LACLEDE GAS CO
Form 10-Q
July 30, 2013
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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 Quarter Ended June 30, 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 1-1822
LACLEDE GAS COMPANY
(Exact name of registrant as specified in its charter)

Missouri	43-0368139
(State of Incorporation)	(I.R.S. Employer Identification number)

720 Olive Street
St. Louis, MO 63101
(Address and zip code of principal executive offices)

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 [X] 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 [X] 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	[X]	Smaller reporting company	[ ]

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

As of July 26, 2013, there were 12,852 shares of the registrant's Common Stock, par value $1.00 per share, outstanding, 100% of which were owned by The Laclede Group, Inc.

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PART I. FINANCIAL INFORMATION

The interim financial statements included herein have been prepared by Laclede Gas Company (Laclede Gas or the Utility), 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 Utility's Form 10-K for the fiscal year ended September 30, 2012.

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Item 1. Financial Statements

LACLEDE GAS COMPANY
STATEMENTS OF INCOME
(UNAUDITED)

(Thousands)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Nine Months Ended June 30, 2013	Nine Months Ended June 30, 2012
Operating Revenues:				
Utility	$131,540	$117,634	$746,243	$667,159
Other	217	137	1,594	1,492
Total Operating Revenues	131,757	117,771	747,837	668,651
Operating Expenses:				
Utility				
Natural and propane gas	52,847	48,662	435,329	375,634
Other operation and maintenance expenses	42,090	38,352	122,936	125,029
Depreciation and amortization	11,519	10,186	33,742	30,450
Taxes, other than income taxes	12,968	10,842	49,525	45,602
Total Utility Operating Expenses	119,424	108,042	641,532	576,715
Other	5,179	21	6,407	153
Total Operating Expenses	124,603	108,063	647,939	576,868
Operating Income	7,154	9,708	99,898	91,783
Other Income and (Income Deductions) – Net	(437)	(121)	1,640	3,196
Interest Charges:				
Interest on long-term debt	6,060	5,739	16,944	17,218
Other interest charges	(109)	490	930	1,705
Total Interest Charges	5,951	6,229	17,874	18,923
Income Before Income Taxes	766	3,358	83,664	76,056
Income Tax (Benefit) Expense	(2,999)	(1,272)	24,381	23,804
Net Income	$3,765	$4,630	$59,283	$52,252

See Notes to Financial Statements.

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LACLEDE GAS COMPANY
STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended June 30,		Nine Months Ended June 30,	
(Thousands)	2013	2012	2013	2012
Net Income	$3,765	$4,630	$59,283	$52,252
Other Comprehensive Income (Loss), Before Tax:				
Net gains (losses) on cash flow hedging derivative instruments:				
Net hedging (loss) gain arising during the period	(125)	69	79	202
Reclassification adjustment for (gains) losses included in net income	(53)	(17)	(138)	(20)
Net unrealized (losses) gains on cash flow hedging derivative instruments	(178)	52	(59)	182
Defined benefit pension and other postretirement plans:				
Net actuarial loss arising during the period	—	—	—	(2,366)
Amortization of actuarial loss included in net periodic pension and postretirement benefit cost	90	66	271	3,639
Net defined benefit pension and other postretirement plans	90	66	271	1,273
Other Comprehensive (Loss) income, Before Tax	(88)	118	212	1,455
Income Tax (Benefit) Expense Related to Items of Other Comprehensive Income	(33)	45	91	561
Other Comprehensive (Loss) Income, Net of Tax	(55)	73	121	894
Comprehensive Income	$3,710	$4,703	$59,404	$53,146

See Notes to Financial Statements.

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LACLEDE GAS COMPANY
BALANCE SHEETS
(UNAUDITED)

(Thousands)	June 30, 2013	Sept. 30, 2012	June 30, 2012
ASSETS			
Utility Plant	$1,567,296	$1,497,419	$1,455,004
Less: Accumulated depreciation and amortization	484,380	478,120	474,008
Net Utility Plant	1,082,916	1,019,299	980,996
Other Property and Investments	48,614	46,358	50,976
Current Assets:			
Cash and cash equivalents	28,818	2,402	1,158
Accounts receivable:			
Utility	70,380	64,027	65,762
Non-utility	—	1,244	1,723
Associated companies	3,281	4,315	10,519
Other	10,226	17,288	17,096
Allowance for doubtful accounts	(8,920)	(7,601)	(8,738)
Delayed customer billings	11,319	—	—
Inventories:			
Natural gas stored underground at LIFO cost	47,460	89,852	52,426
Propane gas at FIFO cost	8,962	8,963	8,964
Materials and supplies at average cost	4,351	3,418	3,791
Unamortized purchased gas adjustments	6,230	40,674	9,158
Deferred income taxes	2,281	—	—
Prepayments and other	12,375	9,011	10,842
Total Current Assets	196,763	233,593	172,701
Deferred Charges:			
Regulatory assets	432,664	456,047	433,376
Other	5,376	4,855	4,073
Total Deferred Charges	438,040	460,902	437,449
Total Assets	$1,766,333	$1,760,152	$1,642,122

