

LACLEDE GROUP INC
Form 10-Q
February 04, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE
ACT OF 1934 For the Quarter Ended December 31, 2013

OR

TRANSITION REPORT PURSUANT TO SECTION 13 or 15 (d) OF THE SECURITIES EXCHANGE
ACT OF 1934 For the Transition Period from _____ to _____

Commission File Number 1-16681

THE LACLEDE GROUP, INC.
(Exact name of registrant as specified in its charter)
Missouri
(State of Incorporation)
720 Olive Street
St. Louis, MO 63101
(Address and zip code of principal executive offices)

74-2976504
(I.R.S. Employer Identification number)

314-342-0500
(Registrant's telephone number, including area code)

Indicate by check mark if the registrant:

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

has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of January 31, 2014, there were 32,758,189 shares of the registrant's Common Stock, par value \$1.00 per share, outstanding.

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PART I. FINANCIAL INFORMATION

The interim financial statements included herein have been prepared by The Laclede Group, Inc. (Laclede Group or the Company), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). These financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's Form 10-K for the fiscal year ended September 30, 2013.

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Item 1. Financial Statements

THE LACLEDE GROUP, INC.
 STATEMENTS OF CONSOLIDATED INCOME
 (UNAUDITED)

(Thousands, Except Per Share Amounts)	Three Months Ended December 31,	
	2013	2012
Operating Revenues:		
Gas Utility	\$435,166	\$250,111
Gas Marketing	33,253	55,249
Other	191	1,643
Total Operating Revenues	468,610	307,003
Operating Expenses:		
Gas Utility		
Natural and propane gas	241,787	136,515
Other operation and maintenance expenses	62,322	39,651
Depreciation and amortization	20,026	10,965
Taxes, other than income taxes	28,589	14,806
Total Gas Utility Operating Expenses	352,724	201,937
Gas Marketing	51,782	57,382
Other	1,199	5,599
Total Operating Expenses	405,705	264,918
Operating Income	62,905	42,085
Other Income and (Income Deductions) – Net	1,647	1,084
Interest Charges:		
Interest on long-term debt	9,694	5,438
Other interest charges	767	588
Total Interest Charges	10,461	6,026
Income Before Income Taxes	54,091	37,143
Income Tax Expense	18,499	11,575
Net Income	\$35,592	\$25,568
Weighted Average Number of Common Shares Outstanding:		
Basic	32,570	22,372
Diluted	32,648	22,434
Basic Earnings Per Share of Common Stock	\$1.09	\$1.14
Diluted Earnings Per Share of Common Stock	\$1.09	\$1.14
Dividends Declared Per Share of Common Stock	\$0.440	\$0.425

See Notes to Consolidated Financial Statements.

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THE LACLEDE GROUP, INC.
 STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME
 (UNAUDITED)

(Thousands)	Three Months Ended December 31,	
	2013	2012
Net Income	\$35,592	\$25,568
Other Comprehensive Income (Loss), Before Tax:		
Net (losses) gains on cash flow hedging derivative instruments:		
Net hedging (loss) gain arising during the period	(1,646)	1,389
Reclassification adjustment for (gains) losses included in net income	(1,178)	2,249
Net unrealized (losses) gains on cash flow hedging derivative instruments	(2,824)	3,638
Amortization of actuarial loss included in net periodic pension and postretirement benefit cost	97	90
Other Comprehensive (Loss) Income, Before Tax	(2,727)	3,728
Income Tax (Benefit) Expense Related to Items of Other Comprehensive Income	(1,035)	1,450
Other Comprehensive (Loss) Income, Net of Tax	(1,692)	2,278
Comprehensive Income	\$33,900	\$27,846

See Notes to Consolidated Financial Statements.

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THE LACLEDE GROUP, INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(Thousands)	Dec. 31, 2013	Sept. 30, 2013	Dec. 31, 2012
ASSETS			
Utility Plant	\$2,295,248	\$2,271,189	\$1,508,770
Less: Accumulated depreciation and amortization	507,457	494,559	470,840
Net Utility Plant	1,787,791	1,776,630	1,037,930
Non-utility property	5,249	7,694	5,788
Goodwill	235,814	247,078	—
Other investments	62,774	58,306	51,631
Other Property and Investments	303,837	313,078	57,419
Current Assets:			
Cash and cash equivalents	34,518	52,981	46,563
Accounts receivable:			
Utility	254,692	101,118	130,925
Non-utility	63,194	63,752	54,092
Other	21,801	14,451	17,822
Allowance for doubtful accounts	(10,847)	(8,046)	(7,055)
Inventories:			
Natural gas stored underground	153,305	182,035	88,342
Propane gas	6,022	8,962	10,200
Materials and supplies at average cost	8,581	8,154	4,257
Natural gas receivable	7,786	18,782	13,746
Derivative instrument assets	4,985	3,291	1,246
Unamortized purchased gas adjustments	9,903	17,533	30,492
Deferred income taxes	3,222	—	—
Prepayments and other	13,562	12,867	9,433
Total Current Assets	570,724	475,880	400,063
Deferred Charges:			
Regulatory assets	530,963	545,947	440,880
Other	13,415	13,851	5,863
Total Deferred Charges	544,378	559,798	446,743
Total Assets	\$3,206,730	\$3,125,386	\$1,942,155

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THE LACLEDE GROUP, INC.
CONSOLIDATED BALANCE SHEETS (Continued)
(UNAUDITED)

(Thousands, except share amounts)	Dec. 31, 2013	Sept. 30, 2013	Dec. 31, 2012
CAPITALIZATION AND LIABILITIES			
Capitalization:			
Common stock (70,000,000 shares authorized, 32,751,255, 32,696,836, and 22,563,958 shares issued, respectively)	\$32,751	\$32,697	\$22,564
Paid-in capital	594,857	594,269	169,496
Retained earnings	441,259	420,103	430,556
Accumulated other comprehensive loss	(2,479)	(787)	(1,838)
Total Common Stock Equity	1,066,388	1,046,282	620,778
Long-term debt (less current portion)	832,764	912,712	364,426
Total Capitalization	1,899,152	1,958,994	985,204
Current Liabilities:			
Current portion of long-term debt	80,000	—	—
Notes payable	93,500	74,000	83,050
Accounts payable	160,750	140,234	100,994
Advance customer billings	16,011	23,736	15,950
Wages and compensation accrued	15,753	20,807	12,401
Dividends payable	15,142	14,556	9,931
Customer deposits	15,485	15,062	8,437
Interest accrued	9,755	8,335	5,034
Taxes accrued	36,274	32,896	13,196
Deferred income taxes	—	1,012	4,426
Other	35,054	22,540	21,651
Total Current Liabilities	477,724	353,178	275,070
Deferred Credits and Other Liabilities:			
Deferred income taxes	389,557	379,114	350,738
Unamortized investment tax credits	2,847	2,900	3,060
Pension and postretirement benefit costs	229,313	228,653	195,259
Asset retirement obligations	72,459	74,554	40,936
Regulatory liabilities	90,795	82,560	56,776
Other	44,883	45,433	35,112
Total Deferred Credits and Other Liabilities	829,854	813,214	681,881
Commitments and Contingencies (Note 12)			
Total Capitalization and Liabilities	\$3,206,730	\$3,125,386	\$1,942,155
See Notes to Consolidated Financial Statements .			

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THE LACLEDE GROUP, INC.
 STATEMENTS OF CONSOLIDATED CASH FLOWS
 (UNAUDITED)

(Thousands)	Three Months Ended December 31,	
	2013	2012
Operating Activities:		
Net Income	\$35,592	\$25,568
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation, amortization, and accretion	20,212	11,314
Deferred income taxes and investment tax credits	(702)	2,572
Other – net	(157)	670
Changes in assets and liabilities:		
Accounts receivable – net	(157,564)	(61,942)
Unamortized purchased gas adjustments	7,630	10,182
Deferred purchased gas costs	23,093	2,266
Accounts payable	25,153	12,004
Advance customer billings - net	(7,725)	(9,196)
Taxes accrued	3,379	1,877
Natural gas stored underground	28,730	4,387
Other assets and liabilities	6,648	4,213
Net cash (used in) provided by operating activities	(15,711)	3,915
Investing Activities:		
Capital expenditures	(34,641)	(27,713)
Other investments	(679)	(990)
Proceeds from sale of right to acquire NEG	11,000	—
Net cash used in investing activities	(24,320)	(28,703)
Financing Activities:		
Issuance of long-term debt	—	25,000
Maturity of first mortgage bonds	—	(25,000)
Issuance of short-term debt – net	19,500	42,950
Changes in book overdrafts	15,847	10,160
Issuance of common stock	742	761
Dividends paid	(13,876)	(9,495)
Employees' taxes paid associated with restricted shares withheld upon vesting	(1,053)	(723)
Excess tax benefits from stock-based compensation	423	256
Other	(15)	(15)
Net cash provided by financing activities	21,568	43,894
Net (Decrease) Increase in Cash and Cash Equivalents	(18,463)	19,106
Cash and Cash Equivalents at Beginning of Period	52,981	27,457
Cash and Cash Equivalents at End of Period	\$34,518	\$46,563
Supplemental disclosure of cash flow information:		
Interest paid	\$8,850	\$9,585
Income taxes paid	(2,313)	456
See <u>Notes to Consolidated Financial Statements</u> .		

