

LEXINGTON REALTY TRUST  
Form 10-Q  
August 09, 2016

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q  
(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended June 30, 2016.

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  
1-12386 (Lexington Realty Trust)  
33-04215 (Lepercq Corporate Income Fund L.P.)  
LEXINGTON REALTY TRUST  
LEPERCQ CORPORATE INCOME FUND L.P.  
(Exact name of registrant as specified in its charter)  
Maryland (Lexington Realty Trust) 13-3717318 (Lexington Realty Trust)  
Delaware (Lepercq Corporate Income Fund L.P.) 13-3779859 (Lepercq Corporate Income Fund L.P.)  
(State or other jurisdiction of (I.R.S. Employer  
incorporation of organization) Identification No.)  
One Penn Plaza, Suite 4015, New York, NY 10119-4015  
(Address of principal executive offices) (zip code)  
(212) 692-7200  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Lexington Realty Trust Yes  No   
Lepercq Corporate Income Fund L.P. Yes  No

Indicate by check mark whether the registrant 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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Lexington Realty Trust Yes  No   
Lepercq Corporate Income Fund L.P. Yes  No

Indicate by check mark whether the registrant 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.

Lexington Realty Trust:  
Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

Lepercq Corporate Income Fund L.P.:

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Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

Lexington Realty Trust Yes  No

Lepercq Corporate Income Fund L.P. Yes  No

Indicate the number of shares outstanding of each of Lexington Realty Trust's classes of common stock, as of the latest practicable date: 236,976,820 common shares of beneficial interest, par value \$0.0001 per share, as of August 5, 2016.

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## EXPLANATORY NOTE

This report combines the Quarterly Reports on Form 10-Q for the period ended June 30, 2016, which we refer to as this Quarterly Report, of (1) Lexington Realty Trust, which we refer to as the Company or the Trust, and subsidiaries and (2) Lepercq Corporate Income Fund L.P., which we refer to as the Partnership or LCIF, and subsidiaries. Unless stated otherwise or the context otherwise requires, (1) “we,” “our,” and “us” refer collectively to the Company and its consolidated subsidiaries, including LCIF and its consolidated subsidiaries, and (2) LCIF or the Partnership refers to LCIF and its consolidated subsidiaries. All of the Company's and LCIF's interests in properties are held, and all property operating activities are conducted, through special purpose entities, which we refer to as property owner subsidiaries or lender subsidiaries, which are separate and distinct legal entities, but in some instances are consolidated for financial statement purposes and/or disregarded for income tax purposes.

The Company is the sole equity owner of (1) Lex GP Trust, or Lex GP, a Delaware statutory trust, and (2) Lex LP-1 Trust, or Lex LP, a Delaware statutory trust. The Company, through Lex GP and Lex LP, holds, as of June 30, 2016, approximately 96.0% of LCIF's outstanding units of limited partner interest, which we refer to as OP units. The remaining OP units are beneficially owned by E. Robert Roskind, Chairman of the Trust, and certain non-affiliated investors. As the sole equity owner of LCIF's general partner, the Company has the ability to control all of LCIF's day-to-day operations subject to the terms of LCIF's partnership agreement.

OP units not owned by LXP are accounted for as partners' capital in LCIF's consolidated financial statements and as noncontrolling interests in the Trust's consolidated financial statements.

We believe it is important to understand the differences between the Trust and LCIF in the context of how the Trust and LCIF operate as an interrelated, consolidated company. The Trust's and LCIF's businesses are substantially the same; except that LCIF is dependent on the Trust for management of LCIF's operations and future investments as LCIF does not have any employees, executive officers or a board of directors.

The Trust also invests in assets and conducts business directly and through other subsidiaries. The Trust allocates investments to itself and its other subsidiaries or LCIF as it deems appropriate and in accordance with certain obligations under LCIF's partnership agreement with respect to allocations of non-recourse liabilities. The Trust and LCIF are co-borrowers under the Trust's unsecured revolving credit facility and unsecured term loans. LCIF is a guarantor of the Trust's publicly-traded debt securities.

We believe combining the quarterly reports on Form 10-Q of the Trust and LCIF into this single report results in the following benefits:

- combined reports better reflect how management and the analyst community view the business as a single operating unit;
- combined reports enhance investors' understanding of the Trust and LCIF by enabling them to view the business as a whole and in the same manner as management;
- combined reports are more efficient for the Trust and LCIF and result in savings in time, effort and expense; and
- combined reports are more efficient for investors by reducing duplicative disclosure and providing a single document for their review.

To help investors understand the significant differences between the Trust and LCIF, this Quarterly Report separately presents the following for each of the Trust and LCIF: (1) the consolidated financial statements and the notes thereto, (2) Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations, (3) Part I, Item 4. Controls and Procedures, and (4) Exhibit 31 and Exhibit 32 certifications.



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## WHERE YOU CAN FIND MORE INFORMATION:

We file and furnish annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission, which we refer to as the SEC. You may read and copy any materials that we file or furnish with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. We file and furnish information electronically with the SEC. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file or furnish electronically with the SEC. The address of the SEC's Internet site is <http://www.sec.gov>. We also maintain a web site at <http://www.lxp.com> through which you can obtain copies of documents that we file or furnish with the SEC. The contents of that web site are not incorporated by reference in or otherwise a part of this Quarterly Report on Form 10-Q or any other document that we file or furnish with the SEC.

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ITEM 1. FINANCIAL STATEMENTSLEXINGTON REALTY TRUST AND CONSOLIDATED SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Unaudited and in thousands, except share and per share data)

	June 30, 2016	December 31, 2015
Assets:		
Real estate, at cost	\$3,721,461	\$ 3,789,711
Real estate - intangible assets	688,749	692,778
Investments in real estate under construction	108,763	95,402
	4,518,973	4,577,891
Less: accumulated depreciation and amortization	1,207,434	1,179,969
Real estate, net	3,311,539	3,397,922
Assets held for sale	21,045	24,425
Cash and cash equivalents	59,776	93,249
Restricted cash	12,767	10,637
Investment in and advances to non-consolidated entities	55,245	31,054
Deferred expenses, net	39,656	42,000
Loans receivable, net	95,829	95,871
Rent receivable – current	9,146	7,193
Rent receivable – deferred	102,195	87,547
Other assets	17,535	18,505
Total assets	\$3,724,733	\$ 3,808,403
Liabilities and Equity:		
Liabilities:		
Mortgages and notes payable, net	\$838,385	\$ 872,643
Revolving credit facility borrowings	123,000	177,000
Term loans payable, net	500,584	500,076
Senior notes payable, net	493,944	493,526
Convertible guaranteed notes payable, net	11,763	12,126
Trust preferred securities, net	127,046	126,996
Dividends payable	46,052	45,440
Liabilities held for sale	515	8,405
Accounts payable and other liabilities	43,054	41,479
Accrued interest payable	9,857	8,851
Deferred revenue - including below market leases, net	43,021	42,524
Prepaid rent	16,395	16,806
Total liabilities	2,253,616	2,345,872
Commitments and contingencies		
Equity:		
Preferred shares, par value \$0.0001 per share; authorized 100,000,000 shares:		
Series C Cumulative Convertible Preferred, liquidation preference \$96,770; 1,935,400	94,016	94,016
shares issued and outstanding		
	24	23

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Common shares, par value \$0.0001 per share; authorized 400,000,000 shares, 235,075,048 and 234,575,225 shares issued and outstanding in 2016 and 2015, respectively

Additional paid-in-capital	2,775,468	2,776,837
Accumulated distributions in excess of net income	(1,413,504 )	(1,428,908 )
Accumulated other comprehensive loss	(7,520 )	(1,939 )
Total shareholders' equity	1,448,484	1,440,029
Noncontrolling interests	22,633	22,502
Total equity	1,471,117	1,462,531
Total liabilities and equity	\$ \$	.1725 \$ .1675

Weighted average common shares outstanding - basic	188,831	188,811
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Weighted average common shares outstanding - diluted	189,222	189,182
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The accompanying notes are an integral part of these consolidated financial statements.

MDU RESOURCES GROUP, INC.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(Unaudited)

	Three Months Ended March 31,	
	2013	2012
	(In thousands)	
Net income	\$56,515	\$35,790
Other comprehensive loss:		
Net unrealized loss on derivative instruments qualifying as hedges:		
Net unrealized loss on derivative instruments arising during the period, net of tax of \$(3,168) and \$(2,225) in 2013 and 2012, respectively	(5,849)	)(3,770 )
Less: Reclassification adjustment for gain on derivative instruments included in net income, net of tax of \$1,626 and \$1,366 in 2013 and 2012, respectively	2,772	2,329
Net unrealized loss on derivative instruments qualifying as hedges	(8,621)	)(6,099 )
Net unrealized gain (loss) on available-for-sale investments:		
Net unrealized loss on available-for-sale investments arising during the period, net of tax of \$(24) and \$(2) in 2013 and 2012, respectively	(44)	)(4 )
Less: Reclassification adjustment for loss on available-for-sale investments included in net income, net of tax of \$(19) and \$(16) in 2013 and 2012, respectively	(35)	)(30 )
Net unrealized gain (loss) on available-for-sale investments	(9)	)26
Amortization of postretirement liability losses included in net periodic benefit cost, net of tax of \$319 in 2013	648	—
Foreign currency translation adjustment, net of tax of \$37 and \$138 in 2013 and 2012, respectively	88	144
Other comprehensive loss	(7,894)	)(5,929 )
Comprehensive income	\$48,621	\$29,861

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



MDU RESOURCES GROUP, INC.  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

	March 31, 2013	March 31, 2012	December 31, 2012
(In thousands, except shares and per share amounts)			
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$74,149	\$91,389	\$49,042
Receivables, net	635,564	539,589	678,123
Inventories	334,872	313,341	317,415
Deferred income taxes	29,885	42,239	22,846
Commodity derivative instruments	5,936	26,698	18,304
Prepayments and other current assets	68,828	64,897	42,351
Total current assets	1,149,234	1,078,153	1,128,081
Investments	106,846	113,799	103,243
Property, plant and equipment	8,303,065	7,798,770	8,107,751
Less accumulated depreciation, depletion and amortization	3,678,535	3,419,574	3,608,912
Net property, plant and equipment	4,624,530	4,379,196	4,498,839
Deferred charges and other assets:			
Goodwill	636,039	635,389	636,039
Other intangible assets, net	16,318	19,991	17,129
Other	295,215	312,103	299,160
Total deferred charges and other assets	947,572	967,483	952,328
Total assets	\$6,828,182	\$6,538,631	\$6,682,491
<b>LIABILITIES AND EQUITY</b>			
Current liabilities:			
Short-term borrowings	\$37,500	\$—	\$28,200
Long-term debt due within one year	171,094	202,215	134,108
Accounts payable	375,942	321,369	388,015
Taxes payable	55,748	51,019	46,475
Dividends payable	32,744	31,800	171
Accrued compensation	31,382	28,463	48,448
Commodity derivative instruments	7,379	20,183	—
Other accrued liabilities	205,394	255,172	204,698
Total current liabilities	917,183	910,221	850,115
Long-term debt	1,618,569	1,213,974	1,610,867
Deferred credits and other liabilities:			
Deferred income taxes	802,805	798,669	755,102
Other liabilities	814,643	842,169	818,159
Total deferred credits and other liabilities	1,617,448	1,640,838	1,573,261
Commitments and contingencies			
Equity:			
Preferred stocks	15,000	15,000	15,000
Common stockholders' equity:			
Common stock			
Authorized - 500,000,000 shares, \$1.00 par value	189,369	189,369	189,369

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Shares issued - 189,369,450 at March 31, 2013 and 2012 and  
December 31, 2012

