ENERGEN CORP
Form 10-Q
August 08, 2006
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2006

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	Registrant	State of Incorporation	IRS Employer Identification Number
1-7810	Energen Corporation	Alabama	63-0757759
2-38960	Alabama Gas Corporation	Alabama	63-0022000

605 Richard Arrington Jr. Boulevard North

Birmingham, Alabama 35203-2707

Telephone Number 205/326-2700

http://www.energen.com

Alabama Gas Corporation, a wholly owned subsidiary of Energen Corporation, meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this Form with reduced disclosure format pursuant to General Instruction H(2).

Indicate by a check mark whether the registrants (1) have filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. YES x NO ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act).

Energen Corporation	**Large accelerated filer x**	**Accelerated filer ¨**	**Non-accelerated filer ¨**
Alabama Gas Corporation	**Large accelerated filer ¨**	**Accelerated filer ¨**	**Non-accelerated filer x**

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Energen Corporation	**YES ¨**	**NO x**
Alabama Gas Corporation	**YES ¨**	**NO x**

Indicate the number of shares outstanding of each of the issuers classes of common stock, as of August 1, 2006.

Energen Corporation	**$0.01 par value**	**72,490,337 shares**
Alabama Gas Corporation	**$0.01 par value**	**1,972,052 shares**

Table of Contents

ENERGEN CORPORATION AND ALABAMA GAS CORPORATION

FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2006

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

ENERGEN CORPORATION

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
(in thousands, except per share data)	**2006**	**2005**	**2006**	**2005**
Operating Revenues				
Oil and gas operations	**$ 169,178**	$ 134,428	**$ 338,697**	$ 237,308
Natural gas distribution	**113,196**	107,197	**431,819**	365,325
Total operating revenues	**282,374**	241,625	**770,516**	602,633
Operating Expenses				
Cost of gas	**57,831**	50,424	**251,881**	187,279
Operations and maintenance	**78,401**	66,904	**152,884**	127,309
Depreciation, depletion and amortization	**34,499**	33,101	**68,796**	64,526
Taxes, other than income taxes	**21,433**	19,794	**54,112**	46,344
Accretion expense	**912**	654	**1,810**	1,297
Total operating expenses	**193,076**	170,877	**529,483**	426,755
Operating Income	**89,298**	70,748	**241,033**	175,878
Other Income (Expense)				
Interest expense	**(12,366)**	(11,524)	**(25,543)**	(23,194)
Other income	**255**	517	**962**	870
Other expense	**(272)**	(268)	**(501)**	(536)
Total other expense	**(12,383)**	(11,275)	**(25,082)**	(22,860)
Income From Continuing Operations Before Income Taxes	**76,915**	59,473	**215,951**	153,018
Income tax expense	**27,313**	21,900	**78,848**	56,503
Income From Continuing Operations	**49,602**	37,573	**137,103**	96,515
Discontinued Operations, net of taxes				
Income (loss) from discontinued operations	**(1)**	13	**(8)**	(6)
Gain (loss) on disposal of discontinued operations		(13)		110
Income (Loss) From Discontinued Operations	**(1)**		**(8)**	104
Net Income	**$ 49,601**	$ 37,573	**$ 137,095**	$ 96,619
Diluted Earnings Per Average Common Share				
Continuing operations	**$ 0.67**	$ 0.51	**$ 1.85**	$ 1.31
Discontinued operations				

Net Income	**$ 0.67**	$ 0.51	**$ 1.85**	$ 1.31
Basic Earnings Per Average Common Share				
Continuing operations	**$ 0.68**	$ 0.51	**$ 1.87**	$ 1.32
Discontinued operations				
Net Income	**$ 0.68**	$ 0.51	**$ 1.87**	$ 1.32
Dividends Per Common Share	**$ 0.11**	$ 0.10	**$ 0.22**	$ 0.20
Diluted Average Common Shares Outstanding	**73,902**	73,782	**73,978**	73,726
Basic Average Common Shares Outstanding	**73,028**	73,017	**73,148**	72,985

The accompanying notes are an integral part of these condensed financial statements.

Table of Contents

CONSOLIDATED CONDENSED BALANCE SHEETS

ENERGEN CORPORATION

(Unaudited)

(in thousands)	June 30, 2006	December 31, 2005
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 11,551**	$ 8,714
Accounts receivable, net of allowance for doubtful accounts of $14,970 at June 30, 2006, and $11,573 at December 31, 2005	**132,990**	285,765
Inventories, at average cost		
Storage gas inventory	**72,069**	71,179
Materials and supplies	**8,703**	7,926
Liquified natural gas in storage	**3,548**	3,795
Regulatory asset	**10,352**	6,633
Deferred income taxes	**36,565**	72,113
Prepayments and other	**27,098**	22,366
Total current assets	**302,876**	478,491
Property, Plant and Equipment		
Oil and gas properties, successful efforts method	**2,021,905**	1,930,291
Less accumulated depreciation, depletion and amortization	**512,226**	466,643
Oil and gas properties, net	**1,509,679**	1,463,648
Utility plant	**1,034,451**	999,011
Less accumulated depreciation	**413,347**	401,232
Utility plant, net	**621,104**	597,779
Other property, net	**9,118**	6,584
Total property, plant and equipment, net	**2,139,901**	2,068,011
Other Assets		
Regulatory asset	**33,756**	33,436
Deferred charges and other	**38,133**	38,288
Total other assets	**71,889**	71,724
TOTAL ASSETS	**$ 2,514,666**	$ 2,618,226

The accompanying notes are an integral part of these condensed financial statements.

Table of Contents

CONSOLIDATED CONDENSED BALANCE SHEETS

ENERGEN CORPORATION

(Unaudited)

(in thousands, except share and per share data)	**June 30, 2006**	**December 31, 2005**
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Long-term debt due within one year	**$ 15,000**	$ 15,000
Notes payable to banks	**54,000**	153,000
Accounts payable	**136,618**	306,618
Accrued taxes	**65,044**	44,324
Customers deposits	**19,543**	20,767
Amounts due customers	**2,150**	6,181
Accrued wages and benefits	**22,234**	33,634
Regulatory liability	**9,380**	53,496
Other	**54,170**	55,289
Total current liabilities	**378,139**	688,309
Long-term debt	**682,981**	683,236
Deferred Credits and Other Liabilities		
Asset retirement obligation	**51,522**	50,270
Accrued benefit liability	**18,038**	15,739
Regulatory liability	**124,427**	119,808
Deferred income taxes	**174,800**	148,040
Other	**40,664**	20,146
Total deferred credits and other liabilities	**409,451**	354,003
Commitments and Contingencies		
Shareholders equity		
Preferred stock, $0.01 par value, 5,000,000 shares authorized		
Common shareholders equity		
Common stock, $0.01 par value; 150,000,000 shares authorized, 73,543,205 shares issued at June 30, 2006, and 73,493,337 shares issued at December 31, 2005	**735**	735
Premium on capital stock	**407,191**	394,861
Capital surplus	**2,802**	2,802
Retained earnings	**724,245**	603,314
Accumulated other comprehensive loss, net of tax		
Unrealized loss on hedges	**(40,052)**	(92,112)
Minimum pension liability	**(13,707)**	(13,707)
Deferred compensation on restricted stock	**(1,925)**	(2,123)
Deferred compensation plan	**11,601**	11,907
Treasury stock, at cost (2,012,032 shares at June 30, 2006, and 1,066,935 shares at December 31, 2005)	**(46,795)**	(12,999)
Total shareholders equity	**1,044,095**	892,678
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	**$ 2,514,666**	$ 2,618,226

The accompanying notes are an integral part of these condensed financial statements.

Table of Contents

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

ENERGEN CORPORATION

(Unaudited)

Six months ended June 30, ***(in thousands)***	**2006**	**2005**
Operating Activities		
Net income	**$ 137,095**	$ 96,619
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	**68,796**	64,554
Deferred income taxes	**30,390**	30,356
Change in derivative fair value	**841**	8,702
Gain on sale of assets	**(60)**	(1,455)
Other, net	**9,025**	3,572
Net change in:		
Accounts receivable, net	**133,120**	65,861
Inventories	**(1,420)**	(984)
Accounts payable	**(66,014)**	(25,131)
Amounts due customers	**(28,492)**	1,271
Other current assets and liabilities	**1,381**	9,927
Net cash provided by operating activities	**284,662**	253,292
Investing Activities		
Additions to property, plant and equipment	**(129,369)**	(116,475)
Acquisitions, net of cash acquired	**(3,942)**	(5,820)
Proceeds from sale of assets	**76**	10,187
Other, net	**(1,077)**	(484)
Net cash used in investing activities	**(134,312)**	(112,592)
Financing Activities		
Payment of dividends on common stock	**(16,164)**	(14,650)
Issuance of common stock	**130**	2,880
Purchase of treasury stock	**(33,050)**	(1,128)
Reduction of long-term debt	**(330)**	(35)
Proceeds from issuance of long-term debt		80,000
Debt issuance costs		(1,858)
Net change in short-term debt	**(99,000)**	(135,000)
Other	**901**	
Net cash used in financing activities	**(147,513)**	(69,791)
Net change in cash and cash equivalents	**2,837**	70,909
Cash and cash equivalents at beginning of period	**8,714**	4,489
Cash and Cash Equivalents at End of Period	**$ 11,551**	$ 75,398

The accompanying notes are an integral part of these condensed financial statements.

Table of Contents

CONDENSED STATEMENTS OF INCOME

ALABAMA GAS CORPORATION

(Unaudited)

(in thousands)	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
Operating Revenues	**$ 113,196**	$ 107,197	**$ 431,819**	$ 365,325
Operating Expenses				
Cost of gas	**57,831**	50,937	**251,881**	188,313
Operations and maintenance	**33,387**	32,262	**64,266**	60,088
Depreciation	**10,933**	10,643	**21,679**	21,056
Income taxes				
Current	**1,670**	1,900	**25,833**	27,166
Deferred, net	**(2,047)**	(703)	**(3,491)**	(2,170)
Taxes, other than income taxes	**8,334**	7,725	**27,555**	23,834
Total operating expenses	**110,108**	102,764	**387,723**	318,287
Operating Income	**3,088**	4,433	**44,096**	47,038
Other Income (Expense)				
Allowance for funds used during construction	**255**	188	**478**	373
Other income	**198**	476	**671**	697
Other expense	**(265)**	(260)	**(494)**	(525)
Total other income	**188**	404	**655**	545
Interest Charges				
Interest on long-term debt	**3,246**	3,559	**6,483**	6,972
Other interest expense	**561**	205	**1,430**	534
Total interest charges	**3,807**	3,764	**7,913**	7,506
Net Income (Loss)	**$ (531)**	$ 1,073	**$ 36,838**	$ 40,077

The accompanying notes are an integral part of these condensed financial statements.

Table of Contents

CONDENSED BALANCE SHEETS

ALABAMA GAS CORPORATION

(Unaudited)

(in thousands)	June 30, 2006	December 31, 2005
ASSETS		
Property, Plant and Equipment		
Utility plant	**$ 1,034,451**	$ 999,011
Less accumulated depreciation	**413,347**	401,232
Utility plant, net	**621,104**	597,779
Other property, net	**166**	169
Current Assets		
Cash and cash equivalents	**3,592**	7,169
Accounts receivable		
Gas	**73,421**	194,447
Other	**4,837**	7,524
Affiliated companies	**2,293**	3,215
Allowance for doubtful accounts	**(14,200)**	(10,800)
Inventories, at average cost		
Storage gas inventory	**72,069**	71,179
Materials and supplies	**4,191**	4,144
Liquified natural gas in storage	**3,548**	3,795
Deferred income taxes	**15,917**	13,284
Regulatory asset	**10,352**	6,633
Prepayments and other	**13,258**	11,203
Total current assets	**189,278**	311,793
Other Assets		
Regulatory asset	**33,756**	33,436
Deferred charges and other	**6,761**	6,857
Total other assets	**40,517**	40,293
TOTAL ASSETS	**$ 851,065**	$ 950,034

The accompanying notes are an integral part of these condensed financial statements.