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THE LACLEDE GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These notes are an integral part of the accompanying unaudited consolidated financial statements of The Laclede Group, Inc. (Laclede Group or the Company) and its subsidiaries. In the opinion of Laclede Group, this interim report includes all adjustments (consisting of only normal recurring accruals) necessary for the fair presentation of the results of operations for the periods presented. This Form 10-Q should be read in conjunction with the Notes to Consolidated Financial Statements contained in the Company's Fiscal Year 2013 Form 10-K.

The consolidated financial position, results of operations, and cash flows of Laclede Group are primarily derived from the financial position, results of operations, and cash flows of Laclede Gas Company (Laclede Gas or the Utility), a wholly owned subsidiary. The Utility is a regulated natural gas distribution utility having a material seasonal cycle. As a result, these interim statements of income for Laclede Group are not necessarily indicative of annual results or representative of succeeding quarters of the fiscal year. The Utility's recent acquisition of Missouri Gas Energy (MGE) is included in the results of operations for the three months ended December 31, 2013, impacting the comparability of the current year financial statements to prior years. For a further discussion of the acquisition, see Note 2, MGE Acquisition. Due to the seasonal nature of the business of the Utility, Laclede Group's earnings are typically concentrated during the heating season of November through April each year, although earnings for Missouri Gas Energy (MGE) are less seasonal than earnings from Laclede Gas, due to MGE's straight fixed-variable rate design which recovers fixed costs more evenly over the year. The Gas Utility segment serves St. Louis and eastern Missouri through Laclede Gas and serves Kansas City and western Missouri through MGE. The Company's primary non-utility business, Laclede Energy Resources, Inc. (LER), included in the Gas Marketing segment, provides non-regulated natural gas services.

REVENUE RECOGNITION - The Utility reads meters and bills its customers on monthly cycles. The Utility records its gas utility revenues from gas sales and transportation services on an accrual basis that includes estimated amounts for gas delivered, but not yet billed. The accruals for unbilled revenues are reversed in the subsequent accounting period when meters are actually read and customers are billed. The amounts of accrued unbilled revenues at December 31, 2013 and 2012, for the Utility, were \$101.9 million and \$39.6 million, respectively. The amount of accrued unbilled revenue at September 30, 2013 was \$25.2 million.

GROSS RECEIPTS TAXES - Gross receipts taxes associated with the Utility's natural gas utility service are imposed on the Utility and billed to its customers. These amounts are recorded gross in the Statements of Consolidated Income. Amounts recorded in Gas Utility Operating Revenues for the three months ended December 31, 2013 and 2012 were \$19.9 million and \$10.3 million, respectively. Gross receipts taxes are expensed by the Utility and included in the Taxes, other than income taxes line.

2. MGE Acquisition

Effective September 1, 2013, the Utility completed the purchase of substantially all of the assets and liabilities of Missouri Gas Energy (MGE), a utility engaged in the distribution of natural gas on a regulated basis in western Missouri, from Southern Union Company (SUG), an affiliate of Energy Transfer Equity, L.P. and Energy Transfer Partners, L.P. The purchase was completed pursuant to the purchase agreement dated December 14, 2012. Under the terms of the purchase agreement, the Utility acquired MGE for a purchase price of \$975 million.

On December 12, 2012, a subsidiary of Laclede Group, Plaza Massachusetts Acquisition Inc. (Plaza Mass), agreed to purchase New England Gas Company (NEG) from SUG. Subsequently, on February 11, 2013, the Company agreed to sell Plaza Mass to Algonquin Power & Utilities Corp. (APUC). On December 13, 2013, the Massachusetts Department of Public Utilities (MDPU) approved the transfer of Plaza Mass to an APUC subsidiary. Consistent with the February 11, 2013 agreements, on December 20, 2013, the Company closed the sale of Plaza Mass to an APUC subsidiary and received \$11.0 million from APUC. This receipt of funds effectively reduced the Utility's purchase price of MGE to \$964 million. On December 24, 2013, the Massachusetts Attorney General filed a Motion for

Clarification/Reconsideration with the MDPU which, among other things, claims that legislative approval is required for a transfer of utility assets. The MDPU has not yet acted on the Attorney General's Motion.

The Utility is currently in negotiations with SUG regarding adjustments to the purchase price of MGE due to changes in the actual net assets transferred to the Utility at closing on August 31, 2013 from the level at September 30, 2012.

The Utility plans to adjust cash and goodwill for any change upon final settlement.

The acquisition was accounted for under the acquisition method of accounting in accordance with ASC 805 ("Topic 805"), "Business Combinations." Accordingly, goodwill was measured as the excess of the acquisition-date fair value of the consideration transferred over the amount of acquisition-date identifiable assets acquired net of assumed liabilities.

The Utility recorded \$235.8 million of goodwill as an asset in the consolidated balance sheet.

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In the first quarter of fiscal 2014, the Utility updated the fair value estimates for assets acquired and liabilities assumed as of the acquisition date, including the sale of NEG to APUC which resulted in a decrease to goodwill of \$11.0 million.

3. PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS

Pension Plans

The Utility has non-contributory, defined benefit, trustee forms of pension plans covering substantially all employees. Plan assets consist primarily of corporate and U.S. government obligations and a growth segment consisting of exposure to equity markets, commodities, real estate and inflation-indexed securities, achieved through derivative instruments.

Pension costs for the three months ended December 31, 2013 and 2012 were \$6.6 million and \$4.2 million, respectively, including amounts charged to construction.

The net periodic pension costs include the following components:

(Thousands)	Three Months Ended December 31,	
	2013	2012
Service cost – benefits earned during the period	\$2,428	\$2,311
Interest cost on projected benefit obligation	6,010	4,066
Expected return on plan assets	(6,645	) (4,741
Amortization of prior service cost	124	136
Amortization of actuarial loss	1,772	2,839
Sub-total	3,689	4,611
Regulatory adjustment	2,890	(434
Net pension cost	\$6,579	\$4,177

Pursuant to the provisions of the Utility's pension plans, pension obligations may be satisfied by lump-sum cash payments. Pursuant to a Missouri Public Service Commission (MoPSC or Commission) Order, lump-sum payments are recognized as settlements (which can result in gains or losses) only if the total of such payments exceeds 100% of the sum of service and interest costs. There were no lump-sum payments recognized as settlements during the three months ended December 31, 2013 and December 31, 2012, respectively.

Pursuant to a MoPSC Order, the return on plan assets is based on the market-related value of plan assets implemented prospectively over a four-year period. Gains or losses not yet includible in pension cost are amortized only to the extent that such gain or loss exceeds 10% of the greater of the projected benefit obligation or the market-related value of plan assets. Such excess is amortized over the average remaining service life of active participants. The recovery in rates for Laclede Gas' qualified pension plans is based on an annual allowance of \$15.5 million effective January 1, 2011. The recovery in rates for MGE's qualified pension plan is based on an annual allowance of \$10.0 million effective February 20, 2010. The difference between these amounts and pension expense as calculated pursuant to the above and that otherwise would be included in the Statements of Consolidated Income and Statements of Consolidated Comprehensive Income is deferred as a regulatory asset or regulatory liability.

The funding policy of the Utility is to contribute an amount not less than the minimum required by government funding standards, nor more than the maximum deductible amount for federal income tax purposes. Fiscal year 2014 contributions to the pension plans through December 31, 2013 were \$3.8 million to the qualified trusts. There were no contributions to the non-qualified plans in the first quarter of fiscal 2014. Contributions to the pension plans for the remaining nine months of fiscal 2014 are anticipated to be approximately \$24.0 million to the qualified trusts and \$0.4 million to the non-qualified plans.