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LACLEDE GAS COMPANY
BALANCE SHEETS (Continued)
(UNAUDITED)

(Thousands)	June 30, 2013	Sept. 30, 2012	June 30, 2012
CAPITALIZATION AND LIABILITIES			
Capitalization:			
Common stock and Paid-in capital (12,852, 12,804, and 11,768 shares issued, respectively)	$262,025	$257,415	$216,076
Retained earnings	262,219	236,014	247,720
Accumulated other comprehensive loss	(1,980)	(2,101)	(1,579)
Total Common Stock Equity	522,264	491,328	462,217
Long-term debt (less current portion)	439,444	339,416	339,401
Total Capitalization	961,708	830,744	801,618
Current Liabilities:			
Notes payable	—	40,100	—
Notes payable – associated companies	—	37,125	91,756
Accounts payable	40,649	38,391	32,242
Accounts payable – associated companies	2,940	2,576	1,373
Advance customer billings	—	25,146	6,225
Current portion of long-term debt	—	25,000	25,000
Wages and compensation accrued	13,386	13,908	12,653
Dividends payable	13,901	9,354	9,339
Customer deposits	7,828	8,565	9,123
Interest accrued	3,854	8,590	5,405
Taxes accrued	30,567	13,822	21,087
Deferred income taxes	—	10,146	1,662
Other	6,366	10,068	13,453
Total Current Liabilities	119,491	242,791	229,318
Deferred Credits and Other Liabilities:			
Deferred income taxes	370,092	355,458	335,176
Unamortized investment tax credits	2,953	3,113	3,166
Pension and postretirement benefit costs	181,691	196,558	158,011
Asset retirement obligations	41,848	40,126	28,713
Regulatory liabilities	58,382	56,319	53,867
Other	30,168	35,043	32,253
Total Deferred Credits and Other Liabilities	685,134	686,617	611,186
Commitments and Contingencies (Note 8)			
Total Capitalization and Liabilities	$1,766,333	$1,760,152	$1,642,122

See Notes to Financial Statements.

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LACLEDE GAS COMPANY
STATEMENTS OF CASH FLOWS
(UNAUDITED)

(Thousands)	Nine Months Ended June 30, 2013	2012
Operating Activities:		
Net Income	$59,283	$52,252
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	33,758	30,483
Deferred income taxes and investment tax credits	11,646	21,803
Other – net	766	(847)
Changes in assets and liabilities:		
Accounts receivable – net	4,307	(16,533)
Unamortized purchased gas adjustments	34,444	16,561
Deferred purchased gas costs	12,159	(25,429)
Accounts payable	8,979	(13,536)
Delayed customer billings - net	(36,465)	(9,005)
Taxes accrued	16,178	10,552
Natural gas stored underground	42,392	62,744
Other assets and liabilities	(34,158)	(19,991)
Net cash provided by operating activities	153,289	109,054
Investing Activities:		
Capital expenditures	(96,006)	(75,048)
Other investments	(1,375)	(1,242)
Net cash used in investing activities	(97,381)	(76,290)
Financing Activities:		
Issuance of first mortgage bonds	100,000	—
Maturity of first mortgage bonds	(25,000)	—
Repayment of short-term debt — net	(40,100)	(46,000)
Borrowings from Laclede Group	80,245	196,075
Repayment of borrowings from Laclede Group	(117,370)	(157,198)
Changes in book overdrafts	(1,139)	223
Dividends paid	(28,533)	(27,737)
Issuance of common stock to Laclede Group	1,895	1,965
Excess tax benefits from stock-based compensation	986	186
Other	(476)	(43)
Net cash used in financing activities	(29,492)	(32,529)
Net Increase in Cash and Cash Equivalents	26,416	235
Cash and Cash Equivalents at Beginning of Period	2,402	923
Cash and Cash Equivalents at End of Period	$28,818	$1,158
Supplemental Disclosure of Cash Paid (Refunded) During the Period for:		
Interest	$22,269	$21,975
Income taxes	(6,551)	810

See Notes to Financial Statements.

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LACLEDE GAS COMPANY
NOTES TO FINANCIAL STATEMENTS
(UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These notes are an integral part of the accompanying unaudited financial statements of Laclede Gas Company (Laclede Gas or the Utility). In the opinion of Laclede Gas, 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. Laclede Gas is a wholly owned subsidiary of The Laclede Group Inc. (Laclede Group). This Form 10-Q should be read in conjunction with the Notes to Financial Statements contained in the Utility's Fiscal Year 2012 Form 10-K.

Laclede Gas is a regulated natural gas distribution utility having a material seasonal cycle. As a result, these interim statements of income for Laclede Gas are not necessarily indicative of annual results or representative of succeeding quarters of the fiscal year. Due to the seasonal nature of the business of Laclede Gas, earnings are typically concentrated in the November through April period, which generally corresponds with the heating season.