Table of Contents

CONDENSED BALANCE SHEETS

ALABAMA GAS CORPORATION

(Unaudited)

(in thousands, except share data)	**June 30, 2006**	**December 31, 2005**
LIABILITIES AND CAPITALIZATION		
Capitalization		
Preferred stock, $0.01 par value, 120,000 shares authorized	**$**	$
Common shareholder s equity		
Common stock, $0.01 par value; 3,000,000 shares authorized, 1,972,052 shares issued at June 30, 2006 and December 31, 2005	**20**	20
Premium on capital stock	**31,682**	31,682
Capital surplus	**2,802**	2,802
Retained earnings	**258,547**	236,957
Total common shareholder s equity	**293,051**	271,461
Long-term debt	**209,324**	209,654
Total capitalization	**502,375**	481,115
Current Liabilities		
Long-term debt due within one year	**5,000**	5,000
Notes payable to banks	**25,000**	55,000
Accounts payable	**53,607**	112,443
Accrued taxes	**46,229**	32,770
Customers deposits	**19,543**	20,767
Amounts due customers	**2,150**	6,181
Accrued wages and benefits	**8,115**	11,449
Regulatory liability	**9,380**	53,496
Other	**11,076**	8,694
Total current liabilities	**180,100**	305,800
Deferred Credits and Other Liabilities		
Deferred income taxes	**39,102**	39,949
Accrued benefit liability	**1,658**	
Regulatory liability	**124,427**	119,808
Other	**3,403**	3,362
Total deferred credits and other liabilities	**168,590**	163,119
Commitments and Contingencies		
TOTAL LIABILITIES AND CAPITALIZATION	**$ 851,065**	$ 950,034

The accompanying notes are an integral part of these condensed financial statements.

Table of Contents

CONDENSED STATEMENTS OF CASH FLOWS

ALABAMA GAS CORPORATION

(Unaudited)

Six months ended June 30, ***(in thousands)***	**2006**	**2005**
Operating Activities		
Net income	**$ 36,838**	$ 40,077
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**21,679**	21,056
Deferred income taxes	**(3,491)**	(2,170)
Other, net	**3,208**	2,061
Net change in:		
Accounts receivable	**107,459**	64,580
Inventories	**(691)**	(1,125)
Accounts payable	**(62,555)**	(34,286)
Amounts due customers	**(28,492)**	1,271
Other current assets and liabilities	**7,971**	17,446
Net cash provided by operating activities	**81,926**	108,910
Investing Activities		
Additions to property, plant and equipment	**(39,911)**	(35,484)
Other, net	**(936)**	(520)
Net cash used in investing activities	**(40,847)**	(36,004)
Financing Activities		
Dividends	**(15,248)**	(14,642)
Reduction of long-term debt	**(330)**	(35)
Proceeds from issuance of long-term debt		80,000
Debt issuance costs		(1,708)
Net advances to affiliates	**922**	498
Net change in short-term debt	**(30,000)**	(82,000)
Net cash used in financing activities	**(44,656)**	(17,887)
Net change in cash and cash equivalents	**(3,577)**	55,019
Cash and cash equivalents at beginning of period	**7,169**	3,467
Cash and Cash Equivalents at End of Period	**$ 3,592**	$ 58,486

The accompanying notes are an integral part of these condensed financial statements.

Table of Contents

NOTES TO UNAUDITED CONDENSED FINANCIAL STATEMENTS ENERGEN CORPORATION AND ALABAMA GAS CORPORATION

1. BASIS OF PRESENTATION

The unaudited condensed financial statements and notes should be read in conjunction with the financial statements and notes thereto for the years ended December 31, 2005, 2004 and 2003 included in the 2005 Annual Report of Energen Corporation (the Company) and Alabama Gas Corporation (Alagasco) on Form 10-K. Alagasco has a September 30 fiscal year for rate-setting purposes (rate year) and reports on a calendar year for the Securities and Exchange Commission and all other financial accounting reporting purposes. The accompanying unaudited condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the disclosures required for complete financial statements. The Company s natural gas distribution business is seasonal in character and influenced by weather conditions. Results of operations for interim periods are not necessarily indicative of the results that may be expected for the year.

The quarterly information reflects the application of Statement of Financial Accounting Standard (SFAS) No. 144, Accounting for Impairment or Disposal of Long-Lived Assets. SFAS No. 144 requires that gains and losses from the sale of certain oil and gas properties and writedowns of certain properties held-for-sale be reported as discontinued operations, with income or loss from operations of the associated properties reported as income or loss from discontinued operations in the current and prior periods. All other adjustments to the unaudited financial statements that are, in the opinion of management, necessary for a fair statement of the results for the interim periods have been recorded. Such adjustments consisted of normal recurring items. Certain reclassifications were made to conform prior years financial statements to the current-quarter presentation.

2. STOCK-BASED COMPENSATION

The Company adopted SFAS No. 123 (revised 2004), Share-Based Payment (SFAS No. 123R), using the modified prospective application method for new awards effective January 1, 2006. The Company previously adopted the fair value recognition provisions of SFAS No. 123 as amended, Accounting for Stock-Based Compensation, prospectively for stock-based compensation effective January 1, 2003. As a result, the adoption of SFAS No. 123R did not have a significant impact to the Company since the expensing provisions were voluntarily adopted in 2003.

SFAS No. 123R requires that all share-based compensation awards be measured at fair value at the date of grant and expensed over the requisite vesting period. SFAS No. 123R requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if the actual forfeitures differ from those estimates. Prior to the adoption of SFAS No. 123R, the Company accounted for forfeitures upon occurrence. This change in method did not have a significant impact to the Company upon adoption of SFAS No. 123R.

The Company previously recognized all stock-based employee compensation expense over the stated vesting periods for each award. For awards granted prior to January 1, 2006, the Company recorded any unrecognized expense on the date of an employee s retirement. For new awards granted to retirement eligible employees effective January 1, 2006, the Company began recognizing the entire compensation expense in the period of grant. If this method of expense recognition had been applied to all awards, compensation expense would have been reduced during the three months ended June 30, 2006 and 2005, by approximately \$0.9 million and \$0.3 million, respectively. For the year-to-date ended June 30, 2006 and 2005, compensation expense recognized by this method would have been reduced by \$1.8 million and \$0.7 million, respectively. The Company utilized the long-form method of calculating the available pool of windfall tax benefit. For the three months and six months ended June 30, 2006, the Company recognized a tax benefit of \$0.1 million and \$0.9 million, respectively, related to its stock-based compensation.

The following table illustrates the effect on net income and diluted and basic earnings per share as if the Company had applied the fair value recognition provisions of SFAS No. 123, superseded by SFAS No. 123R, for the three months and six months ended June 30, 2005, to all outstanding and unvested employee share-based awards:

Table of Contents

(in thousands, except per share data)	Three months ended June 30, 2005	Six months ended June 30, 2005
Net income	$ 37,573	$ 96,619
As reported		
Stock-based compensation expense included in reported net income, net of tax	1,924	3,692
Stock-based compensation expense determined under the fair value based method, net of tax	(1,546)	(3,002)
Pro forma	$ 37,951	$ 97,309
Diluted earnings per average common share		
As reported	$ 0.51	$ 1.31
Pro forma	$ 0.51	$ 1.32
Basic earnings per average common share		
As reported	$ 0.51	$ 1.32
Pro forma	$ 0.52	$ 1.33

1997 Stock Incentive Plan and 1988 Stock Option Plan:

Performance Share Awards: The Energen 1997 Stock Incentive Plan provided for the grant of performance share awards, with each unit equal to the market value of one share of common stock, to eligible employees based on predetermined Company performance criteria at the end of a four-year award period. This criteria is considered a market condition as defined by SFAS No. 123R. On January 25, 2006, the Company amended its 1997 Stock Incentive Plan to provide that payment of earned performance share awards be made in the form of Company common stock, with no portion of an award paid in cash. This amendment affected 29 participants. Prior to the amendment, payment of performance awards could be made in cash or in a combination of Company common stock or cash. The impact of this modification was not significant to the Company.

1997 Stock Incentive Plan performance share awards granted or modified after the adoption of SFAS No. 123R have been valued in a Monte Carlo model. The Monte Carol model uses historical volatility and other variables to estimate the probability of satisfying the market condition of the award. For performance share awards granted prior to the adoption of SFAS No. 123R, the Company estimated fair value based on the quoted market price of the Company s common stock and adjusted each period for the expected payout ratio.

A summary of performance share award activity as of June 30, 2006, and transactions during the six months then ended, is presented below:

	1997 Stock Incentive Plan	
	Shares	Weighted Average Price
Nonvested at December 31, 2005	477,720	$ 40.26
Granted	111,990	43.81
Forfeitures	(847)	43.81
Nonvested at June 30, 2006	588,863	$ 40.27

The Company recorded expense of $2,179,000 and $2,150,000 for the three months ended June 30, 2006 and 2005, respectively, for performance share awards with a related deferred income tax benefit of $824,000 and $813,000, respectively. For the year-to-date ended June 30, 2006 and 2005, the Company recorded $4,246,000 and $4,125,000, respectively, for performance share awards with a related deferred income tax benefit of $1,605,000 and $1,560,000, respectively. As of June 30, 2006, there was $4.3 million of total unrecognized compensation cost related to performance share awards. These awards have a weighted average requisite service period of 1.19 years from the date of grant.

Stock Options: The 1997 Stock Incentive Plan and the Energen 1988 Stock Option Plan provided for the grant of incentive stock options, non-qualified stock options, or a combination thereof to officers and key employees. Options granted under the Plans provide for the purchase of Company common stock at not less than the fair market value on the date the option is granted. The sale or transfer of the shares is limited during certain periods.

Table of Contents

Under the 1988 Stock Option Plan, 1,080,000 shares of Company common stock reserved for issuance have been granted. Under the 1997 Stock Incentive Plan, 5,600,000 shares of Company common stock were reserved for issuance with 2,006,055 remaining for issuance as of June 30, 2006. All outstanding options are incentive or non-qualified, vest within three years from date of grant, and expire 10 years from the grant date.