Postretirement Benefits

The Utility provides certain life insurance benefits at retirement. Under the Laclede Gas plans, medical insurance is currently available after early retirement until age 65. Under the MGE plans, medical insurance is currently available upon retirement until death. The transition obligation not yet includible in postretirement benefit cost is being

amortized over 20 years. Postretirement benefit costs for both the three months ended December 31, 2013 and 2012 were \$2.4 million, including amounts charged to construction.

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Net periodic postretirement benefit costs consisted of the following components:

(Thousands)	Three Months Ended December	
	31, 2013	2012
Service cost – benefits earned during the period	\$2,804	\$2,533
Interest cost on accumulated postretirement benefit obligation	2,169	1,279
Expected return on plan assets	(1,709	) (1,081
Amortization of transition obligation	—	23
Amortization of prior service cost (credit)	(1	) 1
Amortization of actuarial loss	1,505	1,325
Sub-total	4,768	4,080
Regulatory adjustment	(2,387	) (1,699
Net postretirement benefit cost	\$2,381	\$2,381

Missouri state law provides for the recovery in rates of costs accrued pursuant to GAAP provided that such costs are funded through an independent, external funding mechanism. The Utility established Voluntary Employees' Beneficiary Association (VEBA) and Rabbi trusts as its external funding mechanisms. The assets of VEBA and Rabbi trusts consist primarily of money market securities and mutual funds invested in stocks and bonds.

Pursuant to a MoPSC Order, the return on plan assets is based on the market-related value of plan assets implemented prospectively over a four-year period. Gains and losses not yet includible in postretirement benefit cost are amortized only to the extent that such gain or loss exceeds 10% of the greater of the accumulated postretirement benefit obligation or the market-related value of plan assets. Such excess is amortized over the average remaining service life of active participants. The recovery in rates for the Utility's postretirement benefit plans is based on an annual allowance of \$9.5 million effective January 1, 2011. The difference between these amounts and postretirement benefit cost based on the above and that otherwise would be included in the Statements of Consolidated Income and Statements of Consolidated Comprehensive Income is deferred as a regulatory asset or regulatory liability.

The Utility's funding policy is to contribute amounts to the trusts equal to the periodic benefit cost calculated pursuant to GAAP as recovered in rates. There were no contributions to the postretirement plans in fiscal 2014 through December 31, 2013. Contributions to the postretirement plans for the remaining nine months of fiscal year 2014 are anticipated to be \$19.2 million to the qualified trusts and \$0.3 million paid directly to participants from the Utility's funds.

4. STOCK-BASED COMPENSATION

Awards of stock-based compensation are made pursuant to The Laclede Group 2006 Equity Incentive Plan (2006 Plan). Refer to Note 3 of the Consolidated Financial Statements included in the Company's Form 10-K for the fiscal year ended September 30, 2013 for descriptions of the plan.

Restricted Stock Awards

During the three months ended December 31, 2013, the Company granted 104,979 performance-contingent restricted stock units to executive officers and key employees at a weighted average grant date fair value of \$37.74 per share. This number represents the maximum shares that can be earned pursuant to the terms of the awards. Most of these stock units have a performance period ending September 30, 2016. While the participants have no interim voting rights on these stock units, dividends accrue during the performance period and are paid to the participants upon vesting, but are subject to forfeiture if the underlying stock units do not vest. The number of stock units that will ultimately vest is dependent upon the attainment of certain levels of earnings and other strategic goals, as well as the Company's level of total shareholder return (TSR) during the performance period relative to a comparator group of companies. This TSR provision is considered a market condition under GAAP.

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Activity of restricted stock and restricted stock units subject to performance and/or market conditions during the three months ended December 31, 2013 is presented below:

	Restricted Stock/ Stock Units	Weighted Average Grant Date Fair Value
Nonvested at September 30, 2013	242,268	\$34.15
Granted (maximum shares that can be earned)	104,979	\$37.74
Vested	(52,954)	) \$32.16
Forfeited	(22,022)	) \$29.35
Nonvested at December 31, 2013	272,271	\$36.31

During the three months ended December 31, 2013, the Company granted 51,943 shares of time-vested restricted stock and stock units to executive officers, key employees, and directors at a weighted average grant date fair value of \$45.59 per share. Of the 51,943 shares, 12,168 shares vest on December 2, 2014 and 39,775 will vest on December 2, 2016. In the interim, participants receive full voting rights, which are not subject to forfeiture.

Time-vested restricted stock and stock unit activity for the three months ended December 31, 2013 is presented below:

	Restricted Stock/ Stock Units	Weighted Average Grant Date Fair Value
Nonvested at September 30, 2013	119,404	\$38.64
Granted	51,943	\$45.59
Vested	(17,999)	) \$36.37
Forfeited	(7,200)	) \$38.53
Nonvested at December 31, 2013	146,148	\$41.40

During the three months ended December 31, 2013, 70,953 shares of restricted stock and stock units (performance-contingent and time-vested), awarded on December 1, 2010 and October 17, 2012 vested. The Company withheld 22,983 of the vested shares at a weighted average price of \$45.83 per share pursuant to elections by employees to satisfy tax withholding obligations.

Stock Option Awards

Stock option activity for the three months ended December 31, 2013 is presented below:

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (\$'000)
Outstanding at September 30, 2013	133,500	\$31.87		
Granted	—	\$—		
Exercised	(12,750)	) \$29.36		
Forfeited	—	\$—		
Expired	—	\$—		
Outstanding at December 31, 2013	120,750	\$32.14	1.7	\$1,618
Fully Vested and Expected to Vest at December 31, 2013	120,750	\$32.14	1.7	\$1,618
Exercisable at December 31, 2013	120,750	\$32.14	1.7	\$1,618

The closing price of the Company's common stock was \$45.54 at December 31, 2013.

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Equity Compensation Costs

The amounts of compensation cost recognized for share-based compensation arrangements are presented below:

(Thousands)	Three Months Ended December 31,	
	2013	2012
Total equity compensation cost	\$533	\$622
Compensation cost capitalized	(149	) (183
Compensation cost recognized	\$384	\$439

As of December 31, 2013, there was \$9.2 million of total unrecognized compensation cost related to nonvested share-based compensation arrangements. That cost is expected to be recognized over a weighted average period of 2.4 years.

5. EARNINGS PER COMMON SHARE

(Thousands, Except Per Share Amounts)	Three Months Ended December 31,	
	2013	2012
Basic EPS:		
Net Income	\$35,592	\$25,568
Less: Income allocated to participating securities	144	80
Net Income Available to Common Shareholders	\$35,448	\$25,488
Weighted Average Shares Outstanding	32,570	22,372
Earnings Per Share of Common Stock	\$1.09	\$1.14
Diluted EPS:		
Net Income	\$35,592	\$25,568
Less: Income allocated to participating securities	144	80
Net Income Available to Common Shareholders	\$35,448	\$25,488
Weighted Average Shares Outstanding	32,570	22,372
Dilutive Effect of Stock Options, Restricted Stock and Restricted Stock Units	78	62
Weighted Average Diluted Shares	32,648	22,434
Earnings Per Share of Common Stock	\$1.09	\$1.14
Outstanding Shares Excluded from the Calculation of Diluted EPS Attributable to:		
Restricted stock and stock units subject to performance and/or market conditions	259	263

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6. FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts and estimated fair values of financial instruments not measured at fair value on a recurring basis are as follows:

(Thousands)	Carrying Amount	Fair Value	Classification of Estimated Fair Value		
			Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2013					
Cash and cash equivalents	\$34,518	\$34,518	\$34,354	\$164	\$—
Short-term debt	93,500	93,500	—	93,500	—
Long-term debt, including current portion	912,764	936,478	—	936,478	—
As of September 30, 2013					
Cash and cash equivalents	\$52,981	\$52,981	\$52,824	\$157	\$—
Short-term debt	74,000	74,000	—	74,000	—
Long-term debt, including current portion	912,712	954,126	—	954,126	—
As of December 31, 2012					
Cash and cash equivalents	\$46,563	\$46,563	\$36,487	\$10,076	\$—
Short-term debt	83,050	83,050	—	83,050	—
Long-term debt, including current portion	364,426	456,235	—	456,235	—

The carrying amounts for cash and cash equivalents and short-term debt approximate fair value due to the short maturity of these instruments. The fair values of long-term debt are estimated based on market prices for similar issues. Refer to Note 7, Fair Value Measurements, for information on financial instruments measured at fair value on a recurring basis.

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7. FAIR VALUE MEASUREMENTS

The following table categorizes the assets and liabilities in the Consolidated Balance Sheets that are accounted for at fair value on a recurring basis in periods subsequent to initial recognition.