BASIS OF PRESENTATION - In compliance with generally accepted accounting principles (GAAP), transactions between Laclede Gas and its affiliates as well as intercompany balances on Laclede Gas' Balance Sheets have not been eliminated from the Laclede Gas financial statements. Transactions with associated companies include sales of natural gas from Laclede Gas to Laclede Energy Resources, Inc. (LER), sales of natural gas from LER to Laclede Gas, and propane transportation services provided by Laclede Pipeline Company to Laclede Gas. For the quarter ended June 30, 2012 sales of natural gas from Laclede Gas to LER were $1.2 million. There were no such sales for the quarter ended June 30, 2013. For the nine months ended June 30, 2013 and 2012, such sales were $10.4 million and $1.2 million, respectively. Sales of natural gas from LER to Laclede Gas during the quarters ended June 30, 2013 and 2012 were $9.4 million and $1.8 million, respectively. For the nine months ended June 30, 2013 and 2012 such sales totaled $24.4 million and $10.3 million, respectively. Transportation services provided by Laclede Pipeline Company to Laclede Gas during both the quarters ended June 30, 2013 and 2012 totaled $0.3 million and were $0.8 million for both the nine months ended June 30, 2013 and 2012.

Laclede Gas provides administrative and general support to affiliates. All such costs, which are not material, are billed to the appropriate affiliates. Also, Laclede Group may charge or reimburse Laclede Gas for certain tax-related amounts. Unpaid balances relating to these activities are reflected in the Laclede Gas Balance Sheets as Accounts receivable-associated companies or as Accounts payable-associated companies. Additionally, Laclede Gas may borrow funds from Laclede Group. Unpaid balances relating to this arrangement, if any, are reflected in Notes payable-associated companies. Laclede Gas had outstanding borrowings from Laclede Group under a revolving credit note of $37.1 million and $91.8 million at September 30, 2012 and June 30, 2012, respectively. The interest rate on these borrowings was 0.2% at September 30, 2012 and 0.3% at June 30, 2012. There was no outstanding balance at June 30, 2013. Advances under this note are due and payable on demand.

REVENUE RECOGNITION - Laclede Gas reads meters and bills its customers on monthly cycles. The Utility records its utility operating 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 June 30, 2013 and 2012, for the Utility, were $8.7 million and $9.0 million, respectively. The amount of accrued unbilled revenue at September 30, 2012 was $11.6 million.

GROSS RECEIPTS TAXES - Gross receipts taxes associated with Laclede Gas' natural gas utility service are imposed on the Utility and billed to its customers. These amounts are recorded gross in the Statements of Income. Amounts recorded in Utility Operating Revenues for the quarters ended June 30, 2013 and 2012 were $7.8 million and $5.7 million, respectively. Amounts recorded in Utility Operating Revenues for the nine months ended June 30, 2013 and 2012 were $35.3 million and $31.4 million, respectively. Gross receipts taxes are expensed by the Utility and included in the Taxes, other than income taxes line.

STOCK-BASED COMPENSATION - Officers and employees of Laclede Gas, as determined by the Compensation Committee of Laclede Group's Board of Directors, are eligible to be selected for awards under the Laclede Group 2006 Equity Incentive Plan (2006 Plan). Refer to Note 1 of the Notes to Financial Statements included in Laclede Gas' Form 10-K for the fiscal year ended September 30, 2012 for descriptions of the plan. For awards made to its employees, the Utility records its allocation of compensation cost from Laclede Group with a corresponding increase to additional paid-in capital.

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The amounts of compensation cost allocated to the Utility for share-based compensation arrangements for the quarters and nine months ended June 30, 2013 and 2012 are presented below:

	Three Months Ended June 30,		Nine Months Ended June 30,	
(Thousands)	2013	2012	2013	2012
Total equity compensation cost	$1,440	$576	$2,946	$1,725
Compensation cost capitalized	(536)	(230)	(1,075)	(589)
Compensation cost recognized in net income, before income tax	904	346	1,871	1,136
Income tax benefit recognized in net income	(346)	(133)	(716)	(438)
Compensation cost recognized in net income, net of income tax	$558	$213	$1,155	$698

As of June 30, 2013, there was $5.2 million in unrecognized compensation cost related to nonvested share-based compensation arrangements that is expected to be allocated to the Utility over a weighted average period of 2.1 years.

NEW ACCOUNTING STANDARDS - In June 2011, the FASB issued ASU No. 2011-05, "Presentation of Comprehensive Income," to amend ASC Topic 220, "Comprehensive Income," by changing certain financial statement presentation requirements. Under the amended guidance, entities may either present a single continuous statement of comprehensive income or, consistent with the Utility's current presentation, provide separate but consecutive statements (a statement of income and a statement of comprehensive income). ASU No. 2011-05 would have required that, regardless of the method chosen, reclassification adjustments from other comprehensive income to net income be presented on the face of the financial statements, displaying the effect on both net income and other comprehensive income. However, in December 2011, the FASB issued ASU No. 2011-12 to defer the effective date of this particular requirement while it reconsiders this provision of the guidance. The amendments in these ASUs do not change the items that are required to be reported in other comprehensive income and, accordingly, did not impact total net income, comprehensive income, or earnings per share upon adoption in the first quarter of fiscal year 2013.