A summary of stock option activity as of June 30, 2006, and transactions during the six months then ended, is presented below:

	1997 Stock Incentive Plan			1988 Stock Option Plan		
	Shares	Weighted Average Exercise Price		Shares	Weighted Average Exercise Price	
Outstanding at December 31, 2005	613,400	$	14.04	28,000	$	9.13
Exercised	(24,440)		13.08	(6,000)		9.13
Outstanding at June 30, 2006	588,960	$	14.08	22,000	$	9.13
Exercisable at June 30, 2006	506,200	$	12.78	22,000	$	9.13

The Company used the Black-Scholes pricing model to calculate the fair values of the options awarded. Option awards were granted with an exercise price equal to the market price of the Company s stock on the date of grant. For purposes of this valuation the following assumptions were used to derive the fair values: a seven-year option life based on historical experience; an annualized volatility rate, based on historical volatility, of 32.72 percent and 34.67 percent for the years ended December 31, 2004 and 2003, respectively; a risk-free interest rate of 3.64 percent and 2.36 percent for the years ended December 31, 2004 and 2003, respectively; and a dividend yield of 1.81 percent on options without dividend equivalents for the year ended December 31, 2004. Options with dividend equivalents assume no dividend yield for all periods presented. The weighted-average grant-date fair value for options granted without dividend equivalents during the year ended December 31, 2004 was $7.11. The weighted-average grant-date fair value for options granted with dividend equivalents during the year ended December 31, 2003 was $6.05. There were no options granted during 2006 or 2005. The Company recorded expense of $49,000 and $116,000 during the three months ended June 30, 2006 and 2005, respectively, for options with a related deferred income tax benefit of $10,000 and $26,000, respectively. For the year-to-date ended June 30, 2006 and 2005, the Company recorded expense of $98,000 and $233,000, respectively, for options with a related deferred income tax benefit of $20,000 and $53,000, respectively.

The total intrinsic value of stock options exercised during the three months and the six months ended June 30, 2006, was $237,000 and $250,000, respectively. During the three months and the six months ended June 30, 2006, the total intrinsic value of stock appreciation rights exercised was $146,000 and $462,000, respectively. During the six months ended June 30, 2006, the Company received cash of $102,000 from the exercise of stock options and paid $462,000 in settlement of stock appreciation rights. Total intrinsic value for outstanding options as of June 30, 2006, was $14.9 million and $13.5 million for exercisable options. The fair value of options vested during the year-to-date ended June 30, 2006 was $3.3 million. As of June 30, 2006, there was $98,000 of unrecognized compensation cost related to outstanding nonvested stock options, all of which will be recognized during 2006.

The following table summarizes options outstanding as of June 30, 2006:

1997 Stock Incentive Plan			1988 Stock Option Plan		
Range of Exercise Prices	Shares	Weighted Average Remaining Contractual Life	Range of Exercise Prices	Shares	Weighted Average Remaining Contractual Life
$9.13-$9.41	96,224	2.49 years	$9.13	22,000	1.42 years
$13.72	122,000	4.33 years			
$11.32	69,516	5.33 years			
$14.86	218,460	6.58 years			
$21.38	82,760	7.58 years			
$9.13-$21.38	588,960	5.44 years	$9.13	22,000	1.42 years

The weighted average remaining contractual life of currently exercisable stock options is 4.94 years as of June 30, 2006.

Table of Contents

Restricted Stock: In addition, the 1997 Stock Incentive Plan provided for the grant of restricted stock which have been valued based on the quoted market price of the Company s common stock at the date of grant. A summary of restricted stock activity as of June 30, 2006, and transactions during the six months then ended is presented below:

	1997 Stock Incentive Plan		
			Weighted Average
	Shares		Price
Nonvested at December 31, 2005	242,444	$	20.48
Granted	23,500		38.11
Vested	(69,764)		18.30
Nonvested at June 30, 2006	196,180	$	23.36

The Company recorded expense of $357,000 and $452,000 for the three months ended June 30, 2006 and 2005, respectively, related to restricted stock, with a related deferred income tax benefit of $135,000 and $171,000, respectively. For the year-to-date ended June 30, 2006 and 2005, the Company recorded expense of $1,094,000 and $903,000, respectively, related to restricted stock, with a related deferred income tax benefit of $414,000 and $341,000, respectively. As of June 30, 2006, there was $1.9 million of total unrecognized compensation cost related to nonvested restricted stock awards. These awards have a requisite service period of 1.41 years from the date of grant. The Company has typically funded options, restricted stock obligations and performance share obligations through original issue shares.

2004 Stock Appreciation Rights Plan: The Energen 2004 Stock Appreciation Rights Plan provided for the payment of cash incentives measured by the long-term appreciation of Company stock. These awards are liability awards which settle in cash and are re-measured each reporting period until settlement. These awards have a three year requisite service period. Awards granted prior to January 1, 2006 were valued using the intrinsic value method. There were no awards granted in 2006 or 2005. For the three months ended June 30, 2006 and 2005, the Company recorded expense of $123,000 and $341,000, respectively, associated with stock appreciation rights. For the year-to-date ended June 30, 2006 and 2005, the Company recorded expense of $117,000 and $609,000, respectively, associated with stock appreciation rights.

2005 Petrotech Incentive Plan: The Energen Resources 2005 Petrotech Incentive Plan provided for the grant of restricted stock units which may include market conditions. These awards are liability awards which settle in cash and are re-measured each reporting period until settlement. Effective January 1, 2006, the fair value of the restricted stock units with a market condition was calculated using a Monte Carlo approach. Restricted stock units with service conditions were valued based on the Company s stock price at the end of the period adjusted to remove the present value of future dividends. Prior to the implementation of SFAS 123R, these awards were valued using the Company s common stock price at each period end.

During 2006, Energen Resources awarded 26,440 performance units of which 22,905 included a market condition. Energen Resources awarded 23,460 performance units in 2005 of which 11,730 included a market condition. The Company recognized expense of $25,000 and $270,000 during the three months and six months ended June 30, 2006, respectively, related to these performance units.

1997 Deferred Compensation Plan: The 1997 Deferred Compensation Plan allowed officers and non-employee directors to defer certain compensation. Amounts deferred by a participant under the 1997 Deferred Compensation Plan are credited to accounts maintained for a participant in either a stock account or an investment account. The stock account tracks the performance of the Company s common stock, including reinvestment of dividends. The investment account tracks the performance of certain mutual funds. The Company has funded, and presently plans to continue funding, a trust in a manner that generally tracks participants accounts under the 1997 Deferred Compensation Plan. While intended for payment of benefits under the 1997 Deferred Compensation Plan, the trust s assets remain subject to the claims of the Company s creditors. Amounts earned under the Deferred Compensation Plan and invested in Company common stock held by the trust have been recorded as treasury stock, along with the related deferred compensation obligation in the Consolidated Statements of Shareholders Equity.

Shareholder Rights Plan: On June 24, 1998, the Company adopted a Shareholder Rights Plan (the 1998 Plan) designed to protect shareholders from coercive or unfair takeover tactics. Under certain circumstances, the 1998

Table of Contents

Plan provides shareholders with the right to acquire the Company s Series 1998 Junior Participating Preferred Stock (or, in certain cases, securities of an acquiring person) at a significant discount. Terms and conditions are set forth in a Rights Agreement between the Company and its Rights Agent. Under the 1998 Plan, one half of a right is associated with each outstanding share of common stock. Rights outstanding under the 1998 Plan at December 31, 2005, were convertible into 734,933 shares of Series 1998 Junior Participating Preferred Stock (1/100 share of preferred stock for each full right) subject to adjustment upon occurrence of certain take-over related events. No rights were exercised or exercisable during the period. The price at which the rights would be exercised is $35 per right, subject to adjustment upon occurrence of certain take-over related events. In general, absent certain take-over related events as described in the Plan, the rights may be redeemed prior to the July 27, 2008 expiration for $0.01 per right.

3. REGULATORY

All of Alagasco s utility operations are conducted in the state of Alabama. Alagasco is subject to regulation by the Alabama Public Service Commission (APSC) which established the Rate Stabilization and Equalization (RSE) rate-setting process in 1983. RSE was extended with modifications in 2002, 1996, 1990, 1987 and 1985. On June 10, 2002, the APSC extended Alagasco s rate-setting methodology, RSE, without change, for a six-year period through January 1, 2008. Under the terms of that extension, RSE will continue after January 1, 2008, unless, after notice to the Company and a hearing, the Commission votes to either modify or discontinue its operations. Alagasco is on a September 30 fiscal year for rate-setting purposes (rate year) and reports on a calendar year for the Securities and Exchange Commission and all other financial accounting reporting purposes. Alagasco s allowed range of return on average equity remains 13.15 percent to 13.65 percent throughout the term of the order, subject to change in the event that the Commission, following a generic rate of return hearing, adjusts the equity returns of all major energy utilities operating under a similar methodology. Under RSE, the APSC conducts quarterly reviews to determine, based on Alagasco s projections and year-to-date performance, whether Alagasco s return on average equity at the end of the rate year will be within the allowed range of return. Reductions in rates can be made quarterly to bring the projected return within the allowed range; increases, however, are allowed only once each rate year, effective December 1, and cannot exceed 4 percent of prior-year revenues. As of September 30, 2005, Alagasco had a $3.3 million reduction in revenues to bring the return on average equity to midpoint within the allowed range of return. A $15.8 million and a $12.3 million annual increase in revenues became effective December 1, 2005 and 2004, respectively. RSE limits the utility s equity upon which a return is permitted to 60 percent of total capitalization and provides for certain cost control measures designed to monitor Alagasco s operations and maintenance (O&M) expense. Under the inflation-based cost control measurement established by the APSC, if the percentage change in O&M expense per customer falls within a range of 1.25 points above or below the percentage change in the Consumer Price Index For All Urban Consumers (index range), no adjustment is required. If the change in O&M expense per customer exceeds the index range, three-quarters of the difference is returned to customers. To the extent the change is less than the index range, the utility benefits by one-half of the difference through future rate adjustments. Alagasco s O&M expense fell within the index range for the rate year ended September 30, 2005.

Alagasco calculates a temperature adjustment to customers monthly bills to substantially remove the effect of departures from normal temperatures on Alagasco s earnings. Adjustments to customers bills are made in the same billing cycle in which the weather variation occurs. The temperature adjustment applies primarily to residential, small commercial and small industrial customers. This adjustment, however, is subject to certain limitations including regulatory limits on adjustments to increase customers bills, the impact of non-temperature weather conditions such as wind velocity or cloud cover and the impact of any elasticity of demand as a result of high commodity prices. Alagasco s rate schedules for natural gas distribution charges contain a Gas Supply Adjustment (GSA) rider, established in 1993, which permits the pass-through to customers of changes in the cost of gas supply.

4. DERIVATIVE COMMODITY INSTRUMENTS

Energen Resources Corporation, Energen s oil and gas subsidiary, periodically enters into derivative commodity instruments that qualify as cash flow hedges under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, to hedge its exposure to price fluctuations on oil, natural gas and natural gas liquids production. In addition, Alagasco periodically enters into cash flow derivative commodity instruments to hedge its exposure to price fluctuations on its gas supply. Such instruments may include regulated natural gas and crude oil

Table of Contents

futures contracts traded on the New York Mercantile Exchange (NYMEX) and over-the-counter swaps, collars and basis hedges with major energy derivative product specialists. The counterparties to the commodity instruments are investment banks and energy-trading firms. In some contracts, the amount of credit allowed before collateral must be posted for out-of-the-money hedges varies depending on the credit rating of the Company or Alagasco. In cases where this arrangement exists, generally the credit ratings must be maintained at investment grade status to have any available counterparty credit. Adverse changes to the Company s or Alagasco s credit rating results in decreasing amounts of credit available under these contracts. The counterparties for these contracts do not extend credit to the Company or Alagasco in the event credit ratings are below investment grade. At June 30, 2006, Energen Resources was in a net loss position with all counterparties but was not required to post collateral. Energen Resources used various counterparties for its over-the-counter derivatives as of June 30, 2006. The Company believes the creditworthiness of these counterparties is satisfactory.