(Thousands)	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Effects of Netting and Cash Margin Receivables /Payables	Total
As of December 31, 2013					
Assets					
U. S. Stock/Bond Mutual Funds	\$15,003	\$—	\$—	\$—	\$15,003
NYMEX/ICE natural gas contracts	3,697	670	—	(3,839)	) 528
OTCBB natural gas contracts	—	3,609	—	(913)	) 2,696
NYMEX gasoline and heating oil contracts	163	—	—	—	163
Natural gas commodity contracts	—	3,044	29	(826)	) 2,247
Total	\$18,863	\$7,323	\$29	\$(5,578)	) \$20,637
Liabilities					
NYMEX/ICE natural gas contracts	\$2,013	\$265	\$—	\$(2,278)) \$—
OTCBB natural gas contracts	—	913	—	(913)) —
Natural gas commodity contracts	—	1,732	22	(826)	) 928
Total	\$2,013	\$2,910	\$22	\$(4,017)	) \$928
As of September 30, 2013					
Assets					
U. S. Stock/Bond Mutual Funds	\$14,500	\$—	\$—	\$—	\$14,500
NYMEX/ICE natural gas contracts	4,333	330	—	(2,145)	) 2,518
OTCBB natural gas contracts	—	232	—	(232)) —
NYMEX gasoline and heating oil contracts	105	—	—	(105)) —
Natural gas commodity contracts	—	1,129	150	(495)	) 784
Total	\$18,938	\$1,691	\$150	\$(2,977)	) \$17,802
Liabilities					
NYMEX/ICE natural gas contracts	\$3,687	\$321	\$—	\$(4,008)) \$—
OTCBB natural gas contracts	—	5,443	—	(232)	) 5,211
Natural gas commodity contracts	—	1,140	40	(495)	) 685
Total	\$3,687	\$6,904	\$40	\$(4,735)	) \$5,896
As of December 31, 2012					
Assets					
U. S. Stock/Bond Mutual Funds	\$13,146	\$—	\$—	\$—	\$13,146
NYMEX/ICE natural gas contracts	2,497	749	—	(2,962)	) 284
NYMEX gasoline and heating oil contracts	281	—	—	(281)) —
Natural gas commodity contracts	—	1,228	77	(348)	) 957
Total	\$15,924	\$1,977	\$77	\$(3,591)	) \$14,387
Liabilities					
NYMEX/ICE natural gas contracts	\$6,650	\$749	\$—	\$(7,399)) \$—
Natural gas commodity contracts	—	1,132	47	(348)) 831
Total	\$6,650	\$1,881	\$47	\$(7,747)) \$831

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The mutual funds included in Level 1 are valued based on exchange-quoted market prices of identical securities. Derivative instruments included in Level 1 are valued using quoted market prices on the NYMEX. Derivative instruments classified in Level 2 include physical commodity derivatives that are valued using Over The Counter Bulletin Board (OTCBB), broker, or dealer quotation services whose prices are derived principally from, or are corroborated by, observable market inputs. Also included in Level 2 are certain derivative instruments that have values that are similar to, and correlate with, quoted prices for exchange-traded instruments in active markets. Derivative instruments included in Level 3 are valued using generally unobservable inputs that are based upon the best information available and reflect management's assumptions about how market participants would price the asset or liability. The Company's policy is to recognize transfers between the levels of the fair value hierarchy, if any, as of the beginning of the interim reporting period in which circumstances change or events occur to cause the transfer. The following is a reconciliation of the Level 3 beginning and ending net derivative balances:

(Thousands)	Three Months Ended December 31,	
	2013	2012
Beginning of period	\$ 110	\$ 109
Net settlements	(108	) (66
Net gains related to derivatives still held at end of period	5	(13
End of period	\$ 7	\$ 30

The mutual funds are included in the Other investments line of the Consolidated Balance Sheets. Derivative assets and liabilities, including receivables and payables associated with cash margin requirements, are presented net in the Consolidated Balance Sheets when a legally enforceable netting agreement exists between the Company and the counterparty to a derivative contract. For additional information on derivative instruments, see Note 8, Derivative Instruments and Hedging Activities.

8. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Utility has a risk management policy that allows for the purchase of natural gas derivative instruments with the goal of managing price risk associated with purchasing natural gas on behalf of its customers. This policy prohibits speculation and permits the Utility to hedge up to 70% of its normal volumes purchased for up to a 36 -month period. Costs and cost reductions, including carrying costs, associated with the Utility's use of natural gas derivative instruments are allowed to be passed on to the Utility's customers through the operation of its Purchased Gas Adjustment (PGA) Clause, through which the MoPSC allows the Utility to recover gas supply costs, subject to prudence review by the MoPSC. Accordingly, the Utility does not expect any adverse earnings impact as a result of the use of these derivative instruments. The Utility does not designate these instruments as hedging instruments for financial reporting purposes because gains or losses associated with the use of these derivative instruments are deferred and recorded as regulatory assets or regulatory liabilities pursuant to ASC Topic 980, "Regulated Operations," and, as a result, have no direct impact on the Statements of Consolidated Income. The timing of the operation of the PGA Clause may cause interim variations in short-term cash flows, because the Utility is subject to cash margin requirements associated with changes in the values of these instruments. Nevertheless, carrying costs associated with such requirements are recovered through the PGA Clause.

From time to time, they Utility purchases NYMEX futures and options contracts to help stabilize operating costs associated with forecasted purchases of gasoline and diesel fuels used to power vehicles and equipment used in the course of its business. At December 31, 2013, Laclede Gas held 0.8 million gallons of gasoline futures contracts at an average price of \$2.66 per gallon. Most of these contracts, the longest of which extends to September 2014, are designated as cash flow hedges of forecasted transactions pursuant to ASC Topic 815. The gains or losses on these derivative instruments are not subject to the Utility's PGA Clause.

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In the course of its business, Laclede Group's gas marketing subsidiary, LER, which includes its wholly owned subsidiary LER Storage Services, Inc., enters into commitments associated with the purchase or sale of natural gas. Certain of LER's derivative natural gas contracts are designated as normal purchases or normal sales and, as such, are excluded from the scope of ASC Topic 815 and are accounted for as executory contracts on an accrual basis. Any of LER's derivative natural gas contracts that are not designated as normal purchases or normal sales are accounted for at fair value. At December 31, 2013, the fair values of 72.2 million MMBtu of non-exchange traded natural gas commodity contracts were reflected in the Consolidated Balance Sheet. Of these contracts, 57.3 million MMBtu will settle during fiscal year 2014, 13.5 million MMBtu will settle during fiscal year 2015, while the remaining 1.4 million MMBtu will settle during fiscal year 2016. These contracts have not been designated as hedges; therefore, changes in the fair value of these contracts are reported in earnings each period. Furthermore, LER manages the price risk associated with its fixed-priced commitments by either closely matching the offsetting physical purchase or sale of natural gas at fixed prices or through the use of NYMEX or Ice Clear Europe (ICE) futures, swap, and option contracts to lock in margins. At December 31, 2013, LER's unmatched fixed-price positions were not material to Laclede Group's financial position or results of operations. LER's NYMEX and ICE natural gas futures, swap, and option contracts used to lock in margins may be designated as cash flow hedges of forecasted transactions for financial reporting purposes.

The Company's exchange-traded/cleared derivative instruments consist primarily of NYMEX, OTCBB, and ICE positions. The NYMEX and OTCBB is the primary national commodities exchange on which natural gas derivatives are traded. Open NYMEX/ICE and OTCBB natural gas futures and swap positions at December 31, 2013 were as follows:

	Laclede Gas Company		Laclede Energy Resources, Inc.	
	MMBtu (millions)	Avg. Price Per MMBtu	MMBtu (millions)	Avg. Price Per MMBtu
NYMEX/ICE Open short futures positions				
Fiscal 2014	—	\$—	11.04	\$4.03
Fiscal 2015	—	—	0.49	4.19
Fiscal 2016	—	—	0.01	4.10
NYMEX/ICE Open long futures positions				
Fiscal 2014	5.25	\$3.88	1.64	\$3.84
Fiscal 2015	0.94	3.84	0.39	4.00
Fiscal 2016	—	—	0.09	4.18
Fiscal 2017	—	—	0.02	4.28
ICE Open basis swap positions				
Fiscal 2016	—	—	0.92	\$(0.80)
Fiscal 2017	—	—	0.16	(0.80)
OTCBB Open long futures positions				
Fiscal 2014	14.03	\$3.99	—	—
Fiscal 2015	8.60	4.20	—	—
Fiscal 2016	0.11	4.15	—	—

At December 31, 2013, the Utility had 19.2 million MMBtu of other price mitigation in place through the use of NYMEX and OTCBB natural gas option-based strategies while LER had none.