In December 2011, the FASB issued ASU No. 2011-11, "Disclosures about Offsetting Assets and Liabilities," to amend ASC Topic 210, "Balance Sheet," to require additional disclosures about financial instruments and derivative instruments that have been presented on a net basis (offset) in the balance sheet. Additionally, information about financial instruments and derivative instruments that are subject to enforceable master netting arrangements or similar agreements, irrespective of whether they are presented net in the balance sheet, is required to be disclosed. The ASU impacts disclosures only and will not require any changes to financial statement presentation. The Utility will present the new disclosures retrospectively beginning in the first quarter of fiscal year 2014.

In February 2013, the FASB issued ASU No. 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." This ASU amends Accounting Standards Codification (ASC) Topic 220, "Comprehensive Income," by requiring entities to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to provide information on significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. The Utility will present the new disclosures prospectively beginning in the first quarter of fiscal year 2014.

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2. PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS

Pension Plans

Laclede Gas has non-contributory, defined benefit, trusteed 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 quarters ended June 30, 2013 and 2012 were $4.2 million and $4.1 million, respectively, including amounts charged to construction. Pension costs for the nine months ended June 30, 2013 and 2012 were $12.5 million and $15.9 million, respectively, including amounts charged to construction.

The net periodic pension costs include the following components:

	Three Months Ended June 30, 2013		Nine Months Ended June 30,	
(Thousands)	2013	2012	2013	2012
Service cost – benefits earned during the period	$2,311	$2,295	$6,933	$6,908
Interest cost on projected benefit obligation	4,066	4,824	12,198	14,535
Expected return on plan assets	(4,741)	(4,899)	(14,223)	(14,697)
Amortization of prior service cost	136	148	408	444
Amortization of actuarial loss	2,839	2,252	8,517	6,788
Loss on lump-sum settlement	12,346	—	12,346	3,407
Sub-total	16,957	4,620	26,179	17,385
Regulatory adjustment	(12,780)	(484)	(13,647)	(1,451)
Net pension cost	$4,177	$4,136	$12,532	$15,934

Pursuant to the provisions of the Laclede Gas 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. Lump-sum payments recognized as settlements were $39.7 million and $6.4 million during the nine months ended June 30, 2013 and June 30, 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 the Utility's qualified pension plans is based on an annual allowance of $15.5 million effective January 1, 2011. The difference between these amounts and pension expense as calculated pursuant to the above and that otherwise would be included in the Statements of Income and Statements of Comprehensive Income is deferred as a regulatory asset or regulatory liability.

The funding policy of Laclede Gas 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 2013 contributions to the pension plans through June 30, 2013 were $23.4 million to the qualified trusts and approximately $0.4 million to the non-qualified plans. Laclede Gas does not expect to make additional contributions to its qualified, trusteed pension plans during the remaining three months of fiscal year 2013. Contributions to the non-qualified pension plans for the remaining three months of fiscal 2013 are anticipated to be approximately $0.8 million.

Postretirement Benefits

Laclede Gas provides certain life insurance benefits at retirement. Medical insurance is available after early retirement until age 65. The transition obligation not yet includible in postretirement benefit cost is being amortized over 20 years. Postretirement benefit costs for both the quarters ended June 30, 2013 and 2012 were $2.4 million, including amounts charged to construction. Postretirement benefit costs for both the nine months ended June 30, 2013 and 2012 were $7.1 million, including amounts charged to construction.

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Net periodic postretirement benefit costs consisted of the following components:

	Three Months Ended June 30, 2013		Nine Months Ended June 30,	
(Thousands)	2013	2012	2013	2012
Service cost-benefits earned during the period	$2,534	$2,015	$7,601	$6,045
Interest cost on accumulated postretirement benefit obligation	1,278	1,380	3,836	4,140
Expected return on plan assets	(1,082)	(991)	(3,244)	(2,973)
Amortization of transition obligation	24	34	70	102
Amortization of prior service cost (credit)	—	(518)	2	(1,554)
Amortization of actuarial loss	1,325	1,065	3,975	3,195
Sub-total	4,079	2,985	12,240	8,955
Regulatory adjustment	(1,699)	(604)	(5,097)	(1,812)
Net postretirement benefit cost	$2,380	$2,381	$7,143	$7,143

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. Laclede Gas established Voluntary Employees' Beneficiary Association (VEBA) and Rabbi trusts as its external funding mechanisms. VEBA and Rabbi trusts' assets 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 Income and Statements of Comprehensive Income is deferred as a regulatory asset or regulatory liability.