Energen Resources applies SFAS No. 133 which requires all derivatives to be recognized on the balance sheet and measured at fair value. If a derivative is designated as a cash flow hedge, the effectiveness of the hedge, or the degree that the gain (loss) for the hedging instrument offsets the loss (gain) on the hedged item is measured at each reporting period. The effective portion of the gain or loss on the derivative instrument is recognized in other comprehensive income (OCI) as a component of equity and subsequently reclassified into earnings as operating revenues when the forecasted transaction affects earnings. The ineffective portion of a derivative s change in fair value is required to be recognized in operating revenues immediately. Derivatives that do not qualify for hedge treatment under SFAS No. 133 must be recorded at fair value with gains or losses recognized in operating revenues in the period of change.

As of June 30, 2006, $20 million, net of tax, of deferred net losses on derivative instruments recorded in accumulated other comprehensive income are expected to be reclassified to operating revenues during the next 12-month period. The actual amount that will be reclassified to earnings over the next year could vary materially from this amount due to changes in market conditions. Gains and losses on derivative instruments that are not accounted for as cash flow hedge transactions, as well as the ineffective portion of the change in fair value of derivatives accounted for as cash flow hedges, are included in operating revenues in the consolidated financial statements. For the ineffective portion of the change in fair value of derivatives accounted for as cash flow hedges, Energen Resources recorded a $0.4 million after-tax gain for the three months ended June 30, 2006, and a $1.3 million after-tax loss year-to-date. As of June 30, 2006, all of the Company s hedges met the definition of a cash flow hedge. The Company had $24.5 million and $56.5 million included in current and noncurrent deferred income taxes on the consolidated balance sheets related to derivative items included in OCI as of June 30, 2006 and December 31, 2005, respectively. At June 30, 2006, and December 31, 2005, the Company had $39.8 million and $145.9 million, respectively, of current losses recorded in accounts payable and $32.6 million and $11.9 million, respectively, of non-current losses recorded in deferred credits and other liabilities related to derivative contracts. The Company also had $1.6 million of current gains recorded in prepayments and other related to derivative contracts as of June 30, 2006.

Energen Resources entered into the following transactions for the remainder of 2006 and subsequent years:

Production Period	Total Hedged Volumes	Average Contract Price	Description
Natural Gas			
2006	8.0 Bcf	$8.05 Mcf	NYMEX Swaps
	10.8 Bcf	$6.46 Mcf	Basin Specific Swaps
2007	8.0 Bcf	$9.48 Mcf	NYMEX Swaps
	22.1 Bcf	$8.11 Mcf	Basin Specific Swaps
Oil			
2006	1,395 MBbl	$52.68 Bbl	NYMEX Swaps
2007	2,716 MBbl	$70.01 Bbl	NYMEX Swaps
2008	1,500 MBbl	$63.86 Bbl	NYMEX Swaps
2009	900 MBbl	$56.25 Bbl	NYMEX Swaps
Oil Basis Differential			
2006	946 MBbl	*	Basis Swaps
2007	1,768 MBbl	*	Basis Swaps
2008	600 MBbl	*	Basis Swaps
Natural Gas Liquids			
2006	15.1 MMGal	$0.56 Gal	Liquids Swaps
2007	10.1 MMGal	$0.80 Gal	Liquids Swaps

* Average contract prices are not meaningful due to the varying nature of each contract.

All hedge transactions are subject to the Company s risk management policy, approved by the Board of Directors, which does not permit speculative positions. The Company formally documents all relationships between hedging instruments and hedged items at the inception of the hedge, as well as its risk management objective and strategy for undertaking the hedge. This process includes specific identification of the hedging instrument and the hedge transaction, the nature of the risk being hedged and how the hedging instrument s effectiveness in hedging the exposure to the hedged transaction s variability in cash flows attributable to the hedged risk will be assessed and measured. Both at the inception of the hedge and on an ongoing basis, the Company assesses whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. The Company discontinues hedge accounting if a derivative has ceased to be a highly effective hedge. The maximum term over which Energen Resources has hedged exposures to the variability of cash flows is through December 31, 2009.

On December 4, 2000, the APSC authorized Alagasco to engage in energy risk-management activities to manage the utility s cost of gas supply. As required by SFAS No. 133, Alagasco recognizes all derivatives as either assets or liabilities on the balance sheet with a corresponding regulatory asset or liability. Any gains or losses are passed through to customers using the mechanisms of the GSA in compliance with Alagasco s APSC-approved tariff. In accordance with SFAS No. 71, Accounting for the Effects of Certain Types of Regulation, at June 30, 2006, Alagasco recognized a $6.1 million loss as a liability in accounts payable with a corresponding current regulatory asset of $6.1 million representing the fair value of derivatives. At December 31, 2005, Alagasco recognized a $6.3 million loss as a liability in accounts payable with a corresponding current regulatory asset of $6.3 million representing the fair value of derivatives.

5. RECONCILIATION OF EARNINGS PER SHARE

(in thousands, except per share amounts)	**Three months ended June 30, 2006**			**Three months ended June 30, 2005**		
	Income	**Shares**	**Per Share Amount**	**Income**	**Shares**	**Per Share Amount**
Basic EPS	**$ 49,601**	**73,028**	**$ 0.68**	$ 37,573	73,017	$ 0.51
Effect of Dilutive Securities						
Performance share awards		**426**			331	
Stock options		**340**			376	
Restricted stock		**108**			58	
Diluted EPS	**$ 49,601**	**73,902**	**$ 0.67**	$ 37,573	73,782	$ 0.51

(in thousands, except per share amounts)	**Six months ended June 30, 2006**			**Six months ended June 30, 2005**		
	Income	**Shares**	**Per Share Amount**	**Income**	**Shares**	**Per Share Amount**
Basic EPS	**$ 137,095**	**73,148**	**$ 1.87**	$ 96,619	72,985	$ 1.32
Effect of Dilutive Securities						
Performance share awards		**382**			320	
Stock options		**344**			366	
Restricted stock		**104**			55	
Diluted EPS	**$ 137,095**	**73,978**	**$ 1.85**	$ 96,619	73,726	$ 1.31

Table of Contents

For the three months and six months ended June 30, 2006 and 2005, the Company had no options that were excluded from the computation of diluted EPS. For the three months ended June 30, 2006 and 2005, the Company had no shares of non-vested restricted stock that were excluded from the computation of diluted EPS. For the six months ended June 30, 2006, the Company had 13,500 shares of non-vested restricted stock that were excluded from the computation of diluted EPS, as their effect were non-dilutive. There were no shares of non-vested restricted stock excluded from the computation of diluted EPS for the year-to-date ended June 30, 2005.

6. SEGMENT INFORMATION

The Company principally is engaged in two business segments: the purchase, distribution and sale of natural gas in central and north Alabama (natural gas distribution) and the acquisition, development, exploration and production of oil and gas in the continental United States (oil and gas operations).

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	2006	2005	2006	2005
Operating revenues from continuing operations				
Oil and gas operations	**$ 169,178**	$ 134,941	**$ 338,697**	$ 238,342
Natural gas distribution	**113,196**	107,197	**431,819**	365,325
Eliminations and other		(513)		(1,034)
Total	**$ 282,374**	$ 241,625	**$ 770,516**	$ 602,633
Operating income (loss) from continuing operations				
Oil and gas operations	**$ 87,138**	$ 65,369	**$ 175,677**	$ 104,346
Natural gas distribution	**2,711**	5,630	**66,438**	72,034
Eliminations and corporate expenses	**(551)**	(251)	**(1,082)**	(502)
Total	**$ 89,298**	$ 70,748	**$ 241,033**	$ 175,878
Other income (expense)				
Oil and gas operations	**$ (8,723)**	$ (8,052)	**$ (18,010)**	$ (16,148)
Natural gas distribution	**(3,619)**	(3,360)	**(7,258)**	(6,961)
Eliminations and other	**(41)**	137	**186**	249
Total	**$ (12,383)**	$ (11,275)	**$ (25,082)**	$ (22,860)
Income from continuing operations before income taxes	**$ 76,915**	$ 59,473	**$ 215,951**	$ 153,018

(in thousands)	June 30, 2006	December 31, 2005
Identifiable assets		
Oil and gas operations	**$ 1,631,675**	$ 1,637,244
Natural gas distribution	**848,772**	946,819
Subtotal	**2,480,447**	2,584,063
Eliminations and other	**34,219**	34,163
Total	**$ 2,514,666**	$ 2,618,226

7. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) consisted of the following:

(in thousands)		Three months ended June 30, 2006		Three months ended June 30, 2005
Net Income	**$**	**49,601**	$	37,573
Other comprehensive income (loss):				
Current period change in fair value of derivative instruments, net of tax of $1.7 million and $4 million		**2,694**		6,506
Reclassification adjustment, net of tax of $1 million and $8.6 million		**1,679**		14,108
Comprehensive Income	**$**	**53,974**	$	58,187

18

Table of Contents

(in thousands)	Six months ended June 30, 2006	Six months ended June 30, 2005
Net Income	**$ 137,095**	$ 96,619
Other comprehensive income (loss):		
Current period change in fair value of derivative instruments, net of tax of $23.9 million and ($39.6) million	**38,937**	(64,565)
Reclassification adjustment, net of tax of $8 million and $15.2 million	**13,123**	24,736
Comprehensive Income	**$ 189,155**	$ 56,790

Accumulated other comprehensive loss consisted of the following:

(in thousands)	June 30, 2006	December 31, 2005
Unrealized loss on hedges, net of tax of ($24.5) million and ($56.5) million	**$ (40,052)**	$ (92,112)
Minimum pension liability, net of tax of ($7.4) million and ($7.4) million	**(13,707)**	(13,707)
Accumulated Other Comprehensive Loss	**$ (53,759)**	$ (105,819)

8. LONG-LIVED ASSETS AND DISCONTINUED OPERATIONS

The Company applies SFAS No. 144, which retains the previous asset impairment requirements of SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, for loss recognition when the carrying value of an asset exceeds the sum of the undiscounted estimated future cash flows of the asset. In addition, SFAS No. 144 requires that gains and losses on the sale of certain oil and gas properties and write-downs of certain properties held-for-sale be reported as discontinued operations, with income or loss from operations of the associated properties reported as income or loss from discontinued operations. The results of operations for held-for-sale properties are reclassified and reported as discontinued operations for prior periods in accordance with SFAS No. 144. Energen Resources may, in the ordinary course of business, be involved in the sale of developed or undeveloped properties. All assets held-for-sale must be reported at the lower of the carrying amount or fair value. Energen Resources had no property sales during the three months ended June 30, 2006 and 2005 or the year-to-date ended June 30, 2006. In the six months ended June 30, 2005, Energen Resources recorded a pre-tax gain of $178,000 primarily from a property sale located in the Permian Basin.