Other paid-in capital	1,038,970	1,035,800	1,039,080
Retained earnings	1,480,784	1,589,985	1,457,146
Accumulated other comprehensive loss	(56,615)	)(52,930	)(48,721 )
Treasury stock at cost - 538,921 shares	(3,626)	)(3,626	)(3,626 )
Total common stockholders' equity	2,648,882	2,758,598	2,633,248
Total stockholders' equity	2,663,882	2,773,598	2,648,248
Noncontrolling interest	11,100	—	—
Total equity	2,674,982	2,773,598	2,648,248
Total liabilities and equity	\$6,828,182	\$6,538,631	\$6,682,491

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

MDU RESOURCES GROUP, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	Three Months Ended March 31,	
	2013	2012
	(In thousands)	
Operating activities:		
Net income	\$56,515	\$35,790
Loss from discontinued operations, net of tax	(77)	(100)
Income from continuing operations	56,592	35,890
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	93,561	85,380
Earnings, net of distributions, from equity method investments	1,277	1,181
Deferred income taxes	44,663	32,596
Changes in current assets and liabilities, net of acquisitions:		
Receivables	32,206	101,917
Inventories	(19,126)	(38,357)
Other current assets	(25,855)	(21,556)
Accounts payable	(35,091)	(29,851)
Other current liabilities	(7,338)	(33,751)
Other noncurrent changes	(4,318)	(8,349)
Net cash provided by continuing operations	136,571	125,100
Net cash provided by (used in) discontinued operations	303	(107)
Net cash provided by operating activities	136,874	124,993
Investing activities:		
Capital expenditures	(188,475)	(174,429)
Acquisitions, net of cash acquired	—	(242)
Net proceeds from sale or disposition of property and other Investments	18,176	18,256
	(514)	(27)
Net cash used in continuing operations	(170,813)	(156,442)
Net cash provided by discontinued operations	—	—
Net cash used in investing activities	(170,813)	(156,442)
Financing activities:		
Issuance of short-term borrowings	9,300	—
Issuance of long-term debt	112,015	—
Repayment of long-term debt	(67,123)	(8,297)
Proceeds from issuance of common stock	—	88
Dividends paid	(171)	(31,794)
Excess tax benefit on stock-based compensation	—	26
Contribution from noncontrolling interest	5,000	—
Net cash provided by (used in) continuing operations	59,021	(39,977)
Net cash provided by discontinued operations	—	—
Net cash provided by (used in) financing activities	59,021	(39,977)
Effect of exchange rate changes on cash and cash equivalents	25	43
Increase (decrease) in cash and cash equivalents	25,107	(71,383)

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Cash and cash equivalents -- beginning of year	49,042	162,772
Cash and cash equivalents -- end of period	\$74,149	\$91,389

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

MDU RESOURCES GROUP, INC.  
NOTES TO CONSOLIDATED  
FINANCIAL STATEMENTS

March 31, 2013 and 2012  
(Unaudited)

Note 1 - Basis of presentation

The accompanying consolidated interim financial statements were prepared in conformity with the basis of presentation reflected in the consolidated financial statements included in the Company's 2012 Annual Report, and the standards of accounting measurement set forth in the interim reporting guidance in the ASC and any amendments thereto adopted by the FASB. Interim financial statements do not include all disclosures provided in annual financial statements and, accordingly, these financial statements should be read in conjunction with those appearing in the 2012 Annual Report. The information is unaudited but includes all adjustments that are, in the opinion of management, necessary for a fair presentation of the accompanying consolidated interim financial statements and are of a normal recurring nature. Depreciation, depletion and amortization expense is reported separately on the Consolidated Statements of Income and therefore is excluded from the other line items within operating expenses. Management has also evaluated the impact of events occurring after March 31, 2013, up to the date of issuance of these consolidated interim financial statements.

Note 2 - Seasonality of operations

Some of the Company's operations are highly seasonal and revenues from, and certain expenses for, such operations may fluctuate significantly among quarterly periods. Accordingly, the interim results for particular businesses, and for the Company as a whole, may not be indicative of results for the full fiscal year.

Note 3 - Accounts receivable and allowance for doubtful accounts

Accounts receivable consists primarily of trade receivables from the sale of goods and services which are recorded at the invoiced amount net of allowance for doubtful accounts, and costs and estimated earnings in excess of billings on uncompleted contracts. The total balance of receivables past due 90 days or more was \$39.6 million, \$34.6 million and \$34.3 million as of March 31, 2013 and 2012, and December 31, 2012, respectively.

The allowance for doubtful accounts is determined through a review of past due balances and other specific account data. Account balances are written off when management determines the amounts to be uncollectible. The Company's allowance for doubtful accounts as of March 31, 2013 and 2012, and December 31, 2012, was \$10.8 million, \$12.2 million and \$10.8 million, respectively.

Note 4 - Inventories and natural gas in storage

Inventories, other than natural gas in storage for the Company's regulated operations, were stated at the lower of average cost or market value. Natural gas in storage for the Company's regulated operations is generally carried at average cost, or cost using the last-in, first-out method. The portion of the cost of natural gas in storage expected to be used within one year was included in inventories. Inventories consisted of:

	March 31, 2013	March 31, 2012	December 31, 2012
	(In thousands)		
Aggregates held for resale	\$98,120	\$85,958	\$87,715
Asphalt oil	94,332	82,949	67,480
Materials and supplies	75,868	68,369	69,390
Merchandise for resale	24,342	28,459	31,172
Natural gas in storage (current)	12,811	15,475	29,030

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Other	29,399	32,131	32,628
Total	\$334,872	\$313,341	\$317,415

The remainder of natural gas in storage, which largely represents the cost of gas required to maintain pressure levels for normal operating purposes, was included in other assets and was \$49.6 million, \$50.3 million, and \$49.7 million at March 31, 2013 and 2012, and December 31, 2012, respectively.

## Note 5 - Earnings per common share

Basic earnings per common share were computed by dividing earnings on common stock by the weighted average number of shares of common stock outstanding during the applicable period. Diluted earnings per common share were computed by dividing earnings on common stock by the total of the weighted average number of shares of common stock outstanding during the applicable period, plus the effect of outstanding performance share awards. Common stock outstanding includes issued shares less shares held in treasury. Net income was the same for both the basic and diluted earnings per share calculations. A reconciliation of the weighted average common shares outstanding used in the basic and diluted earnings per share calculation was as follows:

	Three Months Ended March 31,	
	2013	2012
	(In thousands)	
Weighted average common shares outstanding - basic	188,831	188,811
Effect of dilutive stock options and performance share awards	391	371
Weighted average common shares outstanding - diluted	189,222	189,182
Shares excluded from the calculation of diluted earnings per share	—	—

## Note 6 - Cash flow information

Cash expenditures for interest and income taxes were as follows:

	Three Months Ended March 31,	
	2013	2012
	(In thousands)	
Interest, net of amount capitalized	\$21,857	\$22,433
Income taxes paid (refunded), net	\$(7,246)	)\$285

Noncash investing transactions were as follows:

	March 31,	
	2013	2012
	(In thousands)	
Property, plant and equipment additions in accounts payable	\$92,236	\$51,739

## Note 7 - New accounting standards

Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income In February 2013, the FASB issued guidance on the reporting of amounts reclassified out of accumulated other comprehensive income. This guidance requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required to be reclassified in its entirety to net income. Entities may present this information either on the face of the statement where net income is presented or in the notes. This guidance was effective for the Company on January 1, 2013, and is to be applied prospectively. The guidance required additional disclosures, however it did not impact the Company's results of operations, financial position or cash flows.

Disclosures about Offsetting Assets and Liabilities In December 2011, the FASB issued guidance on the disclosure requirements related to balance sheet offsetting. The new disclosure requirements relate to the nature of an entity's rights of offset and related arrangements associated with its financial instruments and derivative instruments. In January 2013, the FASB issued guidance clarifying the scope of the disclosures related to balance sheet offsetting. The amendments clarify that this guidance only applies to derivative instruments, repurchase agreements and securities lending transactions that are either offset or subject to an enforceable master netting arrangement. The guidance was effective for the Company on January 1, 2013, and must be applied retrospectively. The guidance

required additional disclosures, however it did not impact the Company's results of operations, financial position or cash flows.



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Note 8 - Comprehensive income (loss)

The after-tax changes in the components of accumulated other comprehensive loss as of March 31, 2013, were as follows:

	Net Unrealized Gain (Loss) on Derivative Instruments Qualifying as Hedges (In thousands)	Net Unrealized Gain (Loss) on Available-for-sale Investments	Postretirement Liability Adjustment	Foreign Currency Translation Adjustment	Total Accumulated Other Comprehensive Loss
Balance at December 31, 2012	\$6,018	\$ 119	\$(54,347	)\$(511	)\$(48,721 )
Other comprehensive income (loss) before reclassifications	(5,849	)(44	) —	88	(5,805 )
Amounts reclassified from accumulated other comprehensive loss	(2,772	)35	648	—	(2,089 )
Net current-period other comprehensive loss	(8,621	)(9	) 648	88	(7,894 )
Balance at March 31, 2013	\$(2,603	)\$ 110	\$(53,699	)\$(423	)\$(56,615 )

Reclassifications out of accumulated other comprehensive loss were as follows:

	Three Months Ended March 31, 2013 (In thousands)	Location on Consolidated Statements of Income
Reclassification adjustment for gain (loss) on derivative instruments included in net income		
Commodity derivative instruments	\$4,513	Operating revenues
Interest rate derivative instruments	(115	) Interest expense
	4,398	
	(1,626	) Income taxes
	2,772	
Amortization of postretirement liability losses included in net periodic benefit cost	(967	)(a)
	319	Income taxes
	(648	)
Reclassification adjustment for loss on available-for-sale investments included in net income	(54	) Other income
	19	Income taxes
	(35	)
Total reclassifications	\$2,089	

(a) Included in net periodic pension cost (see Note 16 for additional details).

Note 9 - Discontinued operations

In 2007, Centennial Resources sold CEM to Bicent. In connection with the sale, Centennial Resources had agreed to indemnify Bicent and its affiliates from certain third party claims arising out of or in connection with Centennial Resources' ownership or operation of CEM prior to the sale. In addition, Centennial had previously guaranteed CEM's

obligations under a construction contract. The Company incurs legal expenses and has accrued liabilities related to this matter. These items are reflected as discontinued operations in the consolidated financial statements and accompanying notes. Discontinued operations are included in the Other category. For more information, see Note 18.

Note 10 - Equity method investments

Investments in companies in which the Company has the ability to exercise significant influence over operating and financial policies are accounted for using the equity method. The Company's equity method investments at March 31, 2013, include ECTE.

In August 2006, MDU Brasil acquired ownership interests in the Brazilian Transmission Lines. The electric transmission lines are primarily in northeastern and southern Brazil. The transmission contracts provide for revenues denominated in the Brazilian

Real, annual inflation adjustments and change in tax law adjustments. The functional currency for the Brazilian Transmission Lines is the Brazilian Real.

In 2009, multiple sales agreements were signed for the Company to sell its ownership interest in the Brazilian Transmission Lines. In November 2010, the Company completed the sale of its entire ownership interest in ENTE and ERTE and 59.96 percent of the Company's ownership interest in ECTE. The remaining interest in ECTE is being purchased over a four-year period. In August 2012 and November 2011, the Company completed the sale of one-fourth of the remaining interest in each year. Alusa, CEMIG and CELESC hold the remaining ownership interests in ECTE.

At March 31, 2013 and 2012, and December 31, 2012, the equity method investments had total assets of \$142.9 million, \$105.3 million and \$129.0 million, respectively, and long-term debt of \$63.9 million, \$35.9 million and \$65.5 million, respectively. The Company's investment in its equity method investments was approximately \$5.7 million, \$8.2 million and \$6.9 million, including undistributed earnings of \$2.2 million, \$2.2 million and \$3.4 million, at March 31, 2013 and 2012, and December 31, 2012, respectively.

Note 11 - Goodwill and other intangible assets

The changes in the carrying amount of goodwill were as follows:

Three Months Ended March 31, 2013	Balance as of January 1, 2013*	Goodwill Acquired During the Year	Balance as of March 31, 2013*
	(In thousands)		
Natural gas distribution	\$345,736	\$—	\$345,736
Pipeline and energy services	9,737	—	9,737
Construction materials and contracting	176,290	—	176,290
Construction services	104,276	—	104,276
Total	\$636,039	\$—	\$636,039

\* Balance is presented net of accumulated impairment of \$12.3 million at the pipeline and energy services segment, which occurred in prior periods.

Three Months Ended March 31, 2012	Balance as of January 1, 2012*	Goodwill Acquired During the Year**	Balance as of March 31, 2012*
	(In thousands)		
Natural gas distribution	\$345,736	\$—	\$345,736
Pipeline and energy services	9,737	—	9,737
Construction materials and contracting	176,290	—	176,290
Construction services	103,168	458	103,626
Total	\$634,931	\$458	\$635,389

\* Balance is presented net of accumulated impairment of \$12.3 million at the pipeline and energy services segment, which occurred in prior periods.

\*\* Includes contingent consideration that was not material related to an acquisition in a prior period.



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Year Ended December 31, 2012	Balance as of January 1, 2012*	Goodwill Acquired During the Year**	Balance as of December 31, 2012*
	(In thousands)		
Natural gas distribution	\$345,736	\$—	\$345,736
Pipeline and energy services	9,737	—	9,737
Construction materials and contracting	176,290	—	176,290
Construction services	103,168	1,108	104,276
Total	\$634,931	\$1,108	\$636,039

\* Balance is presented net of accumulated impairment of \$12.3 million at the pipeline and energy services segment, which occurred in prior periods.

\*\* Includes contingent consideration that was not material related to an acquisition in a prior period.

Other amortizable intangible assets were as follows:

	March 31, 2013	March 31, 2012	December 31, 2012
	(In thousands)		
Customer relationships	\$21,310	\$21,010	\$21,310
Accumulated amortization	(12,211)	(10,197)	(11,701)
	9,099	10,813	9,609
Noncompete agreements	7,236	7,086	7,236
Accumulated amortization	(5,439)	(4,921)	(5,326)
	1,797	2,165	1,910
Other	10,979	11,442	10,979
Accumulated amortization	(5,557)	(4,429)	(5,369)
	5,422	7,013	5,610
Total	\$16,318	\$19,991	\$17,129

Amortization expense for amortizable intangible assets for the three months ended March 31, 2013 and 2012, was \$800,000 and \$900,000, respectively. Estimated amortization expense for amortizable intangible assets is \$3.7 million in 2013, \$3.5 million in 2014, \$2.6 million in 2015, \$2.2 million in 2016, \$1.9 million in 2017 and \$3.2 million thereafter.

#### Note 12 - Derivative instruments

The Company's policy allows the use of derivative instruments as part of an overall energy price, foreign currency and interest rate risk management program to efficiently manage and minimize commodity price, foreign currency and interest rate risk. As of March 31, 2013, the Company had no outstanding foreign currency hedges. The following information should be read in conjunction with Notes 1 and 7 in the Company's Notes to Consolidated Financial Statements in the 2012 Annual Report.

#### Cascade

Cascade has historically utilized natural gas swap agreements to manage a portion of its regulated natural gas supply portfolio in order to manage fluctuations in the price of natural gas related to core customers in accordance with authority granted by the WUTC and OPUC. Core customers consist of residential, commercial and smaller industrial customers. As of March 31, 2013 and December 31, 2012, Cascade has no outstanding swap agreements. As of March 31, 2012, Cascade held a natural gas swap agreement with total forward notional volumes of 214,000 MMBtu. The fair value of derivative instruments must be estimated as of the end of each reporting period and is recorded on

the Consolidated Balance Sheets as an asset or a liability. Periodic changes in the fair market value of the derivative instruments are recorded on the Consolidated Balance Sheets as a regulatory asset or a regulatory liability, and settlements of these arrangements are expected to be recovered through the purchased gas cost adjustment mechanism. Gains and losses on the settlements of these derivative instruments are recorded as a component of purchased natural gas sold on the Consolidated Statements of Income as they are recovered through the purchased gas cost adjustment mechanism. Under the terms of these arrangements, Cascade either pays or receives settlement payments based on the difference between the fixed strike price and the monthly index price applicable to each contract. For the three months ended March 31, 2012, the change in the fair market value of the derivative instruments of \$52,000 was recorded as an increase to regulatory assets.

Fidelity

At March 31, 2013 and 2012, and December 31, 2012, Fidelity held oil swap and collar agreements with total forward notional volumes of 2.8 million, 4.0 million and 2.6 million Bbl, respectively, and natural gas swap agreements with total forward notional volumes of 25.9 million, 10.9 million and 11.0 million MMBtu, respectively. In addition, at March 31, 2012, Fidelity held natural gas basis swap agreements with total forward notional volumes of 2.6 million MMBtu. Some of these agreements were designated as cash flow hedging instruments. Fidelity utilizes these derivative instruments to manage a portion of the market risk associated with fluctuations in the price of oil and natural gas and basis differentials on its forecasted sales of oil and natural gas production.

Centennial

At March 31, 2013 and 2012, and December 31, 2012, Centennial held interest rate swap agreements with total notional amounts of \$40.0 million, \$60.0 million and \$50.0 million, respectively, which were designated as cash flow hedging instruments. Centennial entered into these interest rate derivative instruments to manage a portion of its interest rate exposure on the forecasted issuance of long-term debt. Centennial's interest rate swap agreements have mandatory termination dates ranging from May through June 2013.

Fidelity and Centennial

The fair value of the derivative instruments must be estimated as of the end of each reporting period and is recorded on the Consolidated Balance Sheets as an asset or liability. Changes in the fair value attributable to the effective portion of hedging instruments, net of tax, are recorded in stockholders' equity as a component of accumulated other comprehensive income (loss). To the extent that the hedges are not effective, the ineffective portion of the changes in fair market value is recorded directly in earnings.

There were no components of the derivative instruments' gain or loss excluded from the assessment of hedge effectiveness. Gains and losses must be reclassified into earnings as a result of the discontinuance of cash flow hedges if it is probable that the original forecasted transactions will not occur, and there were no such reclassifications.

Gains and losses on the oil and natural gas derivative instruments are reclassified from accumulated other comprehensive income (loss) into operating revenues on the Consolidated Statements of Income at the date the oil and natural gas quantities are settled. The proceeds received for oil and natural gas production are generally based on market prices. Gains and losses on the interest rate derivatives are reclassified from accumulated other comprehensive income (loss) into interest expense on the Consolidated Statements of Income in the same period the hedged item affects earnings. The gains and losses on derivative instruments were as follows:

	Three Months Ended March 31,	
	2013	2012
	(In thousands)	
Commodity derivatives designated as cash flow hedges:		
Amount of loss recognized in accumulated other comprehensive loss (effective portion), net of tax	\$(6,154	)(4,659 )
Amount of gain reclassified from accumulated other comprehensive loss into operating revenues (effective portion), net of tax	2,843	2,343
Amount of loss recognized in operating revenues (ineffective portion), before tax	(1,422	)(4,251 )
Interest rate derivatives designated as cash flow hedges:		
Amount of gain recognized in accumulated other comprehensive loss (effective portion), net of tax	305	889
	(71	)(14 )

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Amount of loss reclassified from accumulated other comprehensive loss into interest expense (effective portion), net of tax		
Amount of loss recognized in interest expense (ineffective portion), before tax	(159	)—
Commodity derivatives not designated as hedging instruments:		
Amount of gain (loss) recognized in operating revenues, before tax	(4,410	)55

As of March 31, 2013, the maximum term of the derivative instruments, in which the exposure to the variability in future cash flows for forecasted transactions is being hedged, is 33 months.



Based on March 31, 2013, fair values, over the next 12 months net gains of approximately \$1.5 million (after tax) are estimated to be reclassified from accumulated other comprehensive income (loss) into earnings, as the hedged transactions affect earnings.

Certain of Fidelity's and Centennial's derivative instruments contain cross-default provisions that state if Fidelity or any of its affiliates or Centennial fails to make payment with respect to certain indebtedness, in excess of specified amounts, the counterparties could require early settlement or termination of derivative instruments in liability positions. The aggregate fair value of Fidelity's and Centennial's derivative instruments with credit-risk-related contingent features that are in a liability position at March 31, 2013, was \$12.4 million. The aggregate fair value of assets that would have been needed to settle the instruments immediately if the credit-risk-related contingent features were triggered on March 31, 2013, was \$12.4 million.

The location and fair value of the gross amount of the Company's derivative instruments on the Consolidated Balance Sheets were as follows:

Asset Derivatives	Location on Consolidated Balance Sheets	Fair Value at March 31, 2013 (In thousands)	Fair Value at March 31, 2012	Fair Value at December 31, 2012
Designated as hedges:				
Commodity derivatives	Commodity derivative instruments	\$ 1,623	\$ 25,560	\$ 18,084
	Other assets - noncurrent	—	537	—
		1,623	26,097	18,084
Not designated as hedges:				
Commodity derivatives	Commodity derivative instruments	4,313	1,138	220
	Other assets - noncurrent	243	45	—
		4,556	1,183	220
Total asset derivatives		\$ 6,179	\$ 27,280	\$ 18,304
Liability Derivatives	Location on Consolidated Balance Sheets	Fair Value at March 31, 2013 (In thousands)	Fair Value at March 31, 2012	Fair Value at December 31, 2012
Designated as hedges:				
Commodity derivatives	Commodity derivative instruments	\$ 5,994	\$ 18,964	\$ —
	Other liabilities - noncurrent	534	6,098	—
Interest rate derivatives	Other accrued liabilities	4,458	1,168	6,255
	Other liabilities - noncurrent	—	2,153	—
		10,986	28,383	6,255
Not designated as hedges:				
Commodity derivatives	Commodity derivative instruments	1,385	1,219	—
	Other liabilities - noncurrent	74	49	—
		1,459	1,268	—
Total liability derivatives		\$ 12,445	\$ 29,651	\$ 6,255

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All of the Company's commodity and interest rate derivative instruments at March 31, 2013 and 2012, and December 31, 2012, were subject to legally enforceable master netting agreements. However, the Company's policy is to not offset fair value amounts for derivative instruments and, as a result, the Company's derivative assets and liabilities are presented gross on the Consolidated Balance Sheets. The gross derivative assets and liabilities (excluding settlement receivables and payables that may be subject to the same master netting agreements) presented on the Consolidated Balance Sheets and the amount eligible for offset under the master netting agreements is presented in the following table:

March 31, 2013	Gross Amounts Recognized on the Consolidated Balance Sheets (In thousands)	Gross Amounts Not Offset on the Consolidated Balance Sheets	Net
Assets:			
Commodity derivatives	\$6,179	\$(3,578)	)\$2,601
Total assets	\$6,179	\$(3,578)	)\$2,601
Liabilities:			
Commodity derivatives	\$7,987	\$(3,578)	)\$4,409
Interest rate derivatives	4,458	—	4,458
Total liabilities	\$12,445	\$(3,578)	)\$8,867

March 31, 2012	Gross Amounts Recognized on the Consolidated Balance Sheets (In thousands)	Gross Amounts Not Offset on the Consolidated Balance Sheets	Net
Assets:			
Commodity derivatives	\$27,280	\$(15,805)	)\$11,475
Total assets	\$27,280	\$(15,805)	)\$11,475
Liabilities:			
Commodity derivatives	\$26,330	\$(15,805)	)\$10,525
Interest rate derivatives	3,321	—	3,321
Total liabilities	\$29,651	\$(15,805)	)\$13,846

December 31, 2012	Gross Amounts Recognized on the Consolidated Balance Sheets (In thousands)	Gross Amounts Not Offset on the Consolidated Balance Sheets	Net
Assets:			
Commodity derivatives	\$18,304	\$—	\$18,304
Total assets	\$18,304	\$—	\$18,304
Liabilities:			
Interest rate derivatives	\$6,255	\$—	\$6,255
Total liabilities	\$6,255	\$—	\$6,255

Effective April 1, 2013, the Company has elected to de-designate all of its commodity derivative contracts that existed at March 31, 2013, that had been previously designated as cash flow hedges, and has elected to discontinue hedge accounting for its commodity derivatives prospectively. As a result, Fidelity will recognize all future gains and losses

from prospective changes in commodity derivative fair values immediately in earnings rather than deferring any such amounts in accumulated other comprehensive income (loss).

## Note 13 - Fair value measurements

The Company measures its investments in certain fixed-income and equity securities at fair value with changes in fair value recognized in income. The Company anticipates using these investments, which consist of an insurance contract, to satisfy its obligations under its unfunded, nonqualified benefit plans for executive officers and certain key management employees, and invests in these fixed-income and equity securities for the purpose of earning investment returns and capital appreciation. These investments, which totaled \$53.3 million, \$48.7 million and \$48.9 million, as of March 31, 2013 and 2012, and December 31, 2012, respectively, are classified as Investments on the Consolidated Balance Sheets. The net unrealized gains on these investments were \$4.4 million and \$5.0 million for the three months ended March 31, 2013 and 2012, respectively. The change in fair value, which is considered part of the cost of the plan, is classified in operation and maintenance expense on the Consolidated Statements of Income.

The Company did not elect the fair value option, which records gains and losses in income, for its remaining available-for-sale securities, which include auction rate securities, mortgage-backed securities and U.S. Treasury securities. These available-for-sale securities are recorded at fair value and are classified as Investments on the Consolidated Balance Sheets. The Company's auction rate securities approximated cost and, as a result, there were no accumulated unrealized gains or losses recorded in accumulated other comprehensive income (loss) on the Consolidated Balance Sheets related to these investments. In the second quarter of 2012, the Company sold its auction rate securities at cost and did not realize any gains or losses. Unrealized gains or losses on mortgage-backed securities and U.S. Treasury securities are recorded in accumulated other comprehensive income (loss). Details of available-for-sale securities were as follows:

March 31, 2013	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Insurance contract	\$ 37,270	\$ 16,064	\$—	\$ 53,334
Mortgage-backed securities	8,749	133	(3	)8,879
U.S. Treasury securities	1,301	39	—	1,340
Total	\$ 47,320	\$ 16,236	\$(3	)\$ 63,553
March 31, 2012	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Insurance contract	\$ 37,250	\$ 11,454	\$—	\$ 48,704
Auction rate securities	11,400	—	—	11,400
Mortgage-backed securities	7,952	119	(1	)8,070
U.S. Treasury securities	1,968	49	(1	)2,016
Total	\$ 58,570	\$ 11,622	\$(2	)\$ 70,190
December 31, 2012	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Insurance contract	\$ 37,250	\$ 11,648	\$—	\$ 48,898
Mortgage-backed securities	8,054	144	(3	)8,195
U.S. Treasury securities	1,763	43	—	1,806
Total	\$ 47,067	\$ 11,835	\$(3	)\$ 58,899

The fair value of the Company's money market funds approximates cost.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. The ASC establishes a hierarchy for grouping assets and liabilities, based on the significance of inputs.

The estimated fair values of the Company's assets and liabilities measured on a recurring basis are determined using the market approach.

The Company's Level 2 money market funds consist of investments in short-term unsecured promissory notes and the value is based on comparable market transactions taking into consideration the credit quality of the issuer. The estimated fair value of the Company's Level 2 mortgage-backed securities and U.S. Treasury securities are based on comparable market transactions, other observable inputs or other sources, including pricing from outside sources.

The estimated fair value of the Company's Level 2 insurance contract is based on contractual cash surrender values that are determined primarily by investments in managed separate accounts of the insurer. These amounts approximate fair value. The managed separate accounts are valued based on other observable inputs or corroborated market data.

The estimated fair value of the Company's Level 2 commodity derivative instruments is based upon futures prices, volatility and time to maturity, among other things. Counterparty statements are utilized to determine the value of the commodity derivative instruments and are reviewed and corroborated using various methodologies and significant observable inputs. The Company's and the counterparties' nonperformance risk is also evaluated.

The estimated fair value of the Company's Level 2 interest rate derivative instruments is measured using quoted market prices or pricing models using prevailing market interest rates as of the measurement date. Counterparty statements are utilized to determine the value of the interest rate derivative instruments and are reviewed and corroborated using various methodologies and significant observable inputs. The Company's and the counterparties' nonperformance risk is also evaluated.

Though the Company believes the methods used to estimate fair value are consistent with those used by other market participants, the use of other methods or assumptions could result in a different estimate of fair value. For the three months ended March 31, 2013 and 2012, there were no transfers between Levels 1 and 2.

The Company's assets and liabilities measured at fair value on a recurring basis are as follows:

	Fair Value Measurements at March 31, 2013, Using			Balance at March 31, 2013
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	(In thousands)			
Assets:				
Money market funds	\$—	\$31,281	\$—	\$31,281
Available-for-sale securities:				
Insurance contract*	—	53,334	—	53,334
Mortgage-backed securities	—	8,879	—	8,879
U.S. Treasury securities	—	1,340	—	1,340
Commodity derivative instruments	—	6,179	—	6,179
Total assets measured at fair value	\$—	\$101,013	\$—	\$101,013
Liabilities:				
Commodity derivative instruments	\$—	\$7,987	\$—	\$7,987
Interest rate derivative instruments	—	4,458	—	4,458
Total liabilities measured at fair value	\$—	\$12,445	\$—	\$12,445

\* The insurance contract invests approximately 29 percent in common stock of mid-cap companies, 28 percent in common stock of small-cap companies, 28 percent in common stock of large-cap companies and 15 percent in fixed-income and other investments.



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	Fair Value Measurements at March 31, 2012, Using			Balance at March 31, 2012
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	(In thousands)			
Assets:				
Money market funds	\$—	\$9,942	\$—	\$9,942
Available-for-sale securities:				
Insurance contract*	—	48,704	—	48,704
Auction rate securities	—	11,400	—	11,400
Mortgage-backed securities	—	8,070	—	8,070
U.S. Treasury securities	—	2,016	—	2,016
Commodity derivative instruments	—	27,280	—	27,280
Total assets measured at fair value	\$—	\$107,412	\$—	\$107,412
Liabilities:				
Commodity derivative instruments	\$—	\$26,330	\$—	\$26,330
Interest rate derivative instruments	—	3,321	—	3,321
Total liabilities measured at fair value	\$—	\$29,651	\$—	\$29,651

\* The insurance contract invests approximately 29 percent in common stock of mid-cap companies, 29 percent in common stock of small-cap companies, 29 percent in common stock of large-cap companies and 13 percent in fixed-income and other investments.

	Fair Value Measurements at December 31, 2012, Using			Balance at December 31, 2012
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
	(In thousands)			
Assets:				
Money market funds	\$—	\$24,240	\$—	\$24,240
Available-for-sale securities:				
Insurance contract*	—	48,898	—	48,898
Mortgage-backed securities	—	8,195	—	8,195
U.S. Treasury securities	—	1,806	—	1,806
Commodity derivative instruments	—	18,304	—	18,304
Total assets measured at fair value	\$—	\$101,443	\$—	\$101,443
Liabilities:				
Interest rate derivative instruments	\$—	\$6,255	\$—	\$6,255
Total liabilities measured at fair value	\$—	\$6,255	\$—	\$6,255

\* The insurance contract invests approximately 28 percent in common stock of mid-cap companies, 28 percent in common stock of small-cap companies, 29 percent in common stock of large-cap companies and 15 percent in fixed-income and other investments.





The Company's long-term debt is not measured at fair value on the Consolidated Balance Sheets and the fair value is being provided for disclosure purposes only. The fair value was based on discounted future cash flows using current market interest rates. The estimated fair value of the Company's Level 2 long-term debt was as follows:

	Carrying Amount (In thousands)	Fair Value
Long-term debt at March 31, 2013	\$1,789,663	\$1,925,859
Long-term debt at March 31, 2012	\$1,416,189	\$1,578,395
Long-term debt at December 31, 2012	\$1,744,975	\$1,888,135

The carrying amounts of the Company's remaining financial instruments included in current assets and current liabilities approximate their fair values.

#### Note 14 - Income taxes

In connection with the income tax examination for the 2007 through 2009 tax years, the Company recorded income tax expense of \$2.2 million for unrecognized tax positions in the first quarter of 2012.

In addition, the Company had a reduction of deferred income tax expense of \$2.5 million in the first quarter of 2012, due to a deferred income tax rate reduction related to state income tax apportionment.

It is likely that substantially all of the unrecognized tax benefits of \$14.9 million, as well as interest, at March 31, 2013, will be settled in the next 12 months due to the anticipated settlement of federal and state audits.

#### Note 15 - Business segment data

The Company's reportable segments are those that are based on the Company's method of internal reporting, which generally segregates the strategic business units due to differences in products, services and regulation. The internal reporting of these operating segments is defined based on the reporting and review process used by the Company's chief executive officer and other management. The vast majority of the Company's operations are located within the United States. The Company also has an investment in a foreign country, which consists of Centennial Resources' equity method investment in ECTE.

The electric segment generates, transmits and distributes electricity in Montana, North Dakota, South Dakota and Wyoming. The natural gas distribution segment distributes natural gas in those states as well as in Idaho, Minnesota, Oregon and Washington. These operations also supply related value-added services.

The pipeline and energy services segment provides natural gas transportation, underground storage, processing and gathering services, as well as oil gathering, through regulated and nonregulated pipeline systems primarily in the Rocky Mountain and northern Great Plains regions of the United States. This segment is constructing a diesel topping plant to refine crude oil and also provides cathodic protection and other energy-related services.

The exploration and production segment is engaged in oil and natural gas acquisition, exploration, development and production activities in the Rocky Mountain and Mid-Continent regions of the United States and in and around the Gulf of Mexico.

The construction materials and contracting segment mines aggregates and markets crushed stone, sand, gravel and related construction materials, including ready-mixed concrete, cement, asphalt, liquid asphalt and other value-added products. It also performs integrated contracting services. This segment operates in the central, southern and western United States and Alaska and Hawaii.

The construction services segment specializes in constructing and maintaining electric and communication lines, gas pipelines, fire suppression systems, and external lighting and traffic signalization equipment. This segment also

provides utility excavation services and inside electrical wiring, cabling and mechanical services, sells and distributes electrical materials, and manufactures and distributes specialty equipment.

The Other category includes the activities of Centennial Capital, which insures various types of risks as a captive insurer for certain of the Company's subsidiaries. The function of the captive insurer is to fund the deductible layers of the insured companies' general liability and automobile liability coverages. Centennial Capital also owns certain real and personal property. The Other category also includes Centennial Resources' equity method investment in ECTE.

The information below follows the same accounting policies as described in Note 1 of the Company's Notes to Consolidated Financial Statements in the 2012 Annual Report. Information on the Company's businesses was as follows:

Three Months Ended March 31, 2013	External Operating Revenues	Inter- segment Operating Revenues	Earnings on Common Stock
	(In thousands)		
Electric	\$ 64,654	\$ —	\$ 9,825
Natural gas distribution	331,754	—	32,518
Pipeline and energy services	27,716	18,718	2,330
	424,124	18,718	44,673
Exploration and production	115,363	9,812	20,284
Construction materials and contracting	161,977	4,294	(20,582 )
Construction services	229,806	1,574	11,664
Other	334	1,818	305
	507,480	17,498	11,671
Intersegment eliminations	—	(36,216 )	—
Total	\$ 931,604	\$ —	\$ 56,344
	(In thousands)		
Three Months Ended March 31, 2012	External Operating Revenues	Inter- segment Operating Revenues	Earnings on Common Stock
	(In thousands)		
Electric	\$ 57,963	\$ —	\$ 7,559
Natural gas distribution	307,891	—	25,508
Pipeline and energy services	29,227	20,409	2,760
	395,081	20,409	35,827
Exploration and production	88,494	11,328	12,930
Construction materials and contracting	149,268	151	(24,932 )
Construction services	218,151	25	11,403
Other	1,813	327	391
	457,726	11,831	(208 )
Intersegment eliminations	—	(32,240 )	—
Total	\$ 852,807	\$ —	\$ 35,619

Earnings from electric, natural gas distribution and pipeline and energy services are substantially all from regulated operations. Earnings from exploration and production, construction materials and contracting, construction services and other are all from nonregulated operations.

## Note 16 - Employee benefit plans

The Company has noncontributory defined benefit pension plans and other postretirement benefit plans for certain eligible employees. Components of net periodic benefit cost for the Company's pension and other postretirement benefit plans were as follows:

Three Months Ended March 31,	Pension Benefits		Other Postretirement Benefits	
	2013	2012	2013	2012
	(In thousands)			
Components of net periodic benefit cost:				
Service cost	\$40	\$345	\$504	\$412
Interest cost	4,018	4,554	940	1,143
Expected return on assets	(5,083	)(5,886	)(1,107	)(1,244
Amortization of prior service cost (credit)	18	(21	)(364	)(272
Amortization of net actuarial loss	1,864	1,681	671	526
Amortization of net transition obligation	—	—	—	532
Net periodic benefit cost, including amount capitalized	857	673	644	1,097
Less amount capitalized	110	234	29	138
Net periodic benefit cost	\$747	\$439	\$615	\$959

Defined pension plan benefits to all nonunion and certain union employees hired after December 31, 2005, were discontinued. Employees that would have been eligible for defined pension plan benefits are eligible to receive additional defined contribution plan benefits. Effective January 1, 2010, all benefit and service accruals for nonunion and certain union plans were frozen. Effective June 30, 2011 and September 30, 2012, all benefit and service accruals for certain additional union employees were frozen. These employees will be eligible to receive additional defined contribution plan benefits.

In addition to the qualified plan defined pension benefits reflected in the table, the Company has unfunded, nonqualified benefit plans for executive officers and certain key management employees that generally provide for defined benefit payments at age 65 following the employee's retirement or to their beneficiaries upon death for a 15-year period. The Company's net periodic benefit cost for this plan for the three months ended March 31, 2013 and 2012, was \$1.9 million and \$2.1 million, respectively.

In 2012, the Company modified health care coverage for certain retirees. Effective January 1, 2013, post-65 coverage is replaced by a fixed-dollar subsidy for retirees and spouses to be used to purchase individual insurance through an exchange.

## Note 17 - Regulatory matters and revenues subject to refund

On September 26, 2012, Montana-Dakota filed an application with the MTPSC for a natural gas rate increase. Montana-Dakota requested a total increase of \$3.5 million annually or approximately 5.9 percent above current rates. The requested increase includes the costs associated with the increased investment in facilities, including ongoing investment in new and replacement distribution facilities, the landfill gas production facility, a region operations building, automated meter reading and a new customer billing system. Montana-Dakota requested an interim increase, subject to refund, of \$1.7 million or approximately 2.9 percent. On April 12, 2013, the MTPSC issued an interim order authorizing an interim increase of \$850,000 annually to be effective with service rendered on or after April 15, 2013, subject to refund. A hearing scheduled for May 1, 2013, was postponed with no date currently set.

On December 21, 2012, Montana-Dakota filed an application with the SDPUC for a natural gas rate increase. Montana-Dakota requested a total increase of \$1.5 million annually or approximately 3.3 percent above current rates. The requested increase includes the costs associated with the increased investment in facilities, including ongoing investment in new and replacement distribution facilities, the landfill gas production facility, an operations building, automated meter reading and a new customer billing system.

On February 11, 2013, Montana-Dakota filed an application with the NDPSC for approval of an environmental cost recovery rider for recovery of Montana-Dakota's share of the costs resulting from the environmental retrofit required to be installed at the Big Stone Station. The costs proposed to be recovered are associated with the ongoing construction costs for the installation of the BART air-quality control system. On February 27, 2013, the NDPSC suspended the filing pending further review.

#### Note 18 - Contingencies

The Company is party to claims and lawsuits arising out of its business and that of its consolidated subsidiaries. The Company accrues a liability for those contingencies when the incurrence of a loss is probable and the amount can be reasonably estimated. If a range of amounts can be reasonably estimated and no amount within the range is a better estimate than any other amount, then the minimum of the range is accrued. The Company does not accrue liabilities when the likelihood that the liability has been incurred is probable but the amount cannot be reasonably estimated or when the liability is believed to be only reasonably possible or remote. For contingencies where an unfavorable outcome is probable or reasonably possible and which are material, the Company discloses the nature of the contingency and, where feasible, an estimate of the possible loss. The Company had accrued liabilities of \$33.3 million, \$70.7 million and \$22.5 million for contingencies, including litigation and environmental matters, as of March 31, 2013 and 2012, and December 31, 2012, respectively, which includes amounts that may have been accrued for matters discussed in Litigation and Environmental matters within this note.

#### Litigation

Guarantee Obligation Under a Construction Contract Centennial guaranteed CEM's obligations under a construction contract with LPP for a 550-MW combined-cycle electric generating facility near Hobbs, New Mexico. Centennial Resources sold CEM in July 2007 to Bicent. In February 2009, Centennial received a Notice and Demand from LPP under the guarantee agreement alleging that CEM did not meet certain of its obligations under the construction contract and demanding that Centennial indemnify LPP against all losses, damages, claims, costs, charges and expenses arising from CEM's alleged failures. In December 2009, LPP submitted a demand for arbitration of its dispute with CEM to the American Arbitration Association seeking compensatory damages of \$149.7 million. An arbitration award was issued January 13, 2012, awarding LPP \$22.0 million. Centennial subsequently received a demand from LPP for payment of the arbitration award plus interest and attorneys' fees. An accrual related to the guarantee as a result of the arbitration award was recorded in discontinued operations on the Consolidated Statement of Income in the fourth quarter of 2011. CEM filed a petition with the New York Supreme Court to vacate the arbitration award in favor of LPP. On October 19, 2012, Centennial moved to intervene in the New York Supreme Court action to vacate the arbitration award and also filed a complaint with the New York Supreme Court seeking a declaration that LPP is not entitled to indemnification from Centennial under the guaranty for the arbitration award. The New York Supreme Court granted CEM's petition to vacate the arbitration award on November 20, 2012, and entered a written order to that effect on April 11, 2013. Due to the vacation of the arbitration award, the Company no longer believes the loss related to this matter to be probable and thus the liability that was previously recorded in 2011 was reversed in the fourth quarter of 2012. Centennial anticipates LPP will appeal the order. We believe that it is reasonably possible that a loss related to this matter could result if LPP is successful in its appeal, the arbitration award is affirmed and LPP continues to assert its demand against Centennial under the guarantee for payment of the arbitration award, attorneys' fees and interest. For more information regarding discontinued operations, see Note 9.

Construction Materials Until the fall of 2011 when it discontinued active mining operations at the pit, JTL operated the Target Range Gravel Pit in Missoula County, Montana under a 1975 reclamation contract pursuant to the Montana Opencut Mining Act. In September 2009, the Montana DEQ sent a letter asserting JTL was in violation of the Montana Opencut Mining Act by conducting mining operations outside a permitted area. JTL filed a complaint in Montana First Judicial District Court in June 2010, seeking a declaratory order that the reclamation contract is a valid permit under the Montana Opencut Mining Act. The Montana DEQ filed an answer and counterclaim to the complaint in August 2011, alleging JTL was in violation of the Montana Opencut Mining Act and requesting imposition of penalties of not more than \$3.7 million plus not more than \$5,000 per day from the date of the counterclaim. The Company believes the operation of the Target Range Gravel Pit was conducted under a valid permit; however, the imposition of civil penalties is reasonably possible. The Company filed an application for amendment of its opencut mining permit and intends to resolve this matter through settlement or continuation of the Montana First Judicial District Court litigation.

Natural Gas Gathering Operations In January 2010, SourceGas filed an application with the Colorado State District Court to compel WBI Energy Midstream to arbitrate a dispute regarding operating pressures under a natural gas gathering contract on one of WBI Energy Midstream's pipeline gathering systems in Montana. WBI Energy Midstream resisted the application and sought a declaratory order interpreting the gathering contract. In May 2010, the Colorado State District Court granted the application and ordered WBI Energy Midstream into arbitration. An arbitration hearing was held in August 2010. In October 2010, the arbitration panel issued an award in favor of SourceGas for approximately \$26.6 million. As a result, WBI Energy Midstream, which is included in the pipeline and energy services segment, recorded a \$26.6 million charge (\$16.5 million after tax) in the third quarter of 2010. On April 20, 2011, the Colorado State District Court confirmed the arbitration award as a court judgment. WBI Energy Midstream filed an appeal from the Colorado State District Court's order and judgment to the Colorado Court of Appeals. The Colorado Court of Appeals issued a decision on May 24, 2012, reversing the Colorado State District Court order compelling arbitration, vacating the final award and remanding the case to the Colorado State District Court to determine SourceGas's claims and WBI Energy Midstream's counterclaims. As a result of the Colorado Court of Appeals



decision, in the second quarter of 2012, WBI Energy Midstream changed its estimated loss related to this matter. This resulted in a reduction of expense of \$24.1 million (\$15.0 million after tax). On August 2, 2012, SourceGas filed a petition for writ of certiorari with the Colorado Supreme Court for review of the Colorado Court of Appeals decision. WBI Energy Midstream anticipates that if the Colorado Supreme Court were to grant a writ of certiorari and remand the matter to the Colorado State District Court, SourceGas will assert claims similar to those asserted in the arbitration proceeding.

In a related matter, Omimex filed a complaint against WBI Energy Midstream in Montana Seventeenth Judicial District Court in July 2010 alleging WBI Energy Midstream breached a separate gathering contract with Omimex as a result of the increased operating pressures demanded by SourceGas on the same natural gas gathering system. In December 2011, Omimex filed an amended complaint alleging WBI Energy Midstream breached obligations to operate its gathering system as a common carrier under United States and Montana law. WBI Energy Midstream removed the action to the United States District Court for the District of Montana. Expert reports submitted by Omimex contended its damages as a result of the increased operating pressures were \$16.1 million to \$22.6 million, however, the experts have since revised their calculation of Omimex's damages to \$1.0 million. The Company believes the claims asserted by Omimex are without merit and an award is not deemed probable. The Company intends to vigorously defend against the claims. A trial on the matter is scheduled for July 2013.

The Company also is involved in other legal actions in the ordinary course of its business. After taking into account liabilities accrued for the foregoing matters, management believes that the outcomes with respect to the above and other legal proceedings will not have a material effect upon the Company's financial position, results of operations or cash flows.

#### Environmental matters

Portland Harbor Site In December 2000, Knife River - Northwest was named by the EPA as a PRP in connection with the cleanup of a riverbed site adjacent to a commercial property site acquired by Knife River - Northwest from Georgia-Pacific West, Inc. in 1999. The riverbed site is part of the Portland, Oregon, Harbor Superfund Site. The EPA wants responsible parties to share in the cleanup of sediment contamination in the Willamette River. To date, costs of the overall remedial investigation and feasibility study of the harbor site are being recorded, and initially paid, through an administrative consent order by the LWG, a group of several entities, which does not include Knife River - Northwest or Georgia-Pacific West, Inc. Investigative costs are indicated to be in excess of \$70 million. It is not possible to estimate the cost of a corrective action plan until the remedial investigation and feasibility study have been completed, the EPA has decided on a strategy and a ROD has been published. Corrective action will be taken after the development of a proposed plan and ROD on the harbor site is issued. Knife River - Northwest also received notice in January 2008 that the Portland Harbor Natural Resource Trustee Council intends to perform an injury assessment to natural resources resulting from the release of hazardous substances at the Harbor Superfund Site. The Portland Harbor Natural Resource Trustee Council indicates the injury determination is appropriate to facilitate early settlement of damages and restoration for natural resource injuries. It is not possible to estimate the costs of natural resource damages until an assessment is completed and allocations are undertaken.

Based upon a review of the Portland Harbor sediment contamination evaluation by the Oregon DEQ and other information available, Knife River - Northwest does not believe it is a Responsible Party. In addition, Knife River - Northwest has notified Georgia-Pacific West, Inc., that it intends to seek indemnity for liabilities incurred in relation to the above matters pursuant to the terms of their sale agreement. Knife River - Northwest has entered into an agreement tolling the statute of limitations in connection with the LWG's potential claim for contribution to the costs of the remedial investigation and feasibility study. By letter in March 2009, LWG stated its intent to file suit against Knife River - Northwest and others to recover LWG's investigation costs to the extent Knife River - Northwest cannot demonstrate its non-liability for the contamination or is unwilling to participate in an alternative dispute resolution process that has been established to address the matter. At this time, Knife River - Northwest has agreed to participate

in the alternative dispute resolution process.

The Company believes it is not probable that it will incur any material environmental remediation costs or damages in relation to the above referenced administrative action.

**Manufactured Gas Plant Sites** There are three claims against Cascade for cleanup of environmental contamination at manufactured gas plant sites operated by Cascade's predecessors.

The first claim is for contamination at a site in Eugene, Oregon which was received in 1995. There are PRPs in addition to Cascade that may be liable for cleanup of the contamination. Some of these PRPs have shared in the investigation costs. It is expected that these and other PRPs will share in the cleanup costs. Several alternatives for cleanup have been identified, with preliminary cost estimates ranging from approximately \$500,000 to \$11.0 million. The Oregon DEQ is preparing a staff report which will recommend a cleanup alternative for the site. It is not known at this time what share of the cleanup costs will actually be borne by Cascade; however, Cascade anticipates its proportional share could be approximately 50 percent. Cascade

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has accrued \$1.3 million for remediation of this site. In January 2013, the OPUC approved Cascade's application to defer environmental remediation costs at the Eugene site for a period of 12 months starting November 30, 2012.

The second claim is for contamination at a site in Bremerton, Washington which was received in 1997. A preliminary investigation has found soil and groundwater at the site contain contaminants requiring further investigation and cleanup. EPA conducted a Targeted Brownfields Assessment of the site and released a report summarizing the results of that assessment in August 2009. The assessment confirms that contaminants have affected soil and groundwater at the site, as well as sediments in the adjacent Port Washington Narrows. Alternative remediation options have been identified with preliminary cost estimates ranging from \$340,000 to \$6.4 million. Data developed through the assessment and previous investigations indicates the contamination likely derived from multiple, different sources and multiple current and former owners of properties and businesses in the vicinity of the site may be responsible for the contamination. In April 2010, the Washington Department of Ecology issued notice it considered Cascade a PRP for hazardous substances at the site. In May 2012, the EPA added the site to the National Priorities List. Cascade has entered into an administrative settlement agreement and consent order with the EPA regarding the scope and schedule for a remedial investigation and feasibility study for the site. Cascade has accrued \$6.7 million for the remedial investigation and feasibility study and \$6.4 million for remediation of this site. In April 2010, Cascade filed a petition with the WUTC for authority to defer the costs, which are included in other noncurrent assets, incurred in relation to the environmental remediation of this site until the next general rate case. The WUTC approved the petition in September 2010, subject to conditions set forth in the order.

The third claim is for contamination at a site in Bellingham, Washington. Cascade received notice from a party in May 2008 that Cascade may be a PRP, along with other parties, for contamination from a manufactured gas plant owned by Cascade and its predecessor from about 1946 to 1962. The notice indicates that current estimates to complete investigation and cleanup of the site exceed \$8.0 million. Other PRPs have reached an agreed order and work plan with the Washington Department of Ecology for completion of a remedial investigation and feasibility study for the site. A report documenting the initial phase of the remedial investigation was completed in June 2011. There is currently not enough information available to estimate the potential liability to Cascade associated with this claim although Cascade believes its proportional share of any liability will be relatively small in comparison to other PRPs. The plant manufactured gas from coal between approximately 1890 and 1946. In 1946, shortly after Cascade's predecessor acquired the plant, it converted the plant to a propane-air gas facility. There are no documented wastes or by-products resulting from the mixing or distribution of propane-air gas.

Cascade has received notices from certain of its insurance carriers that they will participate in defense of Cascade for these contamination claims subject to full and complete reservations of rights and defenses to insurance coverage. To the extent these claims are not covered by insurance, Cascade will seek recovery through the OPUC and WUTC of remediation costs in its natural gas rates charged to customers. The accruals related to these matters are reflected in regulatory assets.

Halawa Quarry The State of Hawaii Department of Health issued a Notice of Violation to Hawaiian Cement dated August 31, 2012, alleging violations of Hawaii's Water Pollution statute at Hawaiian Cement's Halawa Quarry by failure to comply with the quarry's National Pollutant Discharge Elimination System permit by failing to design, construct and maintain a facility to contain or treat the volume of all process wastewater and storm water that would result from a 10-year, 24-hour rainfall event. The Notice of Violation also alleged Hawaiian Cement violated the quarry's permit by discharging pollution, including levels of pH and total suspended solids in excess of the permit limits, on three occasions in January, June and December 2011. The Notice of Violation sought development and implementation of corrective action plans and unspecified administrative penalties. Hawaiian Cement resolved the Notice of Violation through a negotiated settlement which included payment of a monetary penalty of \$100,000 as well as development and implementation of corrective action plans, the final cost of which are not expected to be material.

Guarantees

Centennial guaranteed CEM's obligations under a construction contract. For more information, see Litigation in this note.

In connection with the sale of the Brazilian Transmission Lines, as discussed in Note 10, Centennial has agreed to guarantee payment of any indemnity obligations of certain of the Company's indirect wholly owned subsidiaries who are the sellers in three purchase and sale agreements for periods ranging up to 10 years from the date of sale. The guarantees were required by the buyers as a condition to the sale of the Brazilian Transmission Lines.

WBI Holdings has guaranteed certain of Fidelity's oil and natural gas swap and collar agreement obligations. There is no fixed maximum amount guaranteed in relation to the oil and natural gas swap and collar agreements as the amount of the obligation is dependent upon oil and natural gas commodity prices. The amount of hedging activity entered into by the subsidiary is limited by corporate policy. The guarantees of the oil and natural gas swap and collar agreements at March 31, 2013, expire in the years ranging from 2013 to 2015; however, Fidelity continues to enter into additional hedging activities and, as a result,

WBI Holdings from time to time may issue additional guarantees on these hedging obligations. The amount outstanding by Fidelity was \$4.5 million and was reflected on the Consolidated Balance Sheet at March 31, 2013. In the event Fidelity defaults under its obligations, WBI Holdings would be required to make payments under its guarantees.

Certain subsidiaries of the Company have outstanding guarantees to third parties that guarantee the performance of other subsidiaries of the Company. These guarantees are related to construction contracts, natural gas transportation and sales agreements, gathering contracts and certain other guarantees. At March 31, 2013, the fixed maximum amounts guaranteed under these agreements aggregated \$74.6 million. The amounts of scheduled expiration of the maximum amounts guaranteed under these agreements aggregate \$17.4 million in 2013; \$38.4 million in 2014; \$300,000 in 2015; \$100,000 in 2016; \$600,000 in 2018; \$300,000 in 2019; \$13.5 million, which is subject to expiration on a specified number of days after the receipt of written notice; and \$4.0 million, which has no scheduled maturity date. The amount outstanding by subsidiaries of the Company under the above guarantees was \$200,000 and was reflected on the Consolidated Balance Sheet at March 31, 2013. In the event of default under these guarantee obligations, the subsidiary issuing the guarantee for that particular obligation would be required to make payments under its guarantee.

Certain subsidiaries have outstanding letters of credit to third parties related to insurance policies and other agreements, some of which are guaranteed by other subsidiaries of the Company. At March 31, 2013, the fixed maximum amounts guaranteed under these letters of credit, aggregated \$32.3 million. In 2013 and 2014, \$3.3 million and \$29.0 million, respectively, of letters of credit are scheduled to expire. There were no amounts outstanding under the above letters of credit at March 31, 2013.

WBI Holdings has an outstanding guarantee to WBI Energy Transmission. This guarantee is related to a natural gas transportation and storage agreement that guarantees the performance of Prairielands. At March 31, 2013, the fixed maximum amount guaranteed under this agreement was \$5.0 million and is scheduled to expire in 2014. In the event of Prairielands' default in its payment obligations, WBI Holdings would be required to make payment under its guarantee. The amount outstanding by Prairielands under the above guarantee was \$900,000. The amount outstanding under this guarantee was not reflected on the Consolidated Balance Sheet at March 31, 2013, because this intercompany transaction was eliminated in consolidation.

In addition, Centennial, Knife River and MDU Construction Services have issued guarantees to third parties related to the routine purchase of maintenance items, materials and lease obligations for which no fixed maximum amounts have been specified. These guarantees have no scheduled maturity date. In the event a subsidiary of the Company defaults under these obligations, Centennial, Knife River and MDU Construction Services would be required to make payments under these guarantees. Any amounts outstanding by subsidiaries of the Company for these guarantees were reflected on the Consolidated Balance Sheet at March 31, 2013.

In the normal course of business, Centennial has surety bonds related to construction contracts and reclamation obligations of its subsidiaries, as well as an arbitration award. In the event a subsidiary of Centennial does not fulfill a bonded obligation, Centennial would be responsible to the surety bond company for completion of the bonded contract or obligation. A large portion of the surety bonds is expected to expire within the next 12 months; however, Centennial will likely continue to enter into surety bonds for its subsidiaries in the future. As of March 31, 2013, approximately \$639 million of surety bonds were outstanding, which were not reflected on the Consolidated Balance Sheet.

#### Variable interest entities

The Company evaluates its arrangements and contracts with other entities to determine if they are VIEs and if so, if the Company is the primary beneficiary. GAAP provides a framework for identifying VIEs and determining when a

company should include the assets, liabilities, noncontrolling interest, and results of activities of a VIE in its consolidated financial statements.

A VIE should be consolidated if a party with an ownership, contractual, or other financial interest in the VIE (a variable interest holder) has the power to direct the VIE's most significant activities and the obligation to absorb losses or right to receive benefits of the VIE that could be significant to the VIE. A variable interest holder that consolidates the VIE is called the primary beneficiary. Upon consolidation, the primary beneficiary generally must initially record all of the VIE's assets, liabilities, and noncontrolling interests at fair value and subsequently account for the VIE as if it were consolidated.

The Company's evaluation of whether it qualifies as the primary beneficiary of a VIE is highly complex and involves significant judgments, estimates and assumptions and includes a qualitative analysis of the activities that most significantly impact the VIE's economic performance and whether the Company has the power to direct those activities, the design of the entity, the rights of the parties, and the purpose of the arrangement.

Dakota Prairie Refining, LLC On February 7, 2013, WBI Energy and Calumet formed a limited liability company, Dakota Prairie Refining, and entered into an operating agreement to develop, build and operate a diesel topping plant in southwestern North Dakota. WBI Energy and Calumet each have a fifty percent ownership interest in Dakota Prairie Refining. WBI Energy's and Calumet's capital commitments under the agreement are \$150 million and \$75 million, respectively. Dakota Prairie Refining entered into a term loan for project debt financing of \$75 million on April 22, 2013. The agreement provides for allocation of profits and losses consistent with ownership interests; however, deductions attributable to project financing debt will be allocated to Calumet. Calumet's future cash distributions from Dakota Prairie Refining will be decreased by the principal and interest to be paid on the project debt, while the cash distributions to WBI Energy will not be decreased. Pursuant to the agreement, Centennial agreed to guarantee Dakota Prairie Refining's obligation under the term loan. For more information on the guarantee, see Note 19.

Dakota Prairie Refining has been determined to be a VIE, and the Company has determined that it is the primary beneficiary as it has an obligation to absorb losses that could be potentially significant to the VIE through WBI Energy's equity investment and Centennial's guarantee of the third-party term loan. Accordingly, the Company consolidates Dakota Prairie Refining in its financial statements and records a noncontrolling interest for Calumet's ownership interest.

Construction on the diesel topping plant began in early 2013 and the plant is not yet operational. The assets of Dakota Prairie Refining shall be used solely for the benefit of Dakota Prairie Refining. The total assets and liabilities of Dakota Prairie Refining reflected on the Company's Consolidated Balance Sheets were as follows:

	March 31, 2013 (In thousands)
<b>ASSETS</b>	
Current assets:	
Cash and cash equivalents	\$ 10,793
Total current assets	10,793
Net property, plant and equipment	27,356
Total assets	\$ 38,149
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	\$ 10,948
Total liabilities	\$ 10,948

Fuel Contract On October 10, 2012, the Coyote Station entered into a new coal supply agreement with Coyote Creek that will replace a coal supply agreement that expires in May 2016. The new agreement provides for the purchase of coal necessary to supply the coal requirements of the Coyote Station, of which the Company is a 25.0 percent owner, for the period May 2016 through December 2040.

The new coal supply agreement creates a variable interest in Coyote Creek due to the transfer of all operating and economic risk to the Coyote Station owners as the agreement is structured so the price of the coal will cover all costs of operations as well as future reclamation costs. The Coyote Station owners are also providing a guarantee of the value of the assets of Coyote Creek as they would be required to buy the assets at book value should they terminate the contract prior to the end of the contract term and are providing a guarantee of the value of the equity of Coyote Creek in that they are required to buy the entity at the end of the contract term at equity value. Although the Company has determined that Coyote Creek is a VIE, the Company has concluded that it is not the primary beneficiary of Coyote Creek because the authority to direct the activities of the entity is shared by the four unrelated owners of the Coyote Station with no primary beneficiary existing. As a result, Coyote Creek is not required to be consolidated in the Company's financial statements.

At March 31, 2013, Coyote Creek was not yet operational. The assets and liabilities of Coyote Creek and exposure to loss as a result of the Company's involvement with the VIE at March 31, 2013, is not material.

Note 19 - Subsequent event

In connection with the Company's variable interest in Dakota Prairie Refining, as discussed in Note 18, Centennial has agreed to guarantee repayment of the Dakota Prairie Refining term loan, which was entered into on April 22, 2013. The term loan maturity dates range from April 2018 to April 2023.



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

### OVERVIEW

The Company's strategy is to apply its expertise in energy and transportation infrastructure industries to increase market share, increase profitability and enhance shareholder value through:

- Organic growth as well as a continued disciplined approach to the acquisition of well-managed companies and properties
- The elimination of system-wide cost redundancies through increased focus on integration of operations and standardization and consolidation of various support services and functions across companies within the organization
- The development of projects that are accretive to earnings per share and return on invested capital

The Company has capabilities to fund its growth and operations through various sources, including internally generated funds, commercial paper facilities, revolving credit facilities and the issuance from time to time of debt and equity securities. For more information on the Company's net capital expenditures, see Liquidity and Capital Commitments.

The key strategies for each of the Company's business segments and certain related business challenges are summarized below. For a summary of the Company's business segments, see Note 15.

#### Key Strategies and Challenges

##### Electric and Natural Gas Distribution

**Strategy** Provide competitively priced energy and related services to customers. The electric and natural gas distribution segments continually seek opportunities to retain, grow and expand their customer base through extensions of existing operations, including building and upgrading electric generation and transmission and natural gas systems, and through selected acquisitions of companies and properties at prices that will provide stable cash flows and an opportunity for the Company to earn a competitive return on investment.

**Challenges** Both segments are subject to extensive regulation in the state jurisdictions where they conduct operations with respect to costs and permitted returns on investment as well as subject to certain operational, system integrity and environmental regulations. These regulations can require substantial investment to upgrade facilities. The ability of these segments to grow through acquisitions is subject to significant competition. In addition, the ability of both segments to grow service territory and customer base is affected by the economic environment of the markets served and competition from other energy providers and fuels. The construction of any new electric generating facilities, transmission lines and other service facilities are subject to increasing cost and lead time, extensive permitting procedures, and federal and state legislative and regulatory initiatives, which will necessitate increases in electric energy prices. Legislative and regulatory initiatives to increase renewable energy resources and reduce GHG emissions could impact the price and demand for electricity and natural gas.

##### Pipeline and Energy Services

**Strategy** Utilize the segment's existing expertise in energy infrastructure and related services to increase market share and profitability through optimization of existing operations, internal growth, and acquisitions of energy-related assets and companies. Incremental and new growth opportunities include: access to new energy sources for storage, gathering and transportation services; expansion of existing gathering, transmission and storage facilities; incremental expansion of pipeline capacity; expansion of midstream business to include liquid pipelines and processing/refining activities; and expansion of related energy services.

Challenges Challenges for this segment include: energy price volatility; natural gas basis differentials; environmental and regulatory requirements; recruitment and retention of a skilled workforce; and competition from other pipeline and energy services companies.

#### Exploration and Production

Strategy Apply technology and utilize existing exploration and production expertise, with a focus on operated properties, to increase production and reserves from existing leaseholds, and to seek additional reserves and production opportunities both in new and existing areas to further expand the segment's asset base. By optimizing existing operations and taking advantage of new and incremental growth opportunities, this segment is focused on balancing the oil and natural gas commodity mix to maximize profitability with its goal to add value by increasing both reserves and production over the long term so as to generate competitive returns on investment.

Challenges Volatility in natural gas and oil prices; timely receipt of necessary permits and approvals; environmental and regulatory requirements; recruitment and retention of a skilled workforce; availability of drilling rigs, materials, auxiliary equipment and industry-related field services; inflationary pressure on development and operating costs; and competition from other exploration and production companies are ongoing challenges for this segment.

#### Construction Materials and Contracting

Strategy Focus on high-growth strategic markets located near major transportation corridors and desirable mid-sized metropolitan areas; strengthen long-term, strategic aggregate reserve position through purchase and/or lease opportunities; enhance profitability through cost containment, margin discipline and vertical integration of the segment's operations; develop and recruit talented employees; and continue growth through organic and acquisition opportunities. Vertical integration allows the segment to manage operations from aggregate mining to final lay-down of concrete and asphalt, with control of and access to permitted aggregate reserves being significant. A key element of the Company's long-term strategy for this business is to further expand its market presence in the higher-margin materials business (rock, sand, gravel, liquid asphalt, asphalt concrete, ready-mixed concrete and related products), complementing and expanding on the Company's expertise.

Challenges Recruitment and retention of key personnel and volatility in the cost of raw materials such as diesel, gasoline, liquid asphalt, cement and steel, continue to be a concern. This business unit expects to continue cost containment efforts, positioning its operations for the resurgence in the private market, while continuing the emphasis on industrial, energy and public works projects.

#### Construction Services

Strategy Provide a competitive return on investment while operating in a competitive industry by: building new and strengthening existing customer relationships; effectively controlling costs; retaining, developing and recruiting talented employees; focusing our efforts on projects that will permit higher margins while properly managing risk.

Challenges This segment operates in highly competitive markets with many jobs subject to competitive bidding. Maintenance of effective operational and cost controls, retention of key personnel, managing through downturns in the economy and effective management of working capital are ongoing challenges.

For more information on the risks and challenges the Company faces as it pursues its growth strategies and other factors that should be considered for a better understanding of the Company's financial condition, see Item 1A - Risk Factors, as well as Part I, Item 1A - Risk Factors in the 2012 Annual Report. For more information on each segment's key growth strategies, projections and certain assumptions, see Prospective Information. For information pertinent to various commitments and contingencies, see Notes to Consolidated Financial Statements.

## Earnings Overview

The following table summarizes the contribution to consolidated earnings by each of the Company's businesses.

	Three Months Ended	
	March 31,	
	2013	2012
(Dollars in millions, where applicable)		
Electric	\$9.8	\$7.5
Natural gas distribution	32.5	25.5
Pipeline and energy services	2.3	2.8
Exploration and production	20.3	12.9
Construction materials and contracting	(20.6	)(24.9
Construction services	11.7	11.4
Other	.4	.5
Earnings before discontinued operations	56.4	35.7
Loss from discontinued operations, net of tax	(.1	)(.1
Earnings on common stock	\$56.3	\$35.6
Earnings per common share - basic:		
Earnings before discontinued operations	\$.30	\$.19
Discontinued operations, net of tax	—	—
Earnings per common share - basic	\$.30	\$.19
Earnings per common share - diluted:		
Earnings before discontinued operations	\$.30	\$.19
Discontinued operations, net of tax	—	—
Earnings per common share - diluted	\$.30	\$.19

Three Months Ended March 31, 2013 and 2012 Consolidated earnings for the quarter ended March 31, 2013, increased \$20.7 million (58 percent) from the comparable prior period largely due to:

- Increased oil production, partially offset by decreased natural gas production and higher depreciation, depletion and amortization expense at the exploration and production business
- Increased retail sales volumes and a gain on the sale of a nonregulated appliance service and repair business at the natural gas distribution business
- Higher aggregate, asphalt and construction margins at the construction materials and contracting business
- Increased retail sales volumes at the electric business

## FINANCIAL AND OPERATING DATA

Below are key financial and operating data for each of the Company's businesses.

## Electric

	Three Months Ended	
	March 31,	
	2013	2012
(Dollars in millions, where applicable)		
Operating revenues	\$64.6	\$58.0
Operating expenses:		
Fuel and purchased power	21.6	18.4
Operation and maintenance	16.4	16.2

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Depreciation, depletion and amortization	8.6	8.1
Taxes, other than income	2.9	2.7
	49.5	45.4
Operating income	15.1	12.6
Earnings	\$9.8	\$7.5
Retail sales (million kWh)	842.6	769.7
Sales for resale (million kWh)	7.4	1.9
Average cost of fuel and purchased power per kWh	\$.024	\$.022

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Three Months Ended March 31, 2013 and 2012 Electric earnings increased \$2.3 million (30 percent) due to:

- Increased retail sales volumes of 9 percent, primarily to residential and small commercial and industrial customers due to colder weather than last year, as well as increased customer growth
- Higher other income of \$300,000 (after tax), largely allowance for funds used during construction

Partially offsetting these increases was higher depreciation, depletion and amortization expense of \$300,000 (after tax), including the effects of higher property, plant and equipment balances.

#### Natural Gas Distribution

	Three Months Ended		
	March 31, 2013	2012	
(Dollars in millions, where applicable)			
Operating revenues	\$331.7	\$307.9	
Operating expenses:			
Purchased natural gas sold	213.4	199.3	
Operation and maintenance	34.1	35.3	
Depreciation, depletion and amortization	12.2	11.2	
Taxes, other than income	16.3	16.1	
	276.0	261.9	
Operating income	55.7	46.0	
Earnings	\$32.5	\$25.5	
Volumes (MMdk):			
Sales	44.9	38.7	
Transportation	38.2	37.9	
Total throughput	83.1	76.6	
Degree days (% of normal)*			
Montana-Dakota/Great Plains	98	%77	%
Cascade	99	%101	%
Intermountain	114	%93	%
Average cost of natural gas, including transportation, per dk	\$4.75	\$5.15	

\* Degree days are a measure of the daily temperature-related demand for energy for heating.

Three Months Ended March 31, 2013 and 2012 Earnings at the natural gas distribution business increased \$7.0 million (27 percent) due to:

- Increased retail sales volumes of 16 percent, largely resulting from colder weather than last year, partially offset by weather normalization in certain jurisdictions
- A \$2.9 million (after tax) gain on the sale of Montana-Dakota's nonregulated appliance service and repair business
- Lower net interest expense of \$500,000 (after tax), primarily due to lower average borrowings

Partially offsetting these increases was increased depreciation, depletion and amortization expense of \$600,000 (after tax), including the effects of higher property, plant and equipment balances.



## Pipeline and Energy Services

	Three Months Ended March 31,	
	2013	2012
	(Dollars in millions)	
Operating revenues	\$46.4	\$49.6
Operating expenses:		
Purchased natural gas sold	12.8	16.0
Operation and maintenance	17.2	17.1
Depreciation, depletion and amortization	7.2	6.2
Taxes, other than income	3.4	3.5
	40.6	42.8
Operating income	5.8	6.8
Earnings	\$2.3	\$2.8
Transportation volumes (MMdk)	36.8	32.0
Natural gas gathering volumes (MMdk)	9.9	14.2
Customer natural gas storage balance (MMdk):		
Beginning of period	43.7	36.0
Net withdrawal	(19.0	) (8.7
End of period	24.7	27.3

Three Months Ended March 31, 2013 and 2012 Pipeline and energy services earnings decreased \$500,000 (16 percent) due to lower earnings of \$1.6 million (after tax) resulting from lower natural gas gathering volumes from existing operations, largely resulting from customers experiencing production curtailments, normal declines and deferral of natural gas development activity. This decrease was partially offset by higher oil and natural gas gathering and processing volumes from a May 2012 acquisition.

Results also reflect lower operating revenues and lower purchased natural gas sold, both related to lower natural gas sales volumes.



## Exploration and Production

	Three Months Ended March 31,	
	2013	2012
(Dollars in millions, where applicable)		
Operating revenues:		
Oil	\$97.8	\$63.7
NGL	7.5	9.7
Natural gas	19.9	26.4
	125.2	99.8
Operating expenses:		
Operation and maintenance:		
Lease operating costs	20.8	18.5
Gathering and transportation	4.3	4.3
Other	10.2	9.2
Depreciation, depletion and amortization	43.1	36.8
Taxes, other than income:		
Production and property taxes	11.6	9.5
Other	.3	.4
	90.3	78.7
Operating income	34.9	21.1
Earnings	\$20.3	\$12.9
Production:		
Oil (MBbls)	1,118	767
NGL (MBbls)	201	190
Natural gas (MMcf)	6,713	10,047
Total production (MBOE)	2,438	2,632
Average realized prices (including hedges):		
Oil (per Bbl)	\$87.42	\$83.14
NGL (per Bbl)	\$37.33	\$50.85
Natural gas (per Mcf)	\$2.97	\$2.63
Average realized prices (excluding hedges):		
Oil (per Bbl)	\$89.44	\$93.01
NGL (per Bbl)	\$37.33	\$50.85
Natural gas (per Mcf)	\$2.86	\$1.94
Average depreciation, depletion and amortization rate, per BOE	\$16.90	\$13.32
Production costs, including taxes, per BOE:		
Lease operating costs	\$8.54	\$7.02
Gathering and transportation	1.76	1.63
Production and property taxes	4.74	3.62
	\$15.04	\$12.27

Three Months Ended March 31, 2013 and 2012 Exploration and production earnings increased \$7.4 million (57 percent) due to:

- Increased oil production of 46 percent, primarily related to drilling activity in the Bakken area, as well as the Paradox Basin
- Higher average realized natural gas prices of 13 percent

Higher average realized oil prices of 5 percent

Partially offsetting these increases were:

- Decreased natural gas production of 33 percent, largely related to production curtailments, normal declines and deferral of certain natural gas development activity

- Higher depreciation, depletion and amortization expense of \$4.0 million (after tax) due to higher depletion rates, partially offset by lower volumes

- Lower average realized NGL prices of 27 percent

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Increased lease operating expenses of \$1.5 million (after tax), largely related to higher costs in the Bakken area resulting from increased production volumes, partially offset by lower costs at certain natural gas properties where curtailments of production have occurred

Higher production taxes of \$1.3 million (after tax), primarily resulting from higher revenues

Higher net interest expense of \$1.0 million (after tax), primarily due to lower capitalized interest and higher average borrowings, partially offset by lower effective interest rates

#### Construction Materials and Contracting

	Three Months Ended March 31,	
	2013	2012
	(Dollars in millions)	
Operating revenues	\$166.3	\$149.4
Operating expenses:		
Operation and maintenance	166.6	157.0
Depreciation, depletion and amortization	19.0	19.8
Taxes, other than income	8.5	8.0
	194.1	184.8
Operating loss	(27.8)	(35.4)
Loss	\$(20.6)	\$(24.9)
Sales (000's):		
Aggregates (tons)	2,958	2,493
Asphalt (tons)	149	100
Ready-mixed concrete (cubic yards)	480	468

Three Months Ended March 31, 2013 and 2012 Construction materials and contracting experienced a seasonal first quarter loss of \$20.6 million compared to a loss of \$24.9 million a year ago. The decreased seasonal loss was the result of:

Higher earnings of \$2.8 million (after tax) resulting from higher aggregate and asphalt margins, primarily due to lower costs

Increased construction margins of \$1.0 million (after tax)

Lower selling, general and administrative costs of \$700,000 (after tax)

Partially offsetting these increases was higher interest expense of \$500,000 (after tax) resulting from higher average interest rates, as well as higher average borrowings.

#### Construction Services

	Three Months Ended March 31,	
	2013	2012
	(In millions)	
Operating revenues	\$231.4	\$218.2
Operating expenses:		
Operation and maintenance	198.4	187.9
Depreciation, depletion and amortization	3.0	2.8
Taxes, other than income	9.6	7.8

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	211.0	198.5
Operating income	20.4	19.7
Earnings	\$11.7	\$11.4

Three Months Ended March 31, 2013 and 2012 Construction services earnings increased \$300,000 (2 percent), primarily due to higher equipment sales and rental margins, partially offset by lower margins in the Central and Mountain regions.

Other and Intersegment Transactions

Amounts presented in the preceding tables will not agree with the Consolidated Statements of Income due to the Company's other operations and the elimination of intersegment transactions. The amounts relating to these items are as follows:

	Three Months Ended March 31,	
	2013	2012
	(In millions)	
Other:		
Operating revenues	\$2.2	\$2.1
Operation and maintenance	1.3	1.3
Depreciation, depletion and amortization	.5	.5
Intersegment transactions:		
Operating revenues	\$36.2	\$32.2
Purchased natural gas sold	27.0	29.9
Operation and maintenance	9.2	2.3

For more information on intersegment eliminations, see Note 15.

PROSPECTIVE INFORMATION

The following information highlights the key growth strategies, projections and certain assumptions for the Company and its subsidiaries and other matters for certain of the Company's businesses. Many of these highlighted points are "forward-looking statements." There is no assurance that the Company's projections, including estimates for growth and changes in earnings, will in fact be achieved. Please refer to assumptions contained in this section, as well as the various important factors listed in Part II, Item 1A - Risk Factors, as well as Part I, Item 1A - Risk Factors in the 2012 Annual Report. Changes in such assumptions and factors could cause actual future results to differ materially from the Company's growth and earnings projections.

MDU Resources Group, Inc.

Earnings per common share for 2013, diluted, are projected in the range of \$1.30 to \$1.40. The Company expects the approximate percentage of 2013 earnings per common share by quarter to be:

Second quarter – 20 percent

Third quarter – 30 percent

Fourth quarter – 25 percent

The Company's long-term compound annual growth goals on earnings per share from operations are in the range of 7 to 10 percent.

The Company continually seeks opportunities to expand through organic growth and strategic acquisitions.

The Company focuses on creating value through vertical integration between its business units. For example, the pipeline and energy services business' partially owned diesel topping plant under construction in the Bakken region, will have the construction materials and services business involved in constructing the facility, the exploration and production business supplying production to the plant, the pipeline transporting natural gas to the plant, and the utility supplying electricity.

Electric and natural gas distribution

The Company filed an application February 11, 2013, with the NDPSC for approval of an environmental cost recovery rider related to costs for the required environmental retrofit at the Big Stone Station, as discussed in Note 17.

The Company filed an application December 21, 2012, with the SDPUC for a natural gas rate increase, as discussed in Note 17.

The Company filed an application September 26, 2012, with the MTPSC for a natural gas rate increase, as discussed in Note 17.

The EPA approved the South Dakota Regional Haze Program, which requires the Big Stone Station to install and operate a BART air-quality control system to reduce emissions of particulate matter, sulfur dioxide and nitrogen oxides. The

Company's share of the cost for the installation is estimated at \$100 million and is expected to be complete in 2015. The NDPSC has approved advance determination of prudence for recovery of costs related to this system in electric rates charged to customers.

The Company plans to construct and operate an 88-MW simple-cycle natural gas turbine and associated facilities, with an estimated project cost of \$86 million and a projected in-service date in late 2014. It will be located on owned property that is adjacent to the Company's Heskett Generating Station near Mandan, North Dakota. The capacity is necessary to meet the requirements of the Company's integrated electric system customers and will be a partial replacement for third-party contract capacity expiring in 2015. Advance determination of prudence and a Certificate of Public Convenience and Necessity have been received from the NDPSC.

- Planned investments are approximately \$75 million for 2013 to serve the growing electric and natural gas customer base associated with the Bakken oil development in western North Dakota and eastern Montana.

Rate base growth is projected to be approximately 6 percent compounded annually over the next five years.

The Company is analyzing potential projects for accommodating load growth in its industrial and agricultural sectors, with company- and customer-owned pipeline facilities designed to serve existing facilities served by fuel oil or propane, and to serve new customers. The Company is currently engaged in a 30-mile natural gas line project into the Hanford Nuclear Site in Washington.

The Company is involved with a number of pipeline projects to enhance the reliability and deliverability of its system in the Pacific Northwest and Idaho.

Opportunities associated with the potential development of high-voltage transmission lines and system enhancements targeted toward delivery of energy to major market areas are being pursued.

On March 13, 2013, the OPUC approved an extension of Cascade's decoupling mechanism, as reported in Items 1 and 2 - Business and Properties - General in the 2012 Annual Report, until December 31, 2015.

#### Pipeline and energy services

The Company has formed a limited liability company with Calumet, called Dakota Prairie Refining, to develop, build and operate a 20,000 barrel-per-day diesel topping plant in southwestern North Dakota. Construction began on the facility in late March 2013 and when complete will process Bakken crude and market the diesel within the Bakken region. Total project costs are estimated to be approximately \$300 million, with a projected in-service date in late 2014.

In May 2012, the Company purchased a 50 percent undivided interest in Whiting Oil and Gas Corporation's Pronghorn natural gas and oil midstream assets near Belfield, North Dakota, in the Bakken area. The Company invested approximately \$100 million in 2012 including the purchase price. The Belfield natural gas processing plant has an inlet processing capacity of 35 MMcf per day. The Company will receive a full year of benefit from this acquisition in 2013.

In August 2012, the Company placed in service approximately 13 miles of high-pressure transmission pipeline from the Stateline processing facilities in northwestern North Dakota to deliver natural gas into the Northern Border Pipeline, which is expected to result in increased transportation volumes for