Laclede Gas' funding policy is to contribute amounts to the trusts equal to the periodic benefit cost calculated pursuant to GAAP as recovered in rates. Fiscal year 2013 contributions to the postretirement plans through June 30, 2013 were $8.2 million to the qualified trusts and approximately $0.4 million paid directly to participants from Laclede Gas' funds. Contributions to the postretirement plans for the remaining three months of fiscal year 2013 are anticipated to be $8.2 million to the qualified trusts and $0.2 million paid directly to participants from Laclede Gas' funds.

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3. 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:

			Classification of Estimated Fair Value		
(Thousands)	Carrying Amount	Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of June 30, 2013					
Cash and cash equivalents	$28,818	$28,818	$29,794	$24	$—
Short-term debt	—	—	—	—	—
Long-term debt, including current portion	439,444	482,648	—	482,648	—
As of Sept. 30, 2012					
Cash and cash equivalents	$2,402	$2,402	$2,378	$24	$—
Short-term debt	77,225	77,225	—	77,225	—
Long-term debt, including current portion	364,416	452,768	—	452,768	—
As of June 30, 2012					
Cash and cash equivalents	$1,158	$1,158	$1,134	$24	$—
Short-term debt	91,756	91,756	—	91,756	—
Long-term debt, including current portion	364,401	445,961	—	445,961	—

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 4, Fair Value Measurements, for information on financial instruments measured at fair value on a recurring basis.

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4. FAIR VALUE MEASUREMENTS

The following table categorizes the assets and liabilities in the 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 June 30, 2013					
Assets					
U. S. Stock/Bond Mutual Funds	$13,980	$—	$—	$—	$13,980
NYMEX natural gas contracts	1,956	—	—	(1,956)	—
NYMEX gasoline and heating oil contracts	136	—	—	(136)	—
Total	$16,072	$—	$—	$(2,092)	$13,980
Liabilities					
NYMEX natural gas contracts	$3,688	$—	$—	$(3,688)	$—
As of Sept. 30, 2012					
Assets					
U. S. Stock/Bond Mutual Funds	$13,187	$—	$—	$—	$13,187
NYMEX natural gas contracts	7,338	—	—	(7,338)	—
NYMEX gasoline and heating oil contracts	344	—	—	(344)	—
Total	$20,869	$—	$—	$(7,682)	$13,187
Liabilities					
NYMEX natural gas contracts	$9,563	$—	$—	$(9,563)	$—
As of June 30, 2012					
Assets					
U. S. Stock/Bond Mutual Funds	$17,535	$—	$—	$—	$17,535
NYMEX natural gas contracts	2,377	—	—	(2,377)	—
NYMEX gasoline and heating oil contracts	107	—	—	(107)	—
Total	$20,019	$—	$—	$(2,484)	$17,535
Liabilities					
NYMEX natural gas contracts	$20,681	$—	$—	$(20,681)	$—

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 New York Mercantile Exchange (NYMEX). The Utility’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 mutual funds are included in the Other Property and Investments line of the Balance Sheets. Derivative assets and liabilities, including receivables and payables associated with cash margin requirements, are presented net in the Balance Sheets when a legally enforceable netting agreement exists between Laclede Gas and the counterparty to a derivative contract. For additional information on derivative instruments, see Note 5, Derivative Instruments and Hedging Activities.

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5. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Laclede Gas 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, Laclede Gas 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 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, Laclede Gas 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 June 30, 2013, Laclede Gas held 0.4 million gallons of gasoline futures contracts at an average price of $2.25 per gallon. Most of these contracts, the longest of which extends to April 2014, are designated as cash flow hedges of forecasted transactions pursuant to ASC Topic 815, "Derivatives and Hedging." The gains or losses on these derivative instruments are not subject to the Utility's PGA Clause.

The Utility's derivative instruments consist primarily of NYMEX positions. The NYMEX is the primary national commodities exchange on which natural gas derivatives are traded. Open NYMEX natural gas futures positions at June 30, 2013 were as follows:

	MMBtu (millions)	Avg. Price Per MMBtu
Open long futures positions		
Fiscal 2013	3.42	$3.42
Fiscal 2014	4.87	3.97

At June 30, 2013, Laclede Gas also had 17.0 million MMBtu of other price mitigation in place through the use of NYMEX natural gas option-based strategies.

Derivative instruments designated as cash flow hedges of forecasted transactions are recognized on the 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 June 30, 2013, it is expected that approximately $0.2 million pre-tax gains will be reclassified into the Statements of 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 Cash Flows.