The following are the results of operations from discontinued operations:

(in thousands, except per share data)	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
Oil and gas revenues (expenses)	**$ (2)**	$ 35	**$ (2)**	$ 71
Pretax income (loss) from discontinued operations	**$ (1)**	$ 22	**$ (12)**	$ (9)
Income tax expense (benefit)		9	**(4)**	(3)
Income (Loss) From Discontinued Operations	**(1)**	13	**(8)**	(6)
Gain (loss) on disposal of discontinued operations		(20)		178
Income tax expense (benefit)		(7)		68
Gain (Loss) on Disposal of Discontinued Operations		(13)		110
Total Income (Loss) From Discontinued Operations	**$ (1)**	$	**$ (8)**	$ 104

Diluted Earnings Per Average Common Share				
Income (Loss) from Discontinued Operations	**$**	$	**$**	$
Gain (Loss) on Disposal of Discontinued Operations				
Total Income (Loss) from Discontinued Operations	**$**	$	**$**	$
Basic Earnings Per Average Common Share				
Income (Loss) from Discontinued Operations	**$**	$	**$**	$
Gain (Loss) on Disposal of Discontinued Operations				
Total Income (Loss) from Discontinued Operations	**$**	$	**$**	$

Table of Contents

9. EMPLOYEE BENEFIT PLANS

The components of net pension expense for the Company s two defined benefit non-contributory pension plans were:

	Plan A Three Months Ended June 30,		*Plan B* Three Months Ended June 30,	
(in thousands)	**2006**	**2005**	**2006**	**2005**
Components of net periodic benefit cost:				
Service cost	**$ 1,562**	$ 1,544	**$ 157**	$ 155
Interest cost	**1,934**	1,886	**355**	351
Expected long-term return on assets	**(2,432)**	(2,199)	**(565)**	(540)
Actuarial loss	**815**	687	**47**	31
Prior service cost amortization	**11**	59	**94**	94
Net periodic expense	**$ 1,890**	$ 1,977	**$ 88**	$ 91

	Plan A Six Months Ended June 30,		*Plan B* Six Months Ended June 30,	
(in thousands)	**2006**	**2005**	**2006**	**2005**
Components of net periodic benefit cost:				
Service cost	**$ 3,124**	$ 3,089	**$ 313**	$ 309
Interest cost	**3,869**	3,772	**710**	703
Expected long-term return on assets	**(4,865)**	(4,398)	**(1,129)**	(1,079)
Actuarial loss	**1,631**	1,374	**93**	61
Prior service cost amortization	**22**	117	**189**	189
Net periodic expense	**$ 3,781**	$ 3,954	**$ 176**	$ 183

The Company is not required to make pension contributions in 2006. The Company will reevaluate discretionary contributions during 2006 in light of the Pension Protection Act of 2006 that is currently awaiting the signature of President Bush.

The components of net periodic post-retirement benefit expense for the Company s post-retirement benefit plans were:

	Salaried Employees Three Months Ended June 30,		*Union Employees* Three Months Ended June 30,	
(in thousands)	**2006**	**2005**	**2006**	**2005**
Components of net periodic benefit cost:				
Service cost	**$ 145**	$ 231	**$ 150**	$ 124
Interest cost	**394**	492	**508**	515
Expected long-term return on assets	**(485)**	(425)	**(740)**	(658)
Actuarial gain	**(204)**	(32)	**(69)**	(36)
Prior service cost amortization				1
Transition amortization	**171**	171	**309**	321

Net periodic expense	**$ 21**	$ 437	**$ 158**	$ 267

20

Table of Contents

(in thousands)	*Salaried Employees* Six Months Ended June 30, 2006	2005	*Union Employees* Six Months Ended June 30, 2006	2005
Components of net periodic benefit cost:				
Service cost	**$ 304**	$ 462	**$ 304**	$ 249
Interest cost	**813**	985	**1,029**	1,030
Expected long-term return on assets	**(961)**	(851)	**(1,468)**	(1,317)
Actuarial gain	**(345)**	(64)	**(96)**	(73)
Prior service cost amortization				2
Transition amortization	**341**	341	**617**	643
Net periodic expense	**$ 152**	$ 873	**$ 386**	$ 534

For the three months and six months ended June 30, 2006, the Company made contributions aggregating $0.3 million and $1 million, respectively, to the post-retirement benefit plan assets. The Company expects to make additional discretionary contributions of approximately $1 million through the remainder of 2006.

10. COMMITMENTS AND CONTINGENCIES

Commitments and Agreements: Certain of Alagasco s long-term gas procurement contracts for the supply, storage and delivery of natural gas include fixed charges of approximately $219 million through October 2015. Alagasco also is committed to purchase minimum quantities of gas at market-related prices or to pay certain costs in the event the minimum quantities are not taken. These purchase commitments are 156.5 Bcf through April 2015.

Alagasco purchases gas as an agent for certain of its large commercial and industrial customers. Alagasco has in certain instances provided commodity-related guarantees to the counterparties in order to facilitate these agency purchases. Liabilities existing for gas delivered to customers subject to these guarantees are included in the consolidated balance sheet. In the event the customer for whom the guarantee was entered fails to take delivery of the gas, Alagasco can sell such gas for the customer, with the customer liable for any resulting loss. Although the substantial majority of purchases under these guarantees are for the customers current monthly consumption and are at current market prices, in some instances, the purchases are for an extended term at a fixed price. At June 30, 2006, the fixed price purchases under these guarantees had a maximum term outstanding through May 2007 and an aggregate purchase price of $10.6 million with a market value of $9.3 million.

Legal Matters: Energen and its affiliates are, from time to time, parties to various pending or threatened legal proceedings. Certain of these lawsuits include claims for punitive damages in addition to other specified relief. Based upon information presently available, and in light of available legal and other defenses, contingent liabilities arising from threatened and pending litigation are not considered material in relation to the respective financial positions of Energen and its affiliates. It should be noted, however, that Energen and its affiliates conduct business in Alabama and other jurisdictions in which the magnitude and frequency of punitive and other damage awards may bear little or no relation to culpability or actual damages, thus making it difficult to predict litigation results.

Cochran County, Texas

In January 2005, a lawsuit was tried in Cochran County, Texas in which the plaintiff alleged preferential purchase right claims against Energen Resources with respect to certain properties acquired by Energen Resources in 2002. The jury rendered a verdict in Energen Resources favor on all counts. Subsequently, in March 2005, the Judge issued a decision overruling the jury verdict. Energen Resources appealed the Judge s order to the Court of Appeals for the Seventh District of Texas. In May 2006, the Court of Appeals reversed the Judge s decision and entered a judgment in favor of Energen Resources. The Company has been advised that the plaintiff will appeal this decision to the Texas Supreme Court.

Table of Contents

Jefferson County, Alabama

In January 2006, RGGS Land and Minerals LTD, L.P. (RGGS) filed a lawsuit in Jefferson County, Alabama, alleging breach of contract with respect to Energen Resources calculation of certain allowed costs and failure to pay in a timely manner certain amounts due RGGS under a mineral lease. RGGS seeks a declaratory judgment with respect to the parties rights under the lease, reformation of the lease, monetary damages and termination of Energen Resources rights under the lease. The Occluded Gas Lease dated January 1, 1986 was originally between Energen Resources and United States Steel Corporation (U.S. Steel) as lessor. RGGS became the lessor under the lease as a result of a 2004 conveyance from U.S. Steel to RGGS. Approximately 120,000 acres in Jefferson and Tuscaloosa counties, Alabama, are subject to the lease. Separately on February 6, 2006, Energen Resources received notice of immediate lease termination from RGGS. As of December 31, 2005, Energen s consolidated balance sheet included approximately $96 million in net oil and gas properties associated with the lease. During 2005, Energen Resources production associated with the lease was approximately 11 Bcf.

RGGS has adopted positions contrary to the seventeen years of course of dealing between Energen Resources and its original contracting partner, U.S. Steel. The Company believes that RGGS assertions are without merit and that the notice of lease termination is ineffective. Energen Resources intends to vigorously defend its rights under the lease. The Company remains in possession of the lease, believes that the likelihood of a judgment in favor of RGGS is remote, and has made no accrual with respect to the litigation or purported lease termination.

Other

Various other pending or threatened legal proceedings are in progress currently, and the Company has accrued a provision for estimated liability.

Environmental Matters: Various environmental laws and regulations apply to the operations of Energen Resources and Alagasco. Historically, the cost of environmental compliance has not materially affected the Company s financial position, results of operations or cash flows and is not expected to do so in the future; however, new regulations, enforcement policies, claims for damages or other events could result in significant unanticipated costs.

Environmental compliance costs, including ongoing maintenance, monitoring and similar costs, are expensed as incurred. Environmental remediation costs are accrued when remedial efforts are probable and the cost can be reasonably estimated.

Alagasco is in the chain of title of nine former manufactured gas plant sites (four of which it still owns) and five manufactured gas distribution sites (one of which it still owns). An investigation of the sites does not indicate the present need for remediation activities. Management expects that, should remediation of any such sites be required in the future, Alagasco s share, if any, of such costs will not materially affect the financial position, results of operations or cash flows of Alagasco.

11. REGULATORY ASSETS AND LIABILITIES

The following table details regulatory assets and liabilities on the balance sheets:

	June 30, 2006		**December 31, 2005**	
(in thousands)	**Current**	**Noncurrent**	**Current**	**Noncurrent**
Regulatory assets:				
Pension asset	**$**	**$ 22,807**	$	$ 22,807
Accretion and depreciation for asset retirement obligation		**10,674**		10,183
Gas supply adjustment	**3,875**			
Risk management activities	**6,135**		6,291	
Other	**342**	**275**	342	446
Total regulatory assets	**$ 10,352**	**$ 33,756**	$ 6,633	$ 33,436
Regulatory liabilities:				
Enhanced stability reserve	**$ 3,910**	**$**	$ 3,690	$
Gas supply adjustment			22,326	
RSE adjustment	**587**		2,943	

Unbilled service margin	**4,883**		24,537	
Asset removal costs, net		**109,666**		105,404
Asset retirement obligation		**13,838**		13,451
Other		**923**		953
Total regulatory liabilities	**$ 9,380**	**$ 124,427**	$ 53,496	$ 119,808

Table of Contents

12. ACQUISITION OF OIL AND GAS PROPERTIES

On December 15, 2005, Energen Resources completed a purchase of Permian Basin oil properties from a private company. The contract purchase price was approximately $168 million with an effective date of November 1, 2005. Approximately 80 percent of the 21.9 million barrels of proved oil reserves are undeveloped. More than 90 percent of the estimated proved reserves are oil. Energen used its available cash and existing lines of credit to finance the acquisition.

13. RECENT PRONOUNCEMENTS OF THE FINANCIAL ACCOUNTING STANDARDS BOARD (FASB)

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 (FIN 48). This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition, measurement and disclosure of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. The cumulative effect of applying this Interpretation will be recorded as an adjustment to retained earnings as of the beginning of the period of adoption. The impact of this Interpretation on the Company is currently being evaluated.

Table of Contents

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Energen s net income totaled $49.6 million ($0.67 per diluted share) for the three months ended June 30, 2006 and compared favorably with net income of $37.6 million ($0.51 per diluted share) for the same period in the prior year. Energen Resources Corporation, Energen s oil and gas subsidiary, had net income and net income from continuing operations for the three months ended June 30, 2006, of $50.4 million compared with $36.4 million in the same quarter in the previous year. Significantly higher commodity prices (approximately $18 million after-tax) and increased production volumes (approximately $4 million after-tax) were partially offset by increased lease operating expenses (approximately $4 million after-tax) and increased administrative expenses (approximately $2 million after-tax). Energen s natural gas utility, Alagasco, reported a net loss of $0.5 million in the second quarter of 2006 compared to net income of $1.1 million in the same period last year primarily reflecting a decrease in customer usage driven by the high price of natural gas and warmer weather partially offset by the utility s ability to earn on a higher level of equity.

For the 2006 year-to-date, Energen s net income totaled $137.1 million ($1.85 per diluted share) and compared favorably to net income of $96.6 million ($1.31 per diluted share) for the same period in the prior year. Energen Resources had net income for the six months ended June 30, 2006, of $100.2 million as compared with $56 million in the previous period. Energen Resources generated income from continuing operations of $100.2 million in the current year-to-date as compared with $55.9 million in the same period last year primarily as a result of higher commodity prices (approximately $55 million after-tax) and increased production volumes (approximately $8 million after-tax) partially offset by the impact of increased lease operating expenses (approximately $11 million after-tax), higher production taxes (approximately $2 million after-tax), increased DD&A expense (approximately $2 million after-tax) and increased administrative expenses (approximately $2 million after-tax). Alagasco s net income of $36.8 million in the current year-to-date compared to net income of $40.1 million in the same period in the previous year largely for the same reasons affecting the second quarter results.