Derivative instruments designated as cash flow hedges of forecasted transactions are recognized on the Consolidated Balance Sheets at fair value and the change in the fair value of the effective portion of these hedge instruments is recorded, net of tax, in other comprehensive income (OCI). Accumulated other comprehensive income (AOCI) is a component of Total Common Stock Equity. Amounts are reclassified from AOCI into earnings when the hedged items affect net income, using the same revenue or expense category that the hedged item impacts. Based on market prices at December 31, 2013, it is expected that approximately \$0.8 million of pre-tax unrealized gains will be reclassified

into the Statements of Consolidated Income during the next twelve months. Cash flows from hedging transactions are classified in the same category as the cash flows from the items that are being hedged in the Statements of Consolidated Cash Flows.

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The Effect of Derivative Instruments on the Statements of Consolidated Income and Statements of Consolidated Comprehensive Income

(Thousands)	Location of Gain (Loss) Recorded in Income	Three Months Ended December 31,	
		2013	2012
Derivatives in Cash Flow Hedging Relationships			
Effective portion of gain (loss) recognized in OCI on derivatives:			
NYMEX/ICE natural gas contracts		\$(1,655)	\$1,332
NYMEX gasoline and heating oil contracts		9	57
Total		\$(1,646)	\$1,389
Effective portion of gain (loss) reclassified from AOCI to income:			
NYMEX/ICE natural gas contracts	Gas Marketing Operating Revenues	\$1,300	\$(1,962)
	Gas Marketing Operating Expenses	(180)	(334)
Sub-total		1,120	(2,296)
NYMEX gasoline and heating oil contracts	Gas Utility Other Operations and Maintenance Expenses	58	47
Total		\$1,178	\$(2,249)
Ineffective portion of gain (loss) on derivatives recognized in income:			
NYMEX/ICE natural gas contracts	Gas Marketing Operating Revenues	\$(211)	\$(325)
	Gas Marketing Operating Expenses	133	(85)
Sub-total		(78)	(410)
NYMEX gasoline and heating oil contracts	Gas Utility Other Operations and Maintenance Expenses	120	(101)
Total		\$42	\$(511)
Derivatives Not Designated as Hedging Instruments *			
Gain (loss) recognized in income on derivatives:			
Natural gas commodity contracts	Gas Marketing Operating Revenues	\$(1,667)	\$(970)
	Gas Marketing Operating Expenses	—	—
NYMEX/ICE natural gas contracts	Gas Marketing Operating Revenues	1,990	1,067
	Gas Marketing Operating Expenses	—	—
NYMEX gasoline and heating oil contracts	Other Income and (Income Deductions) - Net	13	33
Total		\$336	\$130

Gains and losses on Laclede Gas' natural gas derivative instruments, which are not designated as hedging instruments for financial reporting purposes, are deferred pursuant to the Utility's PGA Clause and initially recorded as regulatory * assets or regulatory liabilities. These gains and losses are excluded from the table above because they have no direct impact on the Statements of Consolidated Income. Such amounts are recognized in the Statements of Consolidated Income as a component of Gas Utility Natural and Propane Gas operating expenses when they are recovered through the PGA Clause and reflected in customer billings.

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Fair Value of Derivative Instruments in the Consolidated Balance Sheet at December 31, 2013

(Thousands)	Asset Derivatives*		Liability Derivatives*	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments				
NYMEX/ICE natural gas contracts	Derivative Instrument Assets	\$881	Derivative Instrument Assets	\$1,030
	Other Deferred Charges	110	Other Deferred Charges	1
	Accounts Receivable – Other	154	Accounts Receivable – Other	—
NYMEX gasoline and heating oil contracts				
Sub-total		1,145		1,031
Derivatives not designated as hedging instruments				
NYMEX/ICE natural gas contracts	Derivative Instrument Assets	571	Derivative Instrument Assets	955
	Accounts Receivable – Other	2,802	Accounts Receivable – Other	285
	Other Deferred Charges	3	Other Deferred Charges	7
OTCBB natural gas contracts	Derivative Instrument Assets	3,386	Derivative Instrument Assets	636
	Other Deferred Credits	223	Other Deferred Credits	278
Natural gas commodity contracts	Derivative Instrument Assets	1,915	Derivative Instrument Assets	272
	Other Deferred Charges	641	Other Deferred Charges	37
	Other Current Liabilities	333	Other Current Liabilities	1,283
	Other Deferred Credits	183	Other Deferred Credits	161
NYMEX gasoline and heating oil contracts	Derivative Instrument Assets	9	Derivative Instrument Assets	—
Sub-total		10,066		3,914
Total derivatives		\$11,211		\$4,945

Fair Value of Derivative Instruments in the Consolidated Balance Sheet at September 30, 2013

(Thousands)	Asset Derivatives*		Liability Derivatives*	
	Balance Sheet Location	Fair Value	* Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments				
NYMEX/ICE natural gas contracts	Derivative Instrument Assets	\$2,222	Accounts Receivable - Other	\$440
	Other Deferred Charges	22	Other Deferred Charges	11
	Accounts Receivable - Other	105	Accounts Receivable - Other	—
NYMEX gasoline and heating oil contracts				
Sub-total		2,349		451
Derivatives not designated as hedging instruments				
NYMEX/ICE natural gas contracts	Derivative Instrument Assets	950	Derivative Instrument Assets	100
	Accounts Receivable - Other	1,434	Accounts Receivable - Other	3,455
	Other Deferred Charges	32	Other Deferred Charges	—
OTCBB natural gas contracts	Other Current Liabilities	228	Other Current Liabilities	4,045
	Other Deferred Credits	4	Other Deferred Credits	1,398

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Natural gas commodity contracts	Derivative Instrument	991	Derivative Instrument	90
	Assets		Assets	
	Other Deferred Charges	20	Other Deferred Charges	137
	Other Current Liabilities	247	Other Current Liabilities	830
	Other Deferred Credits	21	Other Deferred Credits	123
Sub-total		3,927		10,178
Total derivatives		\$6,276		\$10,629

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Fair Value of Derivative Instruments in the Consolidated Balance Sheet at December 31, 2012

(Thousands)	Asset Derivatives*		Liability Derivatives*	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments				
NYMEX/ICE natural gas contracts	Derivative Instrument Assets	\$987	Derivative Instrument Assets	\$871
NYMEX gasoline and heating oil contracts	Accounts Receivable - Other	249	Accounts Receivable - Other	—
Sub-total		1,236		871
Derivatives not designated as hedging instruments				
NYMEX/ICE natural gas contracts	Accounts Receivable - Other	533	Accounts Receivable - Other	366
	Derivative Instrument Assets	1,726	Derivative Instrument Assets	6,162
Natural gas commodity contracts	Derivative Instrument Assets	1,197	Derivative Instrument Assets	240
	Other Current Liabilities	108	Other Current Liabilities	939
NYMEX gasoline and heating oil contracts	Accounts Receivable - Other	32	Accounts Receivable - Other	—
Sub-total		3,596		7,707
Total derivatives		\$4,832		\$8,578

The fair values of Asset Derivatives and Liability Derivatives exclude the fair value of cash margin receivables or payables with counterparties subject to netting arrangements. Fair value amounts of derivative contracts (including *the fair value amounts of cash margin receivables and payables) for which there is a legal right to set off are presented net on the Consolidated Balance Sheets. As such, the gross balances presented in the table above are not indicative of the Company's net economic exposure. Refer to Note 7, Fair Value Measurements, for information on the valuation of derivative instruments.

Following is a reconciliation of the amounts in the tables above to the amounts presented in the Consolidated Balance Sheets:

(Thousands)	December 31, 2013	September 30, 2013	December 31, 2012
Fair value of asset derivatives presented above	\$11,211	\$6,276	\$4,832
Fair value of cash margin receivables offset with derivatives	956	1,765	4,186
Netting of assets and liabilities with the same counterparty	(6,533	) (4,739	) (7,778
Total	\$5,634	\$3,302	\$1,240
Derivative Instrument Assets, per Consolidated Balance Sheets:			
Derivative instrument assets	\$4,985	\$3,291	\$1,246
Other deferred charges	649	11	(6
Total	\$5,634	\$3,302	\$1,240
Fair value of liability derivatives presented above	\$4,945	\$10,629	\$8,578
Fair value of cash margin payables offset with derivatives	2,516	6	31
Netting of assets and liabilities with the same counterparty	(6,533	) (4,739	) (7,778
Total	\$928	\$5,896	\$831

Derivative Instrument Liabilities, per Consolidated Balance

Sheets:

Other Current Liabilities	\$938	\$4,400	\$831
Other Deferred Credits	(10	) 1,496	—
Total	\$928	\$5,896	\$831

Additionally, at December 31, 2013, September 30, 2013, and December 31, 2012, the Company had \$3.8 million, \$3.2 million, and \$4.4 million, respectively, in cash margin receivables not offset with derivatives, that are presented in Accounts Receivable - Other.