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

(Thousands)	Location of Gain (Loss) Recorded in Income	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Nine Months Ended June 30, 2013	Nine Months Ended June 30, 2012
Derivatives in Cash Flow Hedging Relationships					
NYMEX gasoline and heating oil contracts:					
Effective portion of gain (loss) recognized in OCI on derivatives		$(125)	$69	$79	$202
Effective portion of gain reclassified from AOCI to income and maintenance	Utility – Other Operation and Maintenance Expenses	53	17	138	20
Ineffective portion of gain (loss) on derivatives recognized in income and maintenance	Utility – Other Operation and Maintenance Expenses	5	(46)	(127)	(12)
Derivatives Not Designated as Hedging Instruments *					
NYMEX gasoline and heating oil contracts:					
(Loss) gain recognized in income on derivative	Other Income and (Income Deductions) – Net	$(5)	$(11)	$41	$2

* 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 Income. Such amounts are recognized in the Statements of Income as a component of 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 Balance Sheet at June 30, 2013

	Asset Derivatives			Liability Derivatives		
(Thousands)	Balance Sheet Location	Fair Value	*	Balance Sheet Location	Fair Value	*
Derivatives designated as hedging instruments						
NYMEX gasoline and heating oil contracts	Accounts Receivable - Other	$136		Accounts Receivable - Other	$—	
Derivatives not designated as hedging instruments						
NYMEX natural gas contracts	Accounts Receivable - Other	1,956		Accounts Receivable - Other	3,688	
Total derivatives		$2,092			$3,688	

Fair Value of Derivative Instruments in the Balance Sheet at September 30, 2012

	Asset Derivatives			Liability Derivatives		
(Thousands)	Balance Sheet Location	Fair Value	*	Balance Sheet Location	Fair Value	*
Derivatives designated as hedging instruments						
NYMEX gasoline and heating oil contracts	Accounts Receivable - Other	$334		Accounts Receivable - Other	$—	
Derivatives not designated as hedging instruments						
NYMEX natural gas contracts	Accounts Receivable - Other	7,338		Accounts Receivable - Other	9,563	
NYMEX gasoline and heating oil contracts	Accounts Receivable - Other	10		Accounts Receivable - Other	—	
Sub-total		7,348			9,563	
Total derivatives		$7,682			$9,563	

Fair Value of Derivative Instruments in the Balance Sheet at June 30, 2012

	Asset Derivatives			Liability Derivatives		
(Thousands)	Balance Sheet Location	Fair Value	*	Balance Sheet Location	Fair Value	*
Derivatives designated as hedging instruments						
NYMEX gasoline and heating oil contracts	Accounts Receivable - Other	$106		Accounts Receivable - Other	$—	
Derivatives not designated as hedging instruments						
NYMEX natural gas contracts	Accounts Receivable - Other	2,377		Accounts Receivable - Other	20,681	
NYMEX gasoline and heating oil contracts	Accounts Receivable - Other	1		Accounts Receivable - Other	—	
Sub-total		2,378			20,681	
Total derivatives		$2,484			$20,681	

* 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 Balance Sheets. As such, the gross balances presented in the table above are not indicative of the Utility's net economic exposure. Refer to Note 4, Fair Value Measurements, for information on the valuation of derivative instruments.

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

(Thousands)	June 30, 2013	Sept. 30, 2012	June 30, 2012
Fair value of asset derivatives presented above	$2,092	$7,682	$2,484
Fair value of cash margin receivables offset with derivatives	1,596	1,964	18,197
Netting of assets and liabilities with the same counterparty	(3,688)	(9,646)	(20,681)
Derivative instrument assets, per Balance Sheets	$—	$—	$—
Fair value of liability derivatives presented above	$3,688	$9,563	$20,681
Fair value of cash margin payables offset with derivatives	—	83	—
Netting of assets and liabilities with the same counterparty	(3,688)	(9,646)	(20,681)
Derivative instrument liabilities, per Balance Sheets	$—	$—	$—

Additionally, at June 30, 2013, September 30, 2012, and June 30, 2012 the Utility had $3.6 million, $8.0 million, and $9.0 million respectively in cash margin receivables not offset with derivatives, that are presented in Accounts Receivable - Other.

6. OTHER INCOME AND (INCOME DEDUCTIONS) – NET

	Three Months Ended June 30, 2013		Nine Months Ended June 30,	
(Thousands)	2013	2012	2013	2012
Interest income	$115	$293	$746	$934
Net investment gain (loss)	33	(265)	804	1,949
Other income	159	(14)	233	(3)
Other income deductions	(744)	(135)	(143)	316
Other Income and (Income Deductions) – Net	$(437)	$(121)	$1,640	$3,196

7. INFORMATION BY OPERATING SEGMENT

In the first quarter of fiscal year 2013, Laclede Gas retitled its segment names. The Gas Utility segment, previously titled Regulated Gas Distribution, consists of the regulated operations of Laclede Gas. The Other segment, previously titled Non-Regulated Other, includes Laclede Gas' non-regulated business activities, which are comprised of its propane storage and related services. Accounting policies are described in Note 1. There are no material intersegment revenues.

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 unique acquisition, divestiture, and restructuring activities.