Oil and Gas Operations

Revenues from oil and gas operations rose 25.9 percent to $169.2 million for the three months ended June 30, 2006 and 42.7 percent to $338.7 million in the year-to-date largely as a result of increased commodity prices as well as the impact of higher production volumes. During the current quarter, revenue per unit of production for natural gas rose 8.5 percent to $6.75 per thousand cubic feet (Mcf), while oil revenue per unit of production increased 54.4 percent to $51.92 per barrel. Natural gas liquids revenue per unit of production increased 32.7 percent to an average price of $0.69 per gallon. In the year-to-date, revenue per unit of production for natural gas increased 31.9 percent to $7.16 per Mcf, oil revenue per unit of production increased 48.8 percent to $48.93 per barrel and natural gas liquids revenue per unit of production rose 23.1 percent to $0.64 per gallon.

Production increased primarily due to additional development activities in the San Juan Basin, accelerated workovers due to milder winter weather and increased volumes related to the prior year purchase of Permian Basin oil properties. Energen Resources acquired an estimated 21.9 million barrels of proved oil reserves in the Permian Basin in the fourth quarter of 2005. Negatively affecting production were normal production declines. Natural gas production from continuing operations in the second quarter rose 3.6 percent to 15.7 billion cubic feet (Bcf), while oil volumes increased 7.8 percent to 914 thousand barrels (MBbl) and natural gas liquids production increased 8.1 percent to 20.1 million gallons (MMgal). For the year-to-date, natural gas production from continuing operations increased 4 percent to 31.1 Bcf, oil volumes rose 10 percent to 1,832 MBbl and natural gas liquids production increased 6.7 percent to 36.7 MMgal. Natural gas comprised approximately 65 percent of Energen Resources production for the current quarter and the year-to-date.

Energen Resources periodically enters into derivative commodity instruments that qualify as cash flow hedges under Statement of Financial Accounting Standard (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, to hedge its exposure to price fluctuations to its estimated oil, natural gas and natural gas liquids production. Energen Resources applies SFAS No. 133 which requires all derivatives to be recognized on the balance sheet and measured at fair value. If a derivative is designated as a cash flow hedge, the effectiveness of the hedge, or the degree that the gain (loss) for the hedging instrument offsets the loss (gain) on the hedged item is measured at each reporting period. The effective portion of the gain or loss on the derivative instrument is

Table of Contents

recognized in other comprehensive income (OCI) as a component of equity and subsequently reclassified into earnings as operating revenues when the forecasted transaction affects earnings. The ineffective portion of a derivative s change in fair value is required to be recognized in operating revenues immediately. Derivatives that do not qualify for hedge treatment under SFAS No. 133 must be recorded at fair value with gains or losses recognized in operating revenues in the period of change. For the three months and six months ended June 30, 2006, the Company recorded a $0.4 million after-tax gain and a $1.3 million after-tax loss, respectively, on open and closed contracts for the ineffective portion of the change in fair value of derivatives accounted for as cash flow hedges.

Operations and maintenance (O&M) expense increased $10.1 million for the quarter and $20.8 million in the year-to-date. Lease operating expenses (excluding production taxes) increased by $6.3 million for the quarter and $17.4 million year-to-date primarily due to accelerated maintenance expenses in the San Juan Basin, higher transportation costs, overall price increases related to higher commodity prices and the December 2005 acquisition of Permian Basin oil properties. Administrative expense increased $2.6 million for the three months ended June 30, 2006 and $2.4 million year-to-date largely due labor-related costs. Exploration expense rose $1.2 million in the second quarter and $1 million in the year-to-date primarily due to increased exploratory efforts.

Energen Resources DD&A expense for the quarter increased $1.1 million and rose $3.6 million year-to-date. The average depletion rate for the current quarter and the same period a year ago was $0.96 per Mcfe. For the six months ended June 30, 2006, the average depletion rate was $0.97 per Mcfe as compared to $0.95 per Mcfe in the previous period. The increase in the year-to-date rate was largely due to a higher depletion rate on oil properties purchased in the Permian Basin in December 2005 partially offset by increased production in lower rate areas.

Energen Resources expense for taxes other than income taxes primarily reflected production-related taxes that were $0.9 million higher this quarter and $3.8 million higher year-to-date largely due to increased commodity prices and production.

Energen Resources may, in the ordinary course of business, be involved in the sale of developed or undeveloped properties. With respect to developed properties, sales may occur as a result of, but not limited to, disposing of non-strategic or marginal assets and accepting offers where the buyer gives greater value to a property than does Energen Resources. The Company is required to reflect gains and losses on the dispositions of these assets, the writedown of certain properties held-for-sale, and income or loss from the operations of the associated held-for-sale properties as discontinued operations under the provisions of SFAS No. 144, Accounting for Impairment or Disposal of Long-Lived Assets. Energen Resources had no property sales during the three months ended June 30, 2006 and 2005 or the year-to-date ended June 30, 2006. In the six months ended June 30, 2005, Energen Resources recorded a pre-tax gain of $178,000 primarily from a property sale located in the Permian Basin.

Natural Gas Distribution

Natural gas distribution revenues increased $6 million for the quarter largely due to an increase in commodity gas costs partially offset by a decrease in weather related usage. Weather that was 24.7 percent warmer than the same period last year contributed to a 21 percent decline in residential sales volumes and a 13.6 percent decrease in commercial and industrial customer sales volumes. Transportation volumes decreased 3 percent in period comparisons. Revenues for the year-to-date rose $66.5 million primarily due to an increase in the commodity cost of gas partially offset by a decrease in usage. Weather that was 4.9 percent warmer than in the previous period along with customer conservation related to higher gas costs contributed to a 12.8 percent decrease in residential sales volumes. Commercial and industrial customer sales volumes decreased 8.8 percent while transportation volumes decreased 2.9 percent in period comparisons. An increase in gas costs partially offset by a decline in gas purchase volumes resulted in a 13.5 percent increase in cost of gas for the quarter and a 33.8 percent increase in the year-to-date. Utility gas costs include commodity cost, risk management gains and losses and the provisions of the GSA rider. The GSA rider in Alagasco s rate schedule provides for a pass-through of gas price fluctuations to customers without markup. Alagasco s tariff provides a temperature adjustment to certain customers bills designed to substantially remove the effect of departures from normal temperatures. The temperature adjustment applies primarily to residential, small commercial and small industrial customers.

Table of Contents

As discussed more fully in Note 3 to the Unaudited Condensed Financial Statements, Alagasco is subject to regulation by the Alabama Public Service Commission (APSC). On June 10, 2002, the APSC issued an order to extend Alagasco s rate-setting mechanism. Under the terms of that extension, RSE will continue after January 1, 2008, unless, after notice to Alagasco and a hearing, the Commission votes to either modify or discontinue its operation.

O&M expense increased 3.5 percent in the current quarter and 7 percent in the six months ended June 30, 2006 primarily due to increased bad debt expense and distribution maintenance expenses partially offset by decreased labor-related expenses. A 2.7 percent increase in depreciation expense in the current quarter and a 3 percent increase in the year-to-date was primarily due to normal replacement of the utility s distribution and support systems. Taxes other than income taxes primarily reflected various state and local business taxes as well as payroll-related taxes. State and local business taxes generally are based on gross receipts and fluctuate accordingly.

Non-Operating Items

Interest expense for the Company increased $0.8 million in the second quarter and $2.3 million year-to-date primarily due to an increase in short-term borrowings related to the December 2005 purchase of Permian Basin oil properties at Energen Resources and an increase in storage inventory at Alagasco. Also influencing interest expense was an increase in interest rates associated with Energen s $100 million Floating Rate Senior Notes issued in November 2004. An increase in interest expense related to Alagasco s issuance of $80 million of long-term debt in November 2005 was largely offset by the redemption of $56.7 million and $18 million of long-term debt by Alagasco in December 2005 and August 2005, respectively. Income tax expense for the Company increased $5.4 million in the current quarter and $22.3 million in the year-to-date largely due to higher pre-tax income.

Stock-Based Compensation

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004), Share-Based Payment (SFAS No. 123R), which requires a fair value based method of accounting using pricing models that reflect the specific economics of a company s transactions. This statement was effective for the first annual reporting period beginning after June 15, 2005. The Company prospectively adopted the fair value recognition provisions of SFAS No. 123 as amended, which provided methods of transition for a voluntary change to the fair value base method of accounting for stock-based employee compensation effective January 1, 2003. The Company adopted SFAS No. 123R using the modified prospective application method for new awards effective January 1, 2006. The adoption of SFAS No. 123R did not have a significant impact on the financial condition or results of operations of the Company (See Note 2, Stock-Based Compensation, in the Notes to Unaudited Condensed Financial Statements).

FINANCIAL POSITION AND LIQUIDITY

Cash flows from operations for the year-to-date were $283.3 million as compared to $253.3 million in the prior period. Operating cash flow benefited from higher realized commodity prices and production volumes at Energen Resources. The Company s working capital needs were also highly influenced by throughput, changes in weather, and timing of payments. Working capital needs at Alagasco were primarily affected by increased gas costs and storage gas inventory compared to the prior period.

The Company had a net outflow of cash from investing activities of $134.3 million for the six months ended June 30, 2006 primarily due to additions of property, plant and equipment. Energen Resources invested $95.6 million in capital expenditures primarily related to the development of oil and gas properties. Utility capital expenditures totaled $39.9 million in the year-to-date and primarily represented expansion and replacement of its distribution system and support facilities.

The Company used $146.1 million for financing activities in the year-to-date primarily due to the repayment of short-term borrowings, dividends paid to common shareholders, the buy-back of Energen common stock under its stock repurchase plan and the issuance of common stock through stock-based compensation plans and through the dividend reinvestment and direct stock purchase plan.

Table of Contents

FUTURE CAPITAL RESOURCES AND LIQUIDITY

The Company plans to continue to implement its diversified growth strategy that focuses on expanding Energen Resources oil and gas operations through the acquisition of producing properties with developmental potential while maintaining the strength of the Company s utility foundation. For the five years ended December 31, 2005, Energen s diluted EPS grew at an average compound rate of 19.8 percent a year. Over the long-term, Energen is targeting an average diluted EPS growth rate over each rolling five-year period of approximately 7 to 8 percent a year.

In May 2006, Energen began buying-back shares of Energen common stock under its existing stock repurchase plan. Energen announced in June 2006, that the Board of Directors authorized an additional 9 million shares of Energen common stock for repurchase. Through July 2006, the Company purchased 1,018,000 shares of Energen common stock at an average price of $34.35 per share. To finance the stock buy-back, the Company expects to use internally generated cash flow.

Over the five-year planning period ending December 31, 2010, Energen Resources plans to spend approximately $395 million for development of existing properties and $50 million for exploratory and other activities. In 2006, Energen Resources plans to invest approximately $177 million in capital expenditures primarily for development and exploratory activities. As of December 31, 2005, the estimated amount of 2006 development of previously identified proved undeveloped reserves was approximately $87 million. Approximately $9 million is estimated for 2006 exploratory exposure. Capital investment at Energen Resources in 2007 is currently expected to approximate $98 million for development and exploration. Of this $98 million, development of previously identified proved undeveloped reserves is estimated to be $71 million and exploratory exposure is estimated to be $6 million. The Company is also considering additional development capital investments relative to current estimates of $55 million to $75 million for 2007 to accelerate development of its proved undeveloped reserves.