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9. CONCENTRATIONS OF CREDIT RISK

A significant portion of LER's transactions are with (or are associated with) energy producers, utility companies, and pipelines. These concentrations of transactions with these counterparties have the potential to affect the Company's overall exposure to credit risk, either positively or negatively, in that each of these three groups may be affected similarly by changes in economic, industry, or other conditions. To manage this risk, as well as credit risk from significant counterparties in these and other industries, LER has established procedures to determine the creditworthiness of its counterparties. These procedures include obtaining credit ratings and credit reports, analyzing counterparty financial statements to assess financial condition, and considering the industry environment in which the counterparty operates. This information is monitored on an ongoing basis. In some instances, LER may require credit assurances such as prepayments, letters of credit, or parental guarantees. In addition, LER may enter into netting arrangements to mitigate credit risk with counterparties in the energy industry from which LER both sells and purchases natural gas. Sales are typically made on an unsecured credit basis with payment due the month following delivery. Accounts receivable amounts are closely monitored and provisions for uncollectible amounts are accrued when losses are probable. To date, losses have not been significant. LER records accounts receivable, accounts payable, and prepayments for physical sales and purchases of natural gas on a gross basis. The amount included in accounts receivable attributable to energy producers and their marketing affiliates amounted to \$8.9 million at December 31, 2013. Net receivable amounts from these customers on the same date, reflecting netting arrangements, were \$3.8 million. Accounts receivable attributable to utility companies and their marketing affiliates comprised \$20.5 million of total accounts receivable at December 31, 2013, while net receivable amounts from these customers, reflecting netting arrangements, were \$18.8 million. LER also has concentrations of credit risk with certain individually significant counterparties. At December 31, 2013, the amounts included in accounts receivable from LER's five largest counterparties (in terms of net accounts receivable exposure), were \$18.4 million. These five counterparties are either investment-grade rated or owned by investment-grade rated companies. Net receivable amounts from these customers on the same date, reflecting netting arrangements, were \$17.3 million. Additionally, LER has concentrations of credit risk with pipeline companies associated with its natural gas receivable amounts.

10. OTHER INCOME AND (INCOME DEDUCTIONS) - NET

(Thousands)	Three Months Ended December	
	31, 2013	2012
Interest income	\$249	\$406
Net investment gain (loss)	746	(70)
Other income	652	748
Other Income and (Income Deductions) – Net	\$1,647	\$1,084

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11. INFORMATION BY OPERATING SEGMENT

All of Laclede Group's subsidiaries are wholly owned. The Gas Utility segment consists of the regulated operations of the Utility and is the core business segment of Laclede Group. The Utility is a public utility engaged in the retail distribution and sale of natural gas serving an area in eastern Missouri, including the City of St. Louis, through Laclede Gas and an area in western Missouri, including Kansas City, through MGE. The Gas Marketing segment includes the results of LER, a subsidiary engaged in the non-regulated marketing of natural gas. Other includes Laclede Pipeline Company's transportation of liquid propane regulated by the Federal Energy Regulatory Commission (FERC) as well as non-regulated activities, including, among other activities, natural gas fueling stations, real estate development, the compression of natural gas, and financial investments in other enterprises. These operations are conducted through seven subsidiaries. Other also includes the Utility's non-regulated business activities, which are comprised of its propane storage and related services. Beginning July 1, 2013, propane-related services were included within Gas Utility operations pursuant to Laclede Gas' most recent rate case. Accounting policies are described in Note 1, Summary of Significant Accounting Policies. Intersegment transactions include sales of natural gas from the Utility to LER, propane storage services provided by the Utility to Laclede Pipeline Company, sales of natural gas from LER to the Utility, and propane transportation services provided by Laclede Pipeline Company to the Utility. Management evaluates the performance of the operating segments based on the computation of net economic earnings. Net economic earnings exclude from reported net income the after-tax impacts of net unrealized gains and losses and other timing differences associated with energy-related transactions. Net economic earnings also excludes the after-tax impacts related to acquisition, divestiture, and restructuring activities.

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(Thousands)	Gas Utility	Gas Marketing	Other	Eliminations	Consolidated
Three Months Ended December 31, 2013					
Revenues from external customers	\$435,166	\$33,253	\$191	\$—	\$468,610
Intersegment revenues	62	19,456	442	(19,960)	—
Total Operating Revenues	435,228	52,709	633	(19,960)	468,610
Operating Expenses					
Gas Utility					
Natural and Propane Gas	261,553	—	—	(19,766)	241,787
Other Operation and Maintenance Expenses	62,516	—	—	(194)	62,322
Depreciation and Amortization	20,026	—	—	—	20,026
Taxes, Other than Income Taxes	28,589	—	—	—	28,589
Total Gas Utility Operating Expenses	372,684	—	—	(19,960)	352,724
Gas Marketing					
Gas Marketing	—	51,782	—	—	51,782
Other	—	—	1,199	—	1,199
Total Operating Expenses	372,684	51,782	1,199	(19,960)	405,705
Operating Income	62,544	927	(566)	—	62,905
Net Economic Earnings (Losses)	35,778	822	(336)	—	36,264
Total assets	3,084,134	157,239	126,890	(161,533)	3,206,730
Three Months Ended December 31, 2012					
Revenues from external customers	\$250,111	\$55,249	\$1,643	\$—	\$307,003
Intersegment revenues	680	6,906	259	(7,845)	—
Total Operating Revenues	250,791	62,155	1,902	(7,845)	307,003
Operating Expenses					
Gas Utility					
Natural and Propane Gas	144,333	—	—	(7,818)	136,515
Other Operation and Maintenance Expenses	39,651	—	—	—	39,651
Depreciation and Amortization	10,965	—	—	—	10,965
Taxes, Other than Income Taxes	14,806	—	—	—	14,806
Total Gas Utility Operating Expenses	209,755	—	—	(7,818)	201,937
Gas Marketing					
Gas Marketing	—	57,382	—	—	57,382
Other	—	—	5,626	(27)	5,599
Total Operating Expenses	209,755	57,382	5,626	(7,845)	264,918
Operating Income	41,036	4,773	(3,724)	—	42,085
Net Economic Earnings	25,341	3,281	(389)	—	28,233
Total assets	1,809,722	188,603	124,967	(181,137)	1,942,155

Reconciliation of Consolidated Net Income to Consolidated Net Economic Earnings

(Thousands)	Three Months Ended December 31,	
	2013	2012
Net Income (GAAP)	\$35,592	\$25,568
Unrealized (gain) loss on energy-related derivative contracts	354	439
Lower of cost or market inventory adjustments	(62)	—
Realized (gain) loss on economic hedges prior to sale of the physical commodity	(6)	(31)
Acquisition, divestiture, and restructuring activities	386	2,257
Net Economic Earnings (Non-GAAP)	\$36,264	\$28,233

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12. COMMITMENTS AND CONTINGENCIES

Commitments

The Utility and LER have entered into various contracts, expiring on dates through 2019, for the storage, transportation, and supply of natural gas. Minimum payments required under the contracts in place at December 31, 2013 are estimated at approximately \$1,127 million. Additional contracts are generally entered into prior to or during the heating season. The Utility recovers its costs from customers in accordance with the PGA Clause.

Contingencies

The Utility owns and operates natural gas distribution, transmission, and storage facilities, the operations of which are subject to various environmental laws, regulations, and interpretations. While environmental issues resulting from such operations arise in the ordinary course of business, such issues have not materially affected the Company's or the Utility's financial position and results of operations. As environmental laws, regulations, and their interpretations change, however, the Utility may be required to incur additional costs.

Similar to other natural gas utility companies, the Utility faces the risk of incurring environmental liabilities. In the natural gas industry, these are typically associated with sites formerly owned or operated by gas distribution companies like Laclede Gas and MGE or its predecessor companies at which manufactured gas operations took place. At this time, Laclede Gas has identified three former manufactured gas plant (MGP) sites where costs have been incurred and claims have been asserted: one in Shrewsbury, Missouri and two in the City of St. Louis, Missouri. Laclede Gas has enrolled the two sites in the City of St. Louis in the Missouri Department of Natural Resources Brownfields/Voluntary Cleanup Program (BVCP). MGE has enrolled all of its owned former manufactured gas plant sites in the BVCP.