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(Thousands)	Gas Utility	Other	Adjustments & Eliminations	Total
Three Months Ended June 30, 2013				
Operating revenues	$131,540	$217	$—	$131,757
Net Economic Earnings	6,834	(87)	—	6,747
Total assets	1,766,198	135	—	1,766,333
Three Months Ended June 30, 2012				
Operating revenues	$117,634	$137	$—	$117,771
Net Economic Earnings	4,597	72	—	4,669
Total assets	1,640,101	2,021	—	1,642,122
Nine Months Ended June 30, 2013				
Operating revenues	$746,243	$1,594	$—	$747,837
Net Economic Earnings	62,372	579	—	62,951
Total assets	1,766,198	135	—	1,766,333
Nine Months Ended June 30, 2012				
Operating revenues	$667,159	$1,492	$—	$668,651
Net Economic Earnings	51,448	823	—	52,271
Total assets	1,640,101	2,021	—	1,642,122

Reconciliation of Net Economic Earnings to Net Income

	Three Months Ended June 30,		Nine Months Ended June 30,	
(Thousands)	2013	2012	2013	2012
Total Net Economic Earnings above	$6,747	$4,669	$62,951	$52,271
Add: Unrealized (loss) gain on energy-related derivative contracts, net of tax	(10)	(39)	(100)	(19)
Add: Acquisition, divestiture, and restructuring costs, net of tax	(2,972)	—	(3,568)	—
Net Income	$3,765	$4,630	$59,283	$52,252

8. COMMITMENTS AND CONTINGENCIES

Commitments

Laclede Gas has entered into various contracts, expiring on dates through fiscal year 2018, for the storage, transportation, and supply of natural gas. Minimum payments required under the contracts in place at June 30, 2013 are estimated at approximately $149 million. Additional contracts are generally entered into prior to or during the heating season. Laclede Gas recovers its costs from customers in accordance with the PGA Clause.

During fiscal 2012, the Utility initiated a multi-year project to replace its existing customer relationship and work management, financial, and supply chain software applications to enhance its technology, customer service, and business processes. At June 30, 2013, the Utility was contractually committed to costs of approximately $1.5 million related to this project. The final phase of the project was implemented in July 2013.

Refer to Note 9, Acquisition Agreement, for information about Laclede Gas' commitments associated with the pending acquisition of substantially all of the assets and liabilities of Missouri Gas Energy (MGE).

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Contingencies

Laclede Gas 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 Laclede Gas' financial position and results of operations. As environmental laws, regulations, and their interpretations change, however, Laclede Gas may be required to incur additional costs.

Similar to other natural gas utility companies, Laclede Gas 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/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.

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 its financial condition, results of operations, or cash flows.

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, the Utility 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. Further correspondence from the Missouri Attorney General dated April 12, 2012, and November 28, 2012, encouraged Laclede Gas and other present and former owners of the site to move forward with further site investigation for possible remediation via enrollment in the Missouri Department of Natural Resources Brownfields/Voluntary Cleanup Program (BVCP) in lieu of being subjected to enforcement action by the United States Environmental Protection Agency, Region VII. Accordingly, Laclede Gas and the other former and current owners of the site each have entered into, or are in the process of entering into, Provisional Cost Sharing and Environmental Response Agreements enabling Laclede Gas to enroll the property in the BVCP and to fund and conduct additional investigation of the property. Laclede Gas enrolled the site in the BVCP as of April 1, 2013.

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. Costs associated with environmental remediation activities are accrued when such costs are probable and reasonably estimable.

Laclede Gas 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 Laclede Gas.

The MoPSC Staff previously proposed disallowances related to Laclede Gas' recovery of its purchased gas costs totaling $6.0 million pertaining to Laclede Gas' purchase of gas from a marketing affiliate, LER, applicable to fiscal years 2005 through 2007. The MoPSC Staff also proposed a number of non-monetary recommendations, based on its review of gas costs for fiscal years 2008 through 2011. Laclede Gas believes that the proposed disallowances lack merit and is vigorously opposing these adjustments. In a related matter, on October 6, 2010, the MoPSC Staff filed a complaint against Laclede Gas alleging that Laclede Gas' affiliate transactions and its Cost Allocation Manual (CAM) violated the MoPSC's affiliate transaction rules. Laclede Gas responded with a counterclaim that the MoPSC Staff had failed to adhere to the affiliate transaction rules and the Utility's CAM. On July 16, 2013, Laclede Gas, the MoPSC Staff and the Office of the Public Counsel requested MoPSC approval of a unanimous stipulation and agreement resolving the affiliate transaction matters for fiscal years 2005 through 2011, resolving the October 6, 2010 complaint, resolving Laclede Gas' counterclaim, presenting a revised CAM for MoPSC approval, and establishing standards of conduct for gas purchases and sales. The parties' request is pending before the MoPSC. Management, after discussion with counsel, continues to believe that the final outcome of these matters will not have a material effect on the Utility's financial position, results of operations, or cash flows.

