its debt agreements.

On February 10, 1994 the Company entered into a \$20 million Line of Credit ("Line") with Continental Bank, N.A. which expires on December 30, 1994. Interest on borrowings will be based on a quoted rate furnished by the bank for daily periods of up to one week. The Company utilizes this Line to minimize swings in its monthly cash cycle and on May 10, 1994, the outstanding balance on this Line was \$7.5 million.

On April 5, 1994, the Company closed on the sale of \$40,000,000 of its senior notes to Connecticut General Life Insurance Company ("CIGNA"). The notes were sold at par, bear interest at the rate of 6.30% per annum and mature at various dates beginning April 15, 1999 and ending on April 15, 2003. The notes contain certain terms and conditions which are substantially equivalent to those in the Company's existing long-term indebtedness. Proceeds from these notes were used by the Company to reduce its outstanding indebtedness under its Revolver.

(6) EARNINGS PER COMMON SHARE

Earnings per common share is computed by dividing net earnings available to common shares by the weighted average number of common shares outstanding. Outstanding options to purchase common stock did not have a material dilutive effect on the calculation of earnings per share for any period presented.

(7) SEASONALITY

The Company experiences significant seasonal changes in volumes, prices and certain expenses; therefore, the results of operations for the six month periods ended March 31, 1994 and 1993 are not necessarily indicative of the results to be expected for the full year.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS & RESULTS OF OPERATIONS

The following is a discussion of the Company's consolidated financial condition, results of operations and capital resources. This discussion and analysis should be read in conjunction with the Company's consolidated financial statements and the notes thereto included elsewhere in this filing.

RESULTS OF OPERATIONS

Three months ended March 31, 1994 and 1993:

The following tables reflect operating data and average daily natural gas volumes for the Company for the three months ended March 31, 1994 and 1993:

<TABLE>  
<CAPTION>

	Three months ended March 31,		Percent Increase
	1994	1993	
	-----		
	1994	1993	
	-----		
	(Dollars in thousands)		
<S>	<C>	<C>	<C>
Operating revenue	\$ 444,745	327,116	36.0%
Net operating margin (1)	36,747	30,062	22.2
Earnings before income taxes	10,221	9,240	10.6
Net earnings	5,861	5,593	4.8
Income from operations plus depreciation and amortization	20,871	17,876	16.8
Earnings per common share	\$ .44	.43	2.3

<TABLE>  
<CAPTION>

	System Supply		Off-System	Crude Oil	Total
	-----				
	<C>	<C>	<C>	<C>	<C>
<S>					
1994					
Operating revenue	\$ 130,663	201,709	112,373	444,745	
Net operating margin(1)	28,189	4,955	3,603	36,747	
Percent	21.6%	2.5%	3.2%	8.3%	
1993					
Operating revenue	\$ 102,352	93,225	131,539	327,116	
Net operating margin(1)	27,182	808	2,072	30,062	
Percent	26.6%	0.9%	1.6%	9.2%	

<TABLE>  
<CAPTION>

	Three months ended March 31,		Percent Increase
	1994	1993	
	-----		
	1994	1993	
	-----		
<S>	<C>	<C>	<C>

Natural Gas Volumes (MCF Per Day):

System Supply:			
Rocky Mountain Region	141,000	133,000	6.0%
Mid-Continent Region	239,000	225,000	6.2
Gulf Coast Region	447,000	310,000	44.2
	-----	-----	
	827,000	668,000	23.8
Off-System:			
	897,000	471,000	90.4
	-----	-----	
	1,724,000	1,139,000	51.4
	=====	=====	

</TABLE>

(1) Net operating margin is equal to operating revenue, less natural gas and petroleum products purchases.

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For the three months ended March 31, 1994, the Company earned \$5.9 million on total revenue of \$445 million, as compared to \$5.6 million on total revenue of \$327 million for the three months ended March 31, 1993. Earnings per common share was \$.44 per share for the three months ended March 31, 1994 as compared to \$.43 per share for the three months ended March 31, 1993.

The increase in operating revenue is primarily attributable to higher off-system natural gas volumes marketed, higher crude oil volumes marketed, higher natural gas prices and the Company's continued growth in volumes through its system supply facilities. The average price per MCF received by the Company for natural gas sold from all of its system supply facilities was \$2.31 and \$2.03 for the three months ended March 31, 1994 and 1993, respectively. For the three months ended March 31, 1994, the Company expended approximately \$10 million on new acquisitions and \$13 million on new construction, thereby further expanding its system supply facilities. The increase in operating revenue attributable to the increase in gas prices and volumes company-wide were offset somewhat by lower NGLs values which mirrored the worldwide decline in crude oil prices during the quarter.