Notwithstanding the estimated expenditures mentioned above, as an acquisition oriented company, Energen Resources continually evaluates acquisition opportunities which arise in the marketplace and from time to time will pursue acquisitions that meet Energen s acquisition criteria which could result in capital expenditures different than those outlined above. The Company is prepared to invest up to $1 billion over the next five years in addition to the estimates given above for property acquisitions that meet Energen s acquisition criteria. In addition, Energen Resources may conduct limited exploration activities primarily in areas in which it has operations and remains open to considering exploration activities which complement its core expertise and meet its investment requirements. To finance Energen Resources investment program, the Company expects primarily to utilize its short-term credit facilities to supplement internally generated cash flow. The Company may also periodically issue long-term debt and equity to replace short-term obligations, enhance liquidity and provide for permanent financing. Energen currently has available short-term credit facilities aggregating $410 million to help finance its growth plans and operating needs. Energen Resources continued ability to invest in property acquisitions is subject to market conditions and industry trends.

Energen Resources has raised production estimates from proved reserves for 2006 to approximately 94 Bcfe and currently expects 2007 production to approximate 89 Bcfe. The Company expects to increase current 2007 production estimates by 2.5 Bcfe to 3.5 Bcfe if the aforementioned increase to development capital spending in 2007 occurs.

As of July 2006, Energen Resources had leased approximately 151,000 acres in order to pursue the exploration and development of various shale formations across north-central Alabama. The Company plans to drill additional wells on the acreage over the next 24 months and will be applying various drilling, completions and stimulation techniques in order to ascertain the optimum combination for production. The Company considers reserves and associated production related to shale to be a potential resource; as such, neither production amounts or reserve amounts associated with shale potential are included in the estimates above.

Energen Resources has experienced various market driven conditions generally caused by the increased commodity price environment including, but not limited to, higher workover and maintenance expenses, increased taxes and other field-service-related expenses. The Company anticipates influences such as weather, natural disasters, changes in global economics and political unrest will continue to contribute to increased price volatility in the near term.

Energen Resources hedges its exposure to estimated commodity production. In addition, Alagasco periodically enters into cash flow derivative commodity instruments to hedge its exposure to price fluctuations on its gas supply. Such instruments may include regulated natural gas and crude oil futures contracts traded on the New York Mercantile Exchange (NYMEX) and over-the-counter swaps, collars and basis hedges with major energy derivative product specialists. The counterparties to the commodity instruments are investment banks and energy-trading firms. In some contracts, the amount of credit allowed before collateral must be posted for out-of-the-money hedges varies depending on the credit rating of the Company or Alagasco. In cases where this arrangement exists, generally the credit ratings must be maintained at investment grade status to have any available counterparty credit. Adverse changes to the Company s credit rating will result in decreasing amounts of credit available under these contracts. The counterparties for these contracts do not extend credit to the Company in the event credit ratings are below investment grade. At June 30, 2006, Energen Resources was in a net loss position with all counterparties but was not required to post collateral. Energen Resources used various counterparties for its over-the-counter derivatives as of June 30, 2006. The Company believes the creditworthiness of these counterparties is satisfactory. These hedge transactions are pursuant to standing authorizations by the Board of Directors, which do not permit speculative positions.

Energen Resources entered into the following transactions for the remainder of 2006 and subsequent years:

Production Period	Total Hedged Volumes	Average Contract Price	Description
Natural Gas			
2006	8.0 Bcf	$8.05 Mcf	NYMEX Swaps
	10.8 Bcf	$6.46 Mcf	Basin Specific Swaps
2007	8.0 Bcf	$9.48 Mcf	NYMEX Swaps
	22.1 Bcf	$8.11 Mcf	Basin Specific Swaps
	*3.4 Bcf	$9.32 Mcf	NYMEX Swaps
	*0.6 Bcf	$9.08 Mcf	Basin Specific Swaps
Oil			
2006	1,395 MBbl	$52.68 Bbl	NYMEX Swaps
2007	2,716 MBbl	$70.01 Bbl	NYMEX Swaps
2008	1,500 MBbl	$63.86 Bbl	NYMEX Swaps
	*420 MBbl	$77.70 Bbl	NYMEX Swaps
2009	900 MBbl	$56.25 Bbl	NYMEX Swaps
Oil Basis Differential			
2006	946 MBbl	**	Basis Swaps
2007	1,768 MBbl	**	Basis Swaps
2008	600 MBbl	**	Basis Swaps
	*420 MBbl	**	Basis Swaps
Natural Gas Liquids			
2006	15.1 MMGal	$0.56 Gal	Liquids Swaps
2007	10.1 MMGal	$0.80 Gal	Liquids Swaps
	*31.8 MMGal	$0.98 Gal	Liquids Swaps

* Contracts entered into subsequent to June 30, 2006.

** Average contract prices are not meaningful due to the varying nature of each contract.

Realized prices are anticipated to be lower than NYMEX prices due to basis differences and other factors.

The Company s efforts to minimize commodity price volatility through hedging is reflected in Alagasco s current rates. Alagasco s rate schedules for natural gas distribution charges contain a Gas Supply Adjustment (GSA) rider which permits the pass-through to customers for changes in the cost of gas supply. The GSA rider is designed to capture the Company s cost of natural gas and provides for a pass-through of gas cost fluctuations to customers

28

Table of Contents

without markup; the cost of gas includes the commodity cost, pipeline capacity, transportation and fuel costs, and risk management gains and losses. Sustained high prices may decrease Alagasco s customer base and could result in a decline of per customer use and number of customers. The utility will continue to monitor its bad debt reserve and will make adjustments as required based on the evaluation of its receivables which are impacted by natural gas prices.

Alagasco maintains an investment in storage gas that is expected to average approximately $73 million in 2006 but will vary depending upon the price of natural gas. During 2006 and 2007, Alagasco plans to invest $71 million and $65 million, respectively, in utility capital expenditures for normal distribution and support systems. Over the Company s five-year planning period ending December 31, 2010, Alagasco anticipates capital investments of approximately $331 million. The utility anticipates funding these capital requirements through internally generated capital and the utilization of short-term credit facilities. In January 2005, Alagasco issued $80 million in long-term debt to repay amounts drawn on short-term credit facilities for capital expenditures and to refinance $30 million of Medium-Term Notes recalled by Alagasco in April 2004. In November 2005, Alagasco issued an additional $80 million of long-term debt. This debt largely refinanced $18 million of Medium-Term Notes maturing June 27, 2007 to July 5, 2022 and $56.7 million of long-term debt maturing June 15, 2015 to June 27, 2025 recalled by Alagasco in August 2005 and December 2005, respectively.

Access to capital is an integral part of the Company s business plan. The Company regularly provides information to corporate rating agencies related to current business activities and future performance expectations. While the Company expects to have ongoing access to its short-term credit facilities and the broader long-term markets, continued access could be adversely affected by future economic and business conditions and credit rating downgrades.

Dividends

Energen expects to pay annual cash dividends of $0.44 per share on the Company s common stock in 2006. The amount and timing of all dividend payments is subject to the discretion of the Board of Directors and is based upon business conditions, results of operations, financial conditions and other factors.

On April 27, 2005, Energen s shareholders approved a 2-for-1 split of the Company s common stock. The split was effected in the form of a 100 percent stock dividend and was effective on June 1, 2005, to shareholders of record on May 13, 2005. All share and per share amounts of capital stock outstanding have been adjusted to reflect the stock split.

Contractual Cash Obligations and Other Commitments

In the course of ordinary business activities, Energen enters into a variety of contractual cash obligations and other commitments. The following table summarizes the Company s significant contractual cash obligations, other than hedging contracts, as of June 30, 2006.

		Payments Due before December 31,			
(in thousands)	**Total**	**2006**	**2007 & 2008**	**2009 & 2010**	**2011 & Thereafter**
Short-term debt	$ 54,000	$ 54,000	$	$	$
Long-term debt [(1)]	699,324	15,000	110,000	150,000	424,324
Interest payments on debt [(2)]	545,372	44,898	82,039	76,139	342,296
Purchase obligations [(3)]	218,809	23,765	95,622	70,218	29,204
Capital lease obligations					
Operating leases	48,151	1,993	7,093	6,355	32,710
Total contractual cash obligations	$ 1,565,656	$ 139,656	$ 294,754	$ 302,712	$ 828,534

(1) Long-term cash obligations include $1.3 million of unamortized debt discounts as of June 30, 2006.

(2) Includes interest on fixed rate debt and an estimate of adjustable rate debt. The adjustable rate interest is calculated based on the indexed rate in effect at June 30, 2006.

(3)

Certain of the Company s long-term gas procurement contracts for the supply, storage and delivery of natural gas include fixed charges of approximately $219 million through October 2015. The Company also is committed to purchase minimum quantities of gas at market-related prices or to pay certain costs in the event the minimum quantities are not taken. These purchase commitments are 156.5 Bcf through April 2015.

Table of Contents

Energen Resources operates in certain instances through joint ventures under joint operating agreements. Typically, the operator under a joint operating agreement enters into contracts, such as drilling contracts, for the benefit of all joint venture partners. Through the joint operating agreement, the non-operators reimburse, and in some cases advance, the funds necessary to meet the contractual obligations entered into by the operator. These obligations are typically shared on a working interest basis as defined in the joint operating contractual agreement.

The Company has two defined non-contributory pension plans and provides certain post-retirement healthcare and life insurance benefits. The Company is not required to make any funding payments during 2006. The Company will reevaluate discretionary payments to its pension plans during 2006 in light of the Pension Protection Act of 2006 that is currently awaiting the signature of President Bush. The Company expects to make discretionary payments of approximately $1 million to post-retirement benefit program assets during the remainder of 2006.

Recent Pronouncements of the Financial Accounting Standards Board (FASB)

In June 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 (FIN 48). This Interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition, measurement and disclosure of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. The cumulative effect of applying this Interpretation will be recorded as an adjustment to retained earnings as of the beginning of the period of adoption. The impact of this Interpretation on the Company is currently being evaluated.

FORWARD LOOKING STATEMENTS

Certain statements in this report express expectations of future plans, objectives and performance of the Company and its subsidiaries and constitute forward-looking statements made pursuant to the Safe Harbor provision of the Private Securities Litigation Reform Act of 1995. Except as otherwise disclosed, the forward-looking statements do not reflect the impact of possible or pending acquisitions, divestitures or restructurings. The absence of errors in input data, calculations and formulas used in estimates, assumptions and forecasts cannot be guaranteed. Neither the Company nor Alagasco undertakes any obligation to correct or update any forward-looking statements whether as a result of new information, future events or otherwise.

All statements based on future expectations rather than on historical facts are forward-looking statements that are dependent on certain events, risks and uncertainties that could cause actual results to differ materially from those anticipated. Some of these include, but are not limited to, economic and competitive conditions, inflation rates, legislative and regulatory changes, financial market conditions, our ability to access the capital markets, future business decisions, utility customer growth and retention and usage per customer, litigation results and other uncertainties, all of which are difficult to predict.

Third Party Facilities: The forward-looking statements assume generally uninterrupted access to third party oil and gas gathering, transportation, processing and storage facilities. Energen Resources relies upon such facilities for access to markets for its production. Alagasco relies upon such facilities for access to natural gas supplies. Such facilities are typically limited in number and geographically concentrated. An extended interruption of access to or service from these facilities, whether caused by weather events, natural disaster, accident, mechanical failure, criminal act or otherwise could result in material adverse financial consequences to Alagasco, Energen Resources and/or the Company.

