

LACLEDE GAS CO  
Form 10-Q  
April 30, 2013

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 March 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 1-1822

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 ☒ 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 April 26, 2013, there were 12,847 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.

## Item 1. Financial Statements

LACLEDE GAS COMPANY  
STATEMENTS OF INCOME  
(UNAUDITED)

(Thousands)	Three Months Ended March 31,		Six Months Ended March 31,	
	2013	2012	2013	2012
Operating Revenues:				
Utility	\$363,912	\$298,623	\$614,703	\$549,525
Other	233	274	1,376	1,355
Total Operating Revenues	364,145	298,897	616,079	550,880
Operating Expenses:				
Utility				
Natural and propane gas	238,148	180,221	382,482	326,972
Other operation expenses	35,269	38,043	69,191	75,608
Maintenance	5,924	5,761	11,655	11,069
Depreciation and amortization	11,258	10,175	22,223	20,264
Taxes, other than income taxes	21,751	20,093	36,557	34,760
Total Utility Operating Expenses	312,350	254,293	522,108	468,673
Other	1,104	51	1,228	132
Total Operating Expenses	313,454	254,344	523,336	468,805
Operating Income	50,691	44,553	92,743	82,075
Other Income and (Income Deductions) – Net	988	1,378	2,076	3,317
Interest Charges:				
Interest on long-term debt	5,483	5,740	10,884	11,479
Other interest charges	515	596	1,039	1,215
Total Interest Charges	5,998	6,336	11,923	12,694
Income Before Income Taxes	45,681	39,595	82,896	72,698
Income Tax Expense	15,906	13,670	27,379	25,076
Net Income	\$29,775	\$25,925	\$55,517	\$47,622
See <u>Notes to Financial Statements</u> .				

LACLEDE GAS COMPANY  
 STATEMENTS OF COMPREHENSIVE INCOME  
 (UNAUDITED)

	Three Months Ended March 31,		Six Months Ended March 31,	
(Thousands)	2013	2012	2013	2012
Net Income	\$29,775	\$25,925	\$55,517	\$47,622
Other Comprehensive Income (Loss), Before Tax:				
Net gains (losses) on cash flow hedging derivative instruments:				
Net hedging gain arising during the period	147	83	203	133
Reclassification adjustment for (gains) losses included in net income	(38	) 11	(85	) (3
Net unrealized gains on cash flow hedging derivative instruments	109	94	118	130
Defined benefit pension and other postretirement plans:				
Net actuarial loss arising during the period	—	(2,366	) —	(2,366
Amortization of actuarial loss included in net periodic pension and postretirement benefit cost	90	3,482	181	3,573
Net defined benefit pension and other postretirement plans	90	1,116	181	1,207
Other Comprehensive Income, Before Tax	199	1,210	299	1,337
Income Tax Expense Related to Items of Other Comprehensive Income	76	467	124	516
Other Comprehensive Income, Net of Tax	123	743	175	821
Comprehensive Income	\$29,898	\$26,668	\$55,692	\$48,443
See <u>Notes to Financial Statements</u> .				

LACLEDE GAS COMPANY  
BALANCE SHEETS  
(UNAUDITED)

(Thousands)	Mar. 31, 2013	Sept. 30, 2012	Mar. 31, 2012
<b>ASSETS</b>			
Utility Plant	\$1,538,890	\$1,497,419	\$1,425,922
Less: Accumulated depreciation and amortization	478,971	478,120	468,209
Net Utility Plant	1,059,919	1,019,299	957,713
Other Property and Investments	48,134	46,358	51,021
Current Assets:			
Cash and cash equivalents	45,199	2,402	1,448
Accounts receivable:			
Utility	148,624	64,027	100,015
Non-utility	628	1,244	1,961
Associated companies	3,917	4,315	335
Other	7,470	17,288	16,630
Allowance for doubtful accounts	(8,729)	(7,601)	(8,655)
Delayed customer billings	19,663	—	13,464
Inventories:			
Natural gas stored underground at LIFO cost	29,899	89,852	55,461
Propane gas at FIFO cost	8,962	8,963	8,964
Materials and supplies at average cost	4,259	3,418	3,976
Derivative instrument assets	3,305	—	—
Unamortized purchased gas adjustments	11,039	40,674	11,241
Deferred income taxes	2,309	—	—
Prepayments and other	6,982	9,011	6,579
Total Current Assets	283,527	233,593	211,419
Deferred Charges:			
Regulatory assets	424,707	456,047	457,749
Other	5,832	4,855	5,320
Total Deferred Charges	430,539	460,902	463,069
Total Assets	\$1,822,119	\$1,760,152	\$1,683,222

LACLEDE GAS COMPANY  
BALANCE SHEETS (Continued)  
(UNAUDITED)