On July 7, 2010, the MoPSC Staff filed a complaint against Laclede Gas alleging that, by stating that it was not in possession of proprietary LER documents, Laclede Gas violated the MoPSC Order authorizing the holding company structure (2001 Order). Laclede Gas counterclaimed stating the Staff failed to adhere to pricing provisions of the MoPSC's affiliate transaction rules and Laclede Gas' Cost Allocation Manual. By orders dated November 3, 2010 and February 4, 2011, respectively, the MoPSC dismissed Laclede's counterclaim and granted summary judgment to Staff, finding that Laclede Gas violated the terms of the 2001 Order and authorizing its General Counsel to seek penalties in court against Laclede Gas. On May 19, 2011, the MoPSC's General Counsel filed a petition seeking penalties against Laclede Gas for violation of the 2001 Order. The MoPSC and Laclede Gas agreed to hold the penalty case in abeyance pending the outcome of Laclede's appeal of the November 3, 2010 and February 4, 2011 orders. These Orders were reversed by the Cole County Circuit Court, but later upheld by the Western District Court of Appeals. On March 19, 2013, the Missouri Supreme Court declined Laclede Gas' request to review the opinion of the Western District Court of Appeals. As a result, Laclede Gas produced certain LER documentation that had been requested by the MoPSC Staff. In light of such document production, Laclede Gas is currently in discussions with the MoPSC to resolve the penalty case. Management, after discussion with counsel, continues to believe that the final outcome of these matters will not have a material effect on the Utility's financial position, results of operations, or cash flows.

On June 29, 2010, the Office of Federal Contract Compliance Programs (OFCCP) issued a Notice of Violations to Laclede Gas alleging lapses in certain employment selection procedures during a two-year period ending in February 2006. On July 2, 2013, Laclede Gas executed a Conciliation Agreement with the OFCCP in which the Company did not admit to liability, but agreed to provide make whole relief of back pay and interest to the impacted parties from 2004-2006. The OFCCP, as of the date of this report, has not yet executed the Conciliation Agreement. The Utility's agreement to provide make whole relief will not have a material effect on its financial position and results of operations, or cash flows.

As discussed in Note 5, Derivative Instruments and Hedging Activities, Laclede Gas enters into NYMEX exchange-traded 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 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 July 30, 2013, the Utility had $0.9 million on deposit with MF Global.

Laclede Gas 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 financial position, results of operations, or cash flows of the Utility.

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9. ACQUISITION AGREEMENT

On January 11, 2013, Laclede Gas, Laclede Group, and Southern Union Company (SUG), an affiliate of Energy Transfer Equity, L.P. and Energy Transfer Partners, L.P. , entered into an assignment and assumption agreement pursuant to which Laclede Gas assumed all duties and obligations under a purchase and sale agreement entered into by a wholly owned subsidiary of Laclede Group on December 14, 2012 to acquire from SUG substantially all of the assets and liabilities of MGE for $975 million in cash, subject to customary closing adjustments (the Transaction). MGE is engaged in the distribution of natural gas on a regulated basis in western Missouri. Additionally, pursuant to the assignment and assumption agreement, Laclede Gas assumed responsibility for an employee agreement with SUG that provides for the terms and conditions of its employment of persons currently employed by MGE.

On January 14, 2013, the Utility filed an application with the MoPSC for approval to acquire the assets of MGE from SUG. On July 2, 2013, the Utility and other parties to the case filed a Unanimous Stipulation and Agreement with the MoPSC, which was approved on July 17, 2013 authorizing Laclede Gas to acquire MGE, subject to certain conditions. The Transaction is targeted to close before the end of fiscal year 2013, subject to customary closing conditions. On January 22, 2013, the Federal Trade Commission notified the Utility of the early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended. No shareholder approval is required to complete the Transaction, and each of the entities has received all necessary approvals from their boards of directors.

The purchase and sale agreement contains certain termination rights for both Laclede Gas (as assigned) and SUG, including, among others, the right to terminate if the Transaction is not completed by October 14, 2013 (subject to up to four 30-day extensions under certain circumstances related to obtaining required regulatory approvals). In the event that SUG terminates as a result of the failure of Laclede Gas to obtain financing, it may be required to pay SUG a "reverse break up" fee of $73.1 million, which amount will operate as liquidated damages and a cap on such liability for such breach.

The Transaction is supported by existing company cash and Laclede Group's fully committed bridge facility with Wells Fargo Bank, National Association. The bridge facility was syndicated to a group of nine financial institutions in January 2013. As a result of Laclede Group's May 2013 equity offering and an amendment to the bridge facility in June 2013, the commitment under the facility was reduced from $1.020 billion to $525 million during the third quarter of fiscal year 2013. The Utility anticipates permanent financing to be a combination of long-term debt and equity. Laclede Gas' equity financing will be provided through the sale of additional shares of common stock to Laclede Group.

As a result of the MGE acquisition being assigned to the Utility, beginning in the second quarter of fiscal year 2013, Laclede Gas incurred or was allocated applicable acquisition-related expenses associated with the Transaction. The Utility continues to incur costs associated with the evaluation, approval, and financing of the Transaction. During the three and nine months ended June 30, 2013, Laclede Gas recorded $3.0 million and $3.6 million, respectively, net of tax, of third-party expenses associated with the Transaction.

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

This management's discussion analyzes the financial condition and results of operations of Laclede Gas Company (Laclede Gas or the Utility). 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 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 expressior 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 as well as other changes that impact supply for and access to our service area;
- 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