The Company's overall net operating margin (as a percentage of operating revenue) decreased from 9.2% in 1993 to 8.3% in 1994. This decline is attributable to increases in both the volumes of off-system natural gas and crude oil being marketed/transported, which generated substantially lower unit margins. In addition, the growth in system supply volumes (and as a result the decline in the system supply unit margin from 26.6% to 21.6%) has come from systems that historically generate lower unit margins than the Company's overall average. System supply volumes increased approximately 24% in 1994, due to the acquisition in November 1993 from the Endecco noteholders of the Ada (increase of 78,000 MCF/D) and AIM Pipeline (69,000 MCF/D) systems and higher natural gas volumes being processed/transported through the Company's Texas Wilcox (33,000 MCF/D) and Oklahoma Cyril/Hillsboro (18,000 MCF/D) systems.

The Company's crude oil net operating margin (as a percentage of operating revenue) increased from 1.6% in 1993 to 3.2% in 1994 due to additional transportation volumes as a result of the Company's acquisition of Shell's south Texas crude oil system and inventory gains recognized during the quarter.

The Company's off-system net operating margin (as a percentage of operating revenue) increased from 0.9% in 1993 to 2.5% in 1994 due to the Company's continued effort to expand its downstream marketing business with an emphasis on demand premiums being paid by customers for the Company providing firm service to such customers.

Average daily system supply NGLs processed, fractionated, transported or marketed increased 67.3% from 22,600 barrels per day for the previous year's period to 37,800 barrels per day. This increase is attributable to the Company's Oklahoma Hillsboro plant coming on line in May 1993, the acquisition of Dean Pipeline and higher NGLs recovered through the Company's Colorado D-J Basin and Texas Wilcox plants due to higher gas volumes being processed.

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NGLs prices were substantially lower for the Company during this period in relation to the corresponding period in 1993. The following reflects the Company's weighted average NGLs price per gallon received by the Company at all its system supply facilities.

<TABLE>  
<CAPTION>

	Three months ended March 31,	
	1994	1993
<S>	<C>	<C>
Ethane	\$.138	.170
Propane	.272	.353
Butanes	.284	.365
Gasoline	.318	.434
Overall weighted average price/gal.	.250	.326

</TABLE>

The Company's operations and general and administrative expenses increased 23.1% and 46.8% respectively, due to the Company's continued growth through construction and acquisitions. Operations and general and administrative expenses as a percentage of net operating margin increased from 40.5% in 1993 to 43.2% in 1994 as the increase in expenses associated with its expanding operations more than offset the resulting increase in net operating margin. Depreciation and amortization expense increased 30.8% due to the Company's acquisitions and new construction.

The Company's interest expense increased 13.4% due to higher borrowings under its Revolving Credit Agreement to finance the Endeveco and Dean Pipeline acquisitions, but were offset somewhat by lower interest rates on variable rate borrowings. For the three months ended March 31, 1994 and 1993, the Company's effective cost of funds was 7.2% and 8.4%, respectively.

Interest income represents interest earned on the Company's cash and cash equivalents. The Company endeavors to maximize interest income by utilizing controlled disbursement checking accounts which allow the Company to temporarily invest funds relating to outstanding checks in highly rated liquid corporate demand notes.

The increase in the provision for income taxes as a percentage of earnings before income taxes is due to the increase in the corporate tax rate to 35% under the Revenue Reconciliation Act of 1993.

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Six months ended March 31, 1994 versus 1993:

The following tables reflect operating data, net operating margin percentage and average daily natural gas volumes for the Company for the six months ended March 31, 1994 and 1993:

<TABLE>  
<CAPTION>

	Six months ended March 31,		Percent Increase (Decrease)
	1994	1993	
<S>	<C>	<C>	<C>
Operating revenue	\$869,993	691,525	25.8%
Net operating margin(1)	70,206	60,401	16.2
Earnings before income taxes	19,107	19,548	(2.3)
Net earnings	11,057	11,767	(6.0)
Income from operations plus depreciation and amortization	39,528	36,419	8.5
Earnings per common share	\$.83	.91	(8.8)

</TABLE>

<TABLE>  
<CAPTION>

System Supply	Off-System	Crude Oil	Total
-----	-----	-----	-----

<S>	<C>	<C>	<C>	<C>
1994				
Operating revenue	\$243,659	392,216	234,118	869,993
Net operating margin(1)	55,449	8,788	5,969	70,206
Percent	22.8%	2.2%	2.5%	8.1%
1993				
Operating revenue	\$214,410	197,963	279,152	691,525
Net operating margin(1)	53,295	3,259	3,847	60,401
Percent	24.9%	1.6%	1.4%	8.7%

</TABLE>

<TABLE>  
<CAPTION>

	March 31,		Percent
	1994	1993	Increase
<S>	<C>	<C>	<C>
Natural Gas Volumes (MCF Per Day):			
System Supply:			
Rocky Mountain Region	141,000	132,000	6.8%
Mid-Continent Region	242,000	224,000	8.0
Gulf Coast Region	410,000	300,000	36.7
	793,000	656,000	20.9
Off-System:	873,000	439,000	98.9
	1,666,000	1,095,000	52.1

</TABLE>

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For the six months ended March 31, 1994, the Company earned \$11.1 million on total revenue of \$870 million, as compared to \$11.8 million on total revenue of \$692 million for the six months ended March 31, 1993. Earnings per common share was \$.83 per share for the six months ended March 31, 1994 as compared to \$.91 per share for the six months ended March 31, 1993.