Energen Resources Production: There are numerous uncertainties inherent in estimating quantities of proved oil and gas reserves and in projecting future rates of production and timing of development expenditures. The total amount or timing of actual future production may vary significantly from reserve and production estimates. In the event Energen Resources is unable to fully invest its planned acquisition, development and exploratory expenditures, future operating revenues, production, and proved reserves could be negatively affected. The drilling of development and exploratory wells can involve significant risks, including those related to timing, success rates and cost overruns, and these risks can be affected by lease and rig availability, complex geology and other factors.

Table of Contents

Energen Resources Hedging: Although Energen Resources makes use of futures, swaps, options and fixed-price contracts to mitigate price risk, fluctuations in future commodity prices could materially affect the Company s financial position, results of operations and cash flows; furthermore, such risk mitigation activities may cause the Company s financial position and results of operations to be materially different from results that would have been obtained had such risk mitigation activities not occurred. The effectiveness of such risk-mitigation assumes that counterparties maintain satisfactory credit quality. The effectiveness of such risk mitigation also assumes that actual sales volumes will generally meet or exceed the volumes subject to the futures, swaps, options and fixed-price contracts. A substantial failure to meet sales volume targets, whether caused by miscalculations, weather events, natural disaster, accident, criminal act or otherwise, could leave Energen Resources financially exposed to its counterparties and result in material adverse financial consequences to Energen Resources and the Company. The adverse effect could be increased if the adverse event was widespread enough to move market prices against Energen Resources position.

Alagasco Hedging: Similarly, although Alagasco makes use of futures, swaps and fixed-price contracts to mitigate gas supply cost risk, fluctuations in future gas supply costs could materially affect its financial position and rates to customers. The effectiveness of Alagasco s risk mitigation assumes that its counterparties in such activities maintain satisfactory credit quality. The effectiveness of such risk mitigation also assumes that Alagasco s actual gas supply needs will generally meet or exceed the volumes subject to the futures, swaps and fixed-price contracts. A substantial failure to experience projected gas supply needs, whether caused by miscalculations, weather events, natural disaster, accident, mechanical failure, criminal act or otherwise, could leave Alagasco financially exposed to its counterparties and result in material adverse financial consequences to Alagasco and the Company. The adverse effect could be increased if the adverse event was widespread enough to move market prices against Alagasco s position.

Operations: Inherent in the gas distribution activities of Alagasco and the oil and gas production activities of Energen Resources are a variety of hazards and operation risks, such as leaks, explosions and mechanical problems. These risks or other risks such as weather events, natural disasters, accidents and criminal acts could result in loss of human life, significant damage to property, environmental pollution, impairment of our operations and substantial financial losses to the Company. In accordance with customary industry practices, the Company maintains insurance against some, but not all, of these risks and losses. The location of pipeline and storage facilities near populated areas, including residential areas, commercial business centers and industrial sites, could increase the level of damages resulting from these risks. The occurrence of any of these events could adversely affect Alagasco s, Energen Resources and/or the Company s financial position, results of operations and cash flows.

Alagasco Service Territory: Alagasco s utility customers are geographically concentrated in central and north Alabama. Significant economic, weather, natural disaster, criminal act or other events that adversely affect this region could adversely affect Alagasco and the Company.

Table of Contents

SELECTED BUSINESS SEGMENT DATA

ENERGEN CORPORATION

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
(in thousands, except sales price data)	**2006**	**2005**	**2006**	**2005**
Oil and Gas Operations				
Operating revenues from continuing operations				
Natural gas	**$ 106,194**	$ 94,401	**$ 222,278**	$ 162,001
Oil	**47,475**	28,499	**89,617**	54,804
Natural gas liquids	**13,807**	9,653	**23,484**	17,798
Other	**1,702**	1,875	**3,318**	2,705
Total	**$ 169,178**	$ 134,428	**$ 338,697**	$ 237,308
Production volumes from continuing operations				
Natural gas (MMcf)	**15,725**	15,176	**31,052**	29,858
Oil (MBbl)	**914**	848	**1,832**	1,666
Natural gas liquids (MMgal)	**20.1**	18.6	**36.7**	34.4
Production volumes from continuing operations (MMcfe)	**24,076**	22,911	**47,285**	44,767
Total production volumes (MMcfe)	**24,075**	22,919	**47,284**	44,825
Revenue per unit of production including effects of all derivative instruments				
Natural gas (Mcf)	**$ 6.75**	$ 6.22	**$ 7.16**	$ 5.43
Oil (barrel)	**$ 51.92**	$ 33.63	**$ 48.93**	$ 32.89
Natural gas liquids (gallon)	**$ 0.69**	$ 0.52	**$ 0.64**	$ 0.52
Revenue per unit of production including effects of qualifying cash flow hedges				
Natural gas (Mcf)	**$ 6.75**	$ 5.79	**$ 7.16**	$ 5.73
Oil (barrel)	**$ 51.92**	$ 33.63	**$ 48.93**	$ 32.89
Natural gas liquids (gallon)	**$ 0.69**	$ 0.52	**$ 0.64**	$ 0.52
Revenue per unit of production excluding effects of all derivative instruments				
Natural gas (Mcf)	**$ 6.02**	$ 6.36	**$ 7.00**	$ 6.16
Oil (barrel)	**$ 64.29**	$ 47.65	**$ 60.41**	$ 46.55
Natural gas liquids (gallon)	**$ 0.83**	$ 0.64	**$ 0.78**	$ 0.64
Other data from continuing operations				
Lease operating expense (LOE)				
LOE and other	**$ 31,622**	$ 25,366	**$ 65,484**	$ 48,115
Production taxes	**$ 12,759**	$ 11,869	**$ 25,852**	$ 22,073
Total	**$ 44,381**	$ 37,235	**$ 91,336**	$ 70,188
Depreciation, depletion and amortization	**$ 23,566**	$ 22,458	**$ 47,117**	$ 43,470
Capital expenditures	**$ 50,652**	$ 48,024	**$ 95,557**	$ 88,509
Exploration expenditures	**$ 1,417**	$ 170	**$ 1,526**	$ 494
Operating income	**$ 87,138**	$ 65,369	**$ 175,677**	$ 104,346
Natural Gas Distribution				
Operating revenues				
Residential	**$ 67,495**	$ 64,778	**$ 286,001**	$ 242,932
Commercial and industrial	**32,856**	29,580	**117,413**	94,880
Transportation	**10,261**	10,245	**22,996**	23,274

Other	**2,584**	2,594	**5,409**	4,239
Total	**$ 113,196**	$ 107,197	**$ 431,819**	$ 365,325
Gas delivery volumes (MMcf)				
Residential	**3,295**	4,170	**14,980**	17,183
Commercial and industrial	**2,084**	2,411	**7,025**	7,706
Transportation	**11,589**	11,942	**24,948**	25,683
Total	**16,968**	18,523	**46,953**	50,572
Other data				
Depreciation and amortization	**$ 10,933**	$ 10,643	**$ 21,679**	$ 21,056
Capital expenditures	**$ 21,590**	$ 20,897	**$ 40,435**	$ 35,699
Operating income	**$ 2,711**	$ 5,630	**$ 66,438**	$ 72,034

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Energen Resources major market risk exposure is in the pricing applicable to its oil and gas production. Historically, prices received for oil and gas production have been volatile because of seasonal weather patterns, world and national supply-and-demand factors and general economic conditions. Crude oil prices also are affected by quality differentials, by worldwide political developments and by actions of the Organization of Petroleum Exporting Countries. Basis differentials, like the underlying commodity prices, can be volatile because of regional supply-and-demand factors, including seasonal factors and the availability and price of transportation to consuming areas.

Energen Resources periodically enters into derivative commodity instruments that qualify as cash flow hedges under Statement of Financial Accounting Standard (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, to hedge its exposure to price fluctuations to its estimated oil, natural gas and natural gas liquids production. In addition, Alagasco periodically enters into cash flow derivative commodity instruments to hedge its gas supply exposure. Such instruments may include regulated natural gas and crude oil futures contracts traded on the New York Mercantile Exchange (NYMEX) and over-the-counter swaps, collars and basis hedges with major energy derivative product specialists. The counterparties to the commodity instruments are investment banks and energy-trading firms. These counterparties have been deemed creditworthy by the Company and have agreed in certain instances to post collateral with the Company when unrealized gains on hedges exceed certain specified contractual amounts. Notwithstanding these agreements, the Company is at risk for economic loss based upon the creditworthiness of its counterparties. In some contracts, the amount of credit allowed before Energen Resources and Alagasco must post collateral for out-of-the-money hedges varies depending on the credit rating of the Company or Alagasco. All hedge transactions are subject to the Company s risk management policy, approved by the Board of Directors, which does not permit speculative positions. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking the hedge. The maximum term over which Energen Resources has hedged exposures to the variability of cash flows is through December 31, 2009.

A failure to meet sales volume targets at Energen Resources or gas supply targets at Alagasco due to miscalculations, weather events, natural disasters, accidents, mechanical failure, criminal act or otherwise could leave the Company or Alagasco exposed to its counterparties in commodity hedging contracts and result in material adverse financial losses.

See Note 4, Derivative Commodity Instruments, in the Notes to the Unaudited Condensed Financial Statements for details related to the Company s hedging activities.

The Company s interest rate exposure as of June 30, 2006, was minimal since approximately 85 percent of long-term debt obligations were at fixed rates.

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

(a) Our chief executive officer and chief financial officer have evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation they have concluded that our disclosure controls and procedures are effective at a reasonable assurance level.

(b) Our chief executive officer and chief financial officer have concluded that during the period covered by this report there were no changes in our internal controls that materially affected or are reasonably likely to materially affect our internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS*

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs**
April 1, 2006 through April 30, 2006	707*	$ 35.45		2,150,700
May 1, 2006 through May 31, 2006	701*	$ 35.37		
	257,100	$ 32.92	257,100	1,893,600
June 1, 2006 through June 30, 2006	420*	$ 34.81		
	711,900	$ 34.54	711,900	10,181,700
Total	970,828	$ 34.11	969,000	10,181,700

* Acquired in connection with tax withholdings and payment of exercise price on stock compensation plans.

** By resolution adopted May 24, 1994, and supplemented by resolutions adopted April 26, 2000 and June 24, 2006, the Board of Directors authorized the Company to repurchase up to 12,564,400 shares of the Company s common stock. The resolutions do not have an expiration date.

ITEM 6. EXHIBITS

31(a) - Section 302 Certificate required by Rule 13a-14(a) or Rule 15d-14(a)

31(b) - Section 302 Certificate required by Rule 13a-14(a) or Rule 15d-14(a)

32 - Section 906 Certificate pursuant to 18 U.S.C. Section 1350

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	ENERGEN CORPORATION **ALABAMA GAS CORPORATION**
August 7, 2006	By /s/ Wm. Michael Warren, Jr. Wm. Michael Warren, Jr. Chairman and Chief Executive Officer of Energen Corporation, Chairman and Chief Executive Officer of Alabama Gas Corporation
August 7, 2006	By /s/ G. C. Ketcham G. C. Ketcham Executive Vice President, Chief Financial Officer and Treasurer of Energen Corporation and Alabama Gas Corporation
August 7, 2006	By /s/ Grace B. Carr Grace B. Carr Vice President and Controller of Energen Corporation
August 7, 2006	By /s/ Paula H. Rushing Paula H. Rushing Vice President-Finance of Alabama Gas Corporation

Table of Contents

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