With regard to the former MGP site located in Shrewsbury, Missouri, Laclede Gas and state and federal environmental regulators agreed upon certain remedial actions to a portion of the site in a 1999 Administrative Order on Consent (AOC), which actions have been completed. On September 22, 2008, EPA Region VII issued a letter of Termination and Satisfaction terminating the AOC. However, if after this termination of the AOC, regulators require additional remedial actions, or additional claims are asserted, Laclede Gas may incur additional costs.

One of the sites located in the City of St. Louis is currently owned by a development agency of the City, which, together with other City development agencies, has selected a developer to redevelop the site. In conjunction with this redevelopment effort, Laclede Gas and another former owner of the site entered into an agreement (Remediation Agreement) with the City development agencies, the developer, and an environmental consultant that obligates one of the City agencies and the environmental consultant to remediate the site and obtain a No Further Action letter from the Missouri Department of Natural Resources. The Remediation Agreement also provides for a release of Laclede Gas and the other former site owner from certain liabilities related to the past and current environmental condition of the site and requires the developer and the environmental consultant to maintain certain insurance coverages, including remediation cost containment, premises pollution liability, and professional liability. The operative provisions of the Remediation Agreement were triggered on December 20, 2010, on which date Laclede Gas and the other former site owner, as full consideration under the Remediation Agreement, paid a small percentage of the cost of remediation of the site. The amount paid by Laclede Gas did not materially impact the financial condition, results of operations, or cash flows of the Company.

Laclede Gas has not owned the other site located in the City of St. Louis for many years. In a letter dated June 29, 2011, the Attorney General for the State of Missouri informed Laclede Gas that the Missouri Department of Natural Resources had completed an investigation of the site. The Attorney General requested that Laclede Gas participate in the follow up investigations of the site. In a letter dated January 10, 2012, Laclede Gas stated that it would participate in future environmental response activities at the site in conjunction with other potentially responsible parties that are willing to contribute to such efforts in a meaningful and equitable fashion. Accordingly, Laclede Gas was able to enter into a cost sharing agreement for remedial investigation with other potentially responsible parties. Pending Missouri Department of Natural Resources approval, the remedial investigation of the site will probably begin in the Spring of 2014.

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To date, amounts required for remediation at these sites have not been material. However, the amount of costs relative to future remedial actions at these and other sites is unknown and may be material. Laclede Gas has notified its insurers that it seeks reimbursement for costs incurred in the past and future potential liabilities associated with the MGP sites. While some of the insurers have denied coverage and reserved their rights, Laclede Gas continues to discuss potential reimbursements with them. In 2005, the Utility's outside consultant completed an analysis of the MGP sites to determine cost estimates for a one-time contractual transfer of risk from each of the Utility's insurers of environmental coverage for the MGP sites. That analysis demonstrated a range of possible future expenditures to investigate, monitor, and remediate these MGP sites from \$5.8 million to \$36.3 million based upon then currently available facts, technology, and laws and regulations. The actual costs that Laclede Gas may incur could be materially higher or lower depending upon several factors, including whether remedial actions will be required, final selection and regulatory approval of any remedial actions, changing technologies and governmental regulations, the ultimate ability of other potentially responsible parties to pay, the successful completion of remediation efforts required by the Remediation Agreement described above, and any insurance recoveries.

MGE has seven owned MGP sites enrolled in the BVCP, including Joplin MGP #1, St. Joseph MGP #1, Kansas City Coal Gas Station B, Kansas City Station A Railroad, Kansas City Coal Gas Station A North, Kansas City Coal Gas Station A South, and Independence MGP #2. The Missouri Department of Natural Resources awarded a Certificate of Completion to Missouri Gas Energy in 2001 for a site located at 20th and Indiana in Kansas City after an initial site analysis and the property was subsequently sold.

Source removal has been conducted at all of the owned sites since 2003 with the exception of Joplin, which is in the early stages of site analysis and characterization. Remediation efforts at these sites are at various stages of completion, ranging from groundwater monitoring and sampling following source removal activities to early site characterization in Joplin. As part of its participation in the BVCP, MGE communicates regularly with the Missouri Department of Natural Resources with respect to its remediation efforts and monitoring activities at these sites.

Costs associated with environmental remediation activities are accrued when such costs are probable and reasonably estimable. The Utility anticipates that any costs it may incur in the future to remediate these sites, less any amounts received as insurance proceeds or as contributions from other potentially responsible parties, would be deferred and recovered in rates through periodic adjustments approved by the MoPSC. Accordingly, any potential liabilities that may arise associated with remediating these sites are not expected to have a material impact on the future financial position and results of operations of the Utility or the Company.

As discussed in [Note 8](#), Derivative Instruments and Hedging Activities, Laclede Gas and LER enter into NYMEX and ICE exchange-traded/cleared derivative instruments. Previously, these instruments were held in accounts at MF Global, Inc. On October 31, 2011, affiliated entities of MF Global filed a Chapter 11 petition at the U.S. Bankruptcy Court in the Southern District of New York. Subsequently, the court-appointed bankruptcy trustee transferred all of the open positions and a significant portion of the margin deposits of Laclede Gas and LER to a new brokerage firm. On June 27, 2013, the bankruptcy Trustee issued a statement projecting that MF Global customers would receive a full payout of their claims. As of November 26, 2013, Laclede Gas and LER had \$0.2 million and \$0.1 million, respectively, on deposit with MF Global that remain unavailable pending final resolution by the bankruptcy trustee. As the Company has recovered 98% of the amount at issue in the MF Global bankruptcy, the total remaining exposure is not considered material.

On February 19, 2013, Heartland Midwest, LLC, a contractor for Time Warner Cable, hit a MGE natural gas line causing a gas leak while directionally boring during underground cable installation. The natural gas leak resulted in an explosion and fire which killed one person, injured approximately seventeen (including three MGE employees who were at the scene), caused major damage to JJ's restaurant, and caused property damage to adjacent buildings. Several lawsuits have been filed in state court in Jackson County, Missouri, alleging wrongful death, personal injury, property damage, and business interruption. The lawsuits are in the early stages of discovery. While the Company's total exposure is not considered material at this time, management plans to vigorously defend the matter and will continue to evaluate its exposure as discovery proceeds. Management believes, after discussion with counsel, that the final outcome of this matter will not have a material effect on the consolidated financial position, results of operations, or cash flows of the Company.

Laclede Group is involved in other litigation, claims, and investigations arising in the normal course of business. Management, after discussion with counsel, believes that the final outcome will not have a material effect on the consolidated financial position, results of operations, or cash flows of the Company.

13. Subsequent Events

On January 6, 2014, the Utility redeemed in cash \$80 million of 6.35% Series bonds due in 2038 and accrued interest of \$0.3 million.

On January 17, 2014, Laclede Gas filed for a \$7.4 million increase in Infrastructure System Replacement Surcharge (ISRS) revenues to recover the costs of gas safety replacement investments and public improvement projects over the previous thirteen months. Any increase in rates in this proceeding must go into effect by at least May 17, 2014.

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

This section analyzes the financial condition and results of operations of The Laclede Group, Inc. (Laclede Group or the Company) and its subsidiaries. It includes management’s view of factors that affect its business, explanations of past financial results including changes in earnings and costs from the prior year periods, and their effects on the Company’s overall financial condition and liquidity.

Certain matters discussed in this report, excluding historical information, include forward-looking statements. Certain words, such as “may,” “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan,” “seek,” and similar words and expressions identify forward-looking statements that involve uncertainties and risks. Future developments may not be in accordance with our current expectations or beliefs and the effect of future developments may not be those anticipated. Among the factors that may cause results to differ materially from those contemplated in any forward-looking statement are:

- weather conditions and catastrophic events, particularly severe weather in the natural gas producing areas of the country;
- volatility in gas prices, particularly sudden and sustained changes in natural gas prices, including the related impact on margin deposits associated with the use of natural gas derivative instruments;
- the impact of changes and volatility in natural gas prices on our competitive position in relation to suppliers of alternative heating sources, such as electricity;
- changes in gas supply and pipeline availability, including decisions by natural gas producers to reduce production or shut in producing natural gas wells, expiration of existing supply and transportation arrangements that are not replaced with contracts with similar terms and pricing, as well as other changes that impact supply for and access to the markets in which our subsidiaries transact business;
- legislative, regulatory and judicial mandates and decisions, some of which may be retroactive, including those affecting
 - allowed rates of return
 - incentive regulation
 - industry structure
 - purchased gas adjustment provisions
 - rate design structure and implementation
 - regulatory assets
 - non-regulated and affiliate transactions
 - franchise renewals
 - environmental or safety matters, including the potential impact of legislative and regulatory actions related to climate change and pipeline safety
 - taxes
 - pension and other postretirement benefit liabilities and funding obligations
 - accounting standards;
 - the results of litigation;
 - retention of, ability to attract, ability to collect from, and conservation efforts of, customers;
 - capital and energy commodity market conditions, including the ability to obtain funds with reasonable terms for necessary capital expenditures and general operations and the terms and conditions imposed for obtaining sufficient gas supply;
 - discovery of material weakness in internal controls; and
 - employee workforce issues.