(Thousands)	Mar. 31, 2013	Sept. 30, 2012	Mar. 31, 2012
<b>CAPITALIZATION AND LIABILITIES</b>			
Capitalization:			
Common stock and Paid-in capital (12,847, 12,804, and 11,746 shares issued, respectively)	\$260,618	\$257,415	\$214,661
Retained earnings	272,341	236,014	252,430
Accumulated other comprehensive loss	(1,926)	(2,101)	(1,652)
Total Common Stock Equity	531,033	491,328	465,439
Long-term debt (less current portion)	439,434	339,416	339,386
Total Capitalization	970,467	830,744	804,825
Current Liabilities:			
Notes payable	—	40,100	—
Notes payable – associated companies	—	37,125	107,540
Accounts payable	52,015	38,391	39,939
Accounts payable – associated companies	5,754	2,576	2,672
Advance customer billings	—	25,146	—
Current portion of long-term debt	—	25,000	25,000
Wages and compensation accrued	16,175	13,908	13,873
Dividends payable	9,631	9,354	9,328
Customer deposits	7,706	8,565	9,459
Interest accrued	5,948	8,590	8,789
Taxes accrued	46,419	13,822	28,859
Deferred income taxes	—	10,146	4,848
Other	5,987	10,068	12,505
Total Current Liabilities	149,635	242,791	262,812
Deferred Credits and Other Liabilities:			
Deferred income taxes	348,170	355,458	335,138
Unamortized investment tax credits	3,006	3,113	3,219
Pension and postretirement benefit costs	191,778	196,558	163,940
Asset retirement obligations	41,266	40,126	28,304
Regulatory liabilities	83,026	56,319	53,267
Other	34,771	35,043	31,717
Total Deferred Credits and Other Liabilities	702,017	686,617	615,585
Commitments and Contingencies ( <u>Note 8</u> )			
Total Capitalization and Liabilities	\$1,822,119	\$1,760,152	\$1,683,222
See <u>Notes to Financial Statements</u> .			



LACLEDE GAS COMPANY  
 STATEMENTS OF CASH FLOWS  
 (UNAUDITED)

(Thousands)	Six Months Ended March 31,	
	2013	2012
Operating Activities:		
Net Income	\$55,517	\$47,622
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	22,234	20,287
Deferred income taxes and investment tax credits	(10,687)	) 5,808
Other – net	80	(1,480)
Changes in assets and liabilities:		
Accounts receivable – net	(72,638)	) (40,457)
Unamortized purchased gas adjustments	29,635	14,478
Deferred purchased gas costs	43,827	(30,160)
Accounts payable	21,454	(7,784)
Delayed customer billings - net	(44,809)	) (28,694)
Taxes accrued	32,358	18,323
Natural gas stored underground	59,953	59,709
Other assets and liabilities	(9,949)	) (7,153)
Net cash provided by operating activities	126,975	50,499
Investing Activities:		
Capital expenditures	(62,615)	) (40,517)
Other investments	(943)	) (1,294)
Net cash used in investing activities	(63,558)	) (41,811)
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	170,468
Repayment of borrowings from Laclede Group	(117,370)	) (115,808)
Changes in book overdrafts	(1,262)	) 357
Dividends paid	(18,917)	) (18,409)
Issuance of common stock to Laclede Group	1,687	1,093
Excess tax benefits from stock-based compensation	550	163
Other	(453)	) (27)
Net cash used in financing activities	(20,620)	) (8,163)
Net Increase in Cash and Cash Equivalents	42,797	525
Cash and Cash Equivalents at Beginning of Period	2,402	923
Cash and Cash Equivalents at End of Period	\$45,199	\$1,448
Supplemental Disclosure of Cash Paid (Refunded) During the Period for:		
Interest	\$14,404	\$12,621
Income taxes	471	(3,759)
See <u>Notes to Financial Statements</u> .		

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 six months ended March 31, 2013, sales of natural gas from Laclede Gas to LER were \$10.4 million, but were negligible for the same period last year. Sales of natural gas from LER to Laclede Gas during the six months ended March 31, 2013 and 2012 were \$15.0 million and \$8.5 million, respectively. Propane transportation services provided by Laclede Pipeline Company to Laclede Gas during both the six months ended March 31, 2013 and 2012 totaled \$0.5 million.

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 \$107.5 million at September 30, 2012 and March 31, 2012, respectively. The interest rate on these borrowings was 0.2% at September 30, 2012 and 0.3% at March 31, 2012. There was no outstanding balance at March 31, 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 March 31, 2013 and 2012, for the Utility, were \$33.3 million and \$13.0 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 March 31, 2013 and 2012 were \$17.2 million and \$15.5 million, respectively. Amounts recorded in Utility Operating Revenues for the six months ended March 31, 2013 and 2012 were \$27.5 million and \$25.7 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.

The amounts of compensation cost allocated to the Utility for share-based compensation arrangements for the quarters and six months ended March 31, 2013 and 2012 are presented below:

(Thousands)	Three Months Ended March 31,		Six Months Ended March 31,	
	2013	2012	2013	2012
Total equity compensation cost	\$974	\$582	\$1,506	\$1,149
Compensation cost capitalized	(356 )	(221 )	(539 )	(359 )
Compensation cost recognized in net income	618	361	967	790
Income tax benefit recognized in net income	(235 )	(140 )	(370 )	(305 )
Compensation cost recognized in net income, net of income tax	\$383	\$221	\$597	\$485

As of March 31, 2013, there was \$6.0 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 2.2 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