The increase in operating revenue is primarily attributable to higher off-system natural gas volumes marketed, higher crude oil volumes marketed, higher natural gas prices and the Company's continued growth in volumes through its system supply facilities. The average price per MCF received by the Company for natural gas sold from all of its system supply facilities was \$2.26 and \$2.16 for the six months ended March 31, 1994 and 1993, respectively. For the six months ended March 31, 1994, the Company expended approximately \$65 million on new acquisitions and \$25 million on new construction, thereby further expanding its system supply facilities. The increase in operating revenue attributable to the increase in gas prices and volumes company-wide were offset somewhat by lower NGLs values which mirrored the worldwide decline in crude oil prices during the first two quarters.

The Company's overall net operating margin (as a percentage of operating revenue) decreased from 8.7% in 1993 to 8.1% in 1994. This decline is attributable to increases in both the volumes of off-system natural gas and crude oil being marketed/transported, which generated substantially lower unit margins. In addition, the growth in system supply volumes (and as a result the decline in the system supply unit margin from 24.9% to 22.8%) has come from systems that historically generate lower unit margins than the Company's overall average. System supply volumes increased approximately 21% in 1994, due to the acquisition in November 1993 from the Endevco noteholders of the Ada (increase of 63,000 MCF/D) and AIM Pipeline (54,000 MCF/D) systems and higher natural gas volumes being processed/transported through the Company's Texas Wilcox (27,000 MCF/D) and Oklahoma Cyril/Hillsboro (25,000 MCF/D) systems.

The Company's crude oil net operating margin (as a percentage of operating revenue) increased from 1.4% in 1993 to 2.5% in 1994 due to additional transportation volumes handled as a result of the Company's acquisition of Shell's south Texas crude oil system and trading inventory gains recognized during the six month period.

The Company's off-system net operating margin (as a percentage of operating revenue) increased from 1.6% in 1993 to 2.2% in 1994 due to the Company's continued effort to expand its downstream marketing business with an emphasis on demand premiums being paid by customers for the Company providing firm service to such customers.

Average daily system supply NGLs processed, fractionated, transported or marketed increased 55.7% from 23,000 barrels per day for the previous year's period to 35,800 barrels per day. This increase is attributable to the Company's Oklahoma Hillsboro plant coming on line in May 1993, the acquisition of Dean Pipeline and higher NGLs recovered through the Company's Colorado D-J Basin and Texas Wilcox plants due to higher gas volumes being processed.

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NGLs prices were substantially lower for the Company during this period in relation to the corresponding period in 1993. The following reflects the Company's weighted average NGLs price per gallon received by the Company at all its system supply facilities.

<TABLE>  
<CAPTION>

	Six months ended March 31,	
	1994	1993
	-----	-----
<S>	<C>	<C>
Ethane	\$.133	.172
Propane	.288	.342
Butanes	.295	.368
Gasoline	.325	.439
Overall weighted average price/gal.	.259	.328

</TABLE>

The Company's operations and general and administrative expenses increased 26.7% and 30.5% respectively, due to the Company's continued growth through construction and acquisitions. Operations and general and administrative expenses as a percentage of net operating margin increased from 39.7% in 1993 to 43.7% in 1994 as the increase in expenses associated with its expanding operations more than offset the resulting increase in net operating margin. Depreciation and amortization expense increased 27.8% due to the Company's acquisitions and new construction.

The Company's interest expense increased 11.1% due to higher borrowings under its Revolving Credit Agreement to finance the Endeveco and Dean Pipeline acquisitions, but were offset somewhat by lower interest rates on variable rate borrowings. For the six months ended March 31, 1994 and 1993, the Company's effective cost of funds was 7.4% and 8.7%, respectively.

Interest income represents interest earned on the Company's cash and cash equivalents. The Company endeavors to maximize interest income by utilizing controlled disbursement checking accounts which allow the Company to temporarily invest funds relating to outstanding checks in highly rated liquid corporate demand notes.

The increase in the provision for income taxes as a percentage of earnings before income taxes is due to the increase in the corporate tax rate to 35% under the Revenue Reconciliation Act of 1993.

#### CAPITAL RESOURCES AND LIQUIDITY

The Company's sources of capital resources and liquidity historically have been net cash provided by operating activities, proceeds from the offerings of equity securities, proceeds from debt securities and funds available under its financing facilities. In the past, these sources have been sufficient to meet the needs and finance the growth of the Company's business. Net cash provided by operating activities has been primarily affected by natural gas and NGLs prices, the Company's success in increasing "system supply" volumes and the margin on crude oil and "off-system" natural gas purchased for resale. The Company's continued growth will be dependent upon success in the areas of additions to dedicated plant reserves, acquisitions, new project development and marketing.

Additional sources of liquidity to the Company are volumes of natural gas, crude oil and NGLs held in inventory. The Company stores volumes of natural gas, crude oil and NGLs primarily to assure an adequate

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supply for term sales contracts and for resale during periods when prices are favorable. At March 31, 1994, the Company held in inventory approximately \$3.4, \$9.7 and \$1.3 million of natural gas, crude oil and NGLs, respectively.

On January 13, 1994 the Company closed on an amendment effective December 31, 1993 to its Revolving Credit Agreement dated June 1, 1992 with certain commercial lending institutions and Continental Bank N.A., as agent. The amendment expanded the committed amount of the Revolver from \$100 million to \$150 million subject to certain limitations based upon the total debt of the Company. The Revolver will become a three-year term loan, with quarterly principal payments equal to one twelfth of the balance outstanding on May 1, 1996, due commencing on August 1, 1996 with a maturity date of May 1, 1999. The outstanding principal under the Revolver and term loan bears interest at the Revolver's applicable margin above the adjusted Eurodollar Rate or Base Rate. A non-use fee, currently 1/4 of one percent per annum, is charged on the unused portion of the facility. The Revolver contains certain covenants, including covenants regarding net worth; current ratio; charge coverage ratio; dividends; loans, advances and investments; permitted indebtedness; environmental provisions and information requirements. At March 31, 1994, the Company was in compliance with the terms of its debt agreements.

On February 10, 1994 the Company entered into a \$20 million Line of Credit with Continental Bank, N.A. which expires on December 30, 1994. Interest on borrowings will be based on a quoted rate furnished by the bank for daily periods of up to one week. The Company utilizes this Line to minimize swings in its monthly cash cycle.

On April 5, 1994, the Company closed on the sale of \$40 million of its senior notes to Connecticut General Life Insurance Company ("CIGNA"). The notes were sold at par, bear interest at the rate of 6.30% per annum and mature at various dates beginning April 15, 1999 and ending on April 15, 2003. The notes contain certain terms and conditions which are substantially equivalent to those in the Company's existing long-term indebtedness.

It has been the Company's practice (which it expects to continue) to secure sources of long-term capital prior to committing to new projects. The Company intends to borrow additional amounts under its debt agreements, as required, to fund operations and to construct or acquire new facilities in accordance with its asset-based business plan. The Company has negotiated its debt financings in a manner which defers and staggers principal repayments through fiscal 2003. Management believes the Company's current cash position, future cash provided by operating activities, borrowing capacity under its debt agreements and its relations with its institutional lenders and equity investors should enable it to meet its future capital requirements, although there can be no assurance regarding the Company's ability to obtain additional capital when needed on acceptable terms.

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## PART II

### ITEM 1. LEGAL PROCEEDINGS

Not applicable

### ITEM 2. CHANGES IN SECURITIES

Not applicable

### ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

See Proxy for Annual Stockholder's Meeting, held February 10, 1994. At the meeting a proposal to amend Article IV of the Restated Certificate of Incorporation to increase the number of authorized shares of common stock from 20 to 40 million and to reduce the par value from \$.10 to \$.05 per share was voted upon. Of a total of 10,738,561 shares voted, 10,080,023 shares were voted for, 644,769 shares against, and 13,769 shares abstained in such proposal.

ITEM 5. OTHER INFORMATION

Not applicable

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

A. None.

B. A Form 8-K was filed by the Registrant on January 13, 1994 for an amendment effective December 31, 1993 to the Revolving Credit Agreement dated June 1, 1992 with certain commercial lending institutions and Continental Bank N.A., as agent.

A Form 8-K was filed by the Registrant on February 23, 1994 for the Company announcing its definitive agreement to merge with Grand Valley Gas Company.

A Form 8-K was filed by the Registrant on May 6, 1994 for the Company closing on the sale of \$40 million of its senior notes to Connecticut General Life Insurance Company.

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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, thereunto duly authorized.

ASSOCIATED NATURAL GAS CORPORATION

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(Registrant)

Date May 12, 1994

By /s/ J. Roger Grace

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J. Roger Grace  
Treasurer  
(Principal Accounting Officer)

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