The Management’s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with the Company’s Consolidated Financial Statements and the Notes thereto.

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RESULTS OF OPERATIONS

Overview

Laclede Group's earnings are primarily derived from its Gas Utility segment, which reflects the regulated activities of Laclede Gas Company (the Utility), Missouri's largest natural gas distribution company. The Utility is regulated by the Missouri Public Service Commission (MoPSC) and serves the City of St. Louis and eastern Missouri through Laclede Gas and Kansas City and western Missouri through Missouri Gas Energy (MGE). The Utility delivers natural gas to retail customers at rates and in accordance with tariffs authorized by the MoPSC. The Utility's earnings are primarily generated by the sale of heating energy. Laclede Gas' weather mitigation rate design and MGE's straight fixed variable rate design lessen the impact of weather volatility on its customers during cold winters and stabilizes the Utility's earnings by recovering fixed costs more evenly during the heating season. Due to the seasonal nature of the business of the Utility, Laclede Group's earnings are typically concentrated during the heating season of November through April each year, although earnings for Missouri Gas Energy (MGE) are less seasonal than earnings from Laclede Gas, due to MGE's straight fixed-variable rate design which recovers fixed costs more evenly over the year.

Effective September 1, 2013, the Utility completed the purchase of substantially all of the assets and liabilities of Missouri Gas Energy (MGE), a utility engaged in the distribution of natural gas on a regulated basis in western Missouri, from Southern Union Company (SUG), an affiliate of Energy Transfer Equity, L.P. and Energy Transfer Partners, L.P. The purchase was completed pursuant to the purchase agreement dated December 14, 2012. Under the terms of the purchase agreement, the Utility acquired MGE for a purchase price of \$975 million.

Also, on December 12, 2012, a subsidiary of Laclede Group, Plaza Massachusetts Acquisition Inc. (Plaza Mass), agreed to purchase New England Gas Company (NEG) from SUG. Subsequently, on February 11, 2013, the Company agreed to sell Plaza Mass to Algonquin Power & Utilities Corp. (APUC). On December 13, 2013, the Massachusetts Department of Public Utilities (MDPU) approved the transfer of NEG to an APUC subsidiary. Consistent with the February 11, 2013 agreements, on December 20, 2013, the Company closed the sale of Plaza Mass to an APUC subsidiary and received \$11.0 million from APUC. This receipt of funds effectively reduced the Company's purchase price of MGE to \$964 million. On December 24, 2013, the Massachusetts Attorney General filed a Motion for Clarification/Reconsideration with the MDPU which, among other things, claims that legislative approval is required for a transfer of utility assets. The MDPU has not yet acted on the Attorney General's Motion.

The Utility is currently in negotiations with SUG regarding adjustments in the purchase price of MGE due to changes in the actual net assets transferred to the Utility at closing on August 31, 2013 from the level at September 30, 2012. The Utility plans to adjust cash and goodwill for any change as a result of this process upon final settlement, which is anticipated to be in the second quarter of fiscal 2014.

The acquisition was accounted for under the acquisition method of accounting in accordance with ASC 805 ("Topic 805"), "Business Combinations." Accordingly, goodwill was measured as the excess of the acquisition-date fair value of the consideration transferred over the amount of acquisition-date identifiable assets acquired net of assumed liabilities. The Utility recorded \$235.8 million of goodwill as an asset in the consolidated balance sheet.

Laclede Energy Resources, Inc. (LER) is engaged in the marketing of natural gas and related activities on a non-regulated basis and is reported in the Gas Marketing segment. LER markets natural gas to both on-system Utility transportation customers and customers outside of the Utility's traditional service territory, including large retail and wholesale customers. LER's operations and customer base are more subject to fluctuations in market conditions than the Utility. LER entered into a 10 year contract for 1 Bcf for natural gas storage effective August 1, 2013 and has an additional 1 Bcf storage contracted through January 2016.

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EARNINGS

The Laclede Group reports net income and earnings per share determined in accordance with GAAP. Management also uses the non-GAAP measures of net economic earnings and net economic earnings per share when internally evaluating results of operations. These non-GAAP measures exclude from net income the after-tax impacts of fair value accounting and timing adjustments associated with energy-related transactions as well as acquisition, divestiture, and restructuring activities. These adjustments include timing differences where the accounting treatment differs from the economic substance of the underlying transaction, including the following:

- Net unrealized gains and losses on energy-related derivatives that are required by GAAP fair value accounting associated with current changes in the fair value of financial and physical transactions prior to their completion and settlement. These unrealized gains and losses result primarily from two sources:

1) changes in the fair values of physical and/or financial derivatives prior to the period of settlement; and,

2) ineffective portions of accounting hedges, required to be recorded in earnings prior to settlement, due to differences in commodity price changes between the locations of the forecasted physical purchase or sale transactions and the locations of the underlying hedge instruments;

• Lower of cost or market adjustments to the carrying value of commodity inventories resulting when the market price of the commodity falls below its original cost, to the extent that those commodities are economically hedged; and

• Realized gains and losses resulting from the settlement of economic hedges prior to the sale of the physical commodity.

• Acquisition, divestiture, and restructuring activities, when evaluating on-going performance.

These adjustments eliminate the impact of timing differences and the impact of current changes in the fair value of financial and physical transactions prior to their completion and settlement. Unrealized gains or losses are recorded in each period until being replaced with the actual gains or losses realized when the associated physical transaction(s) occur. While management uses these non-GAAP measures to evaluate both the Utility and LER, the net effect of adjustments on the Utility's earnings is minimal because gains or losses on its natural gas derivative instruments are deferred pursuant to its PGA Clause, as authorized by the MoPSC.

Management believes that excluding the earnings volatility caused by recognizing changes in fair value prior to settlement and other timing differences associated with related purchase and sale transactions provides a useful representation of the economic effects of only the actual settled transactions and their effects on results of operations. In addition, management excludes the impact related to unique acquisition, divestiture, and restructuring activities, when evaluating on-going performance, and therefore excludes these impacts from net economic earnings.

Management believes that this presentation provides a useful representation of operating performance by facilitating comparisons of year-over-year results. These internal non-GAAP operating metrics should not be considered as an alternative to, or more meaningful than, GAAP measures such as net income. Reconciliations of net economic earnings and net economic earnings per share to the Company's most directly comparable GAAP measures are provided below.

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THREE MONTHS ENDED DECEMBER 31, 2013

Net Income and Net Economic Earnings

Reconciliation of Consolidated Net Economic Earnings (Non-GAAP) to Consolidated Net Income (GAAP)

(Millions, except per share amounts)	Gas Utility	Gas Marketing	Other	Total	Per Share Amounts**
Three Months Ended December 31, 2013					
Net Income (Loss) (GAAP)	\$35.4	\$0.5	\$(0.3)	) \$35.6	\$1.09
Unrealized (gain) loss on energy-related derivatives*	—	0.4	—	0.4	0.01
Lower of cost or market inventory adjustments*	—	(0.1)	) —	(0.1)) —
Acquisition, divestiture and restructuring activities*	0.4	—	—	0.4	0.01
Net Economic Earnings (Losses) (Non-GAAP)	\$35.8	\$0.8	\$(0.3)	) \$36.3	\$1.11
Three Months Ended December 31, 2012					
Net Income (Loss) (GAAP)	\$25.3	\$2.9	\$(2.6)	) \$25.6	\$1.14
Unrealized (gain) loss on energy-related derivatives*	—	0.4	—	0.4	0.01
Acquisition, divestiture and restructuring activities*	—	—	2.2	2.2	0.10
Net Economic Earnings (Losses) (Non-GAAP)	\$25.3	\$3.3	\$(0.4)	) \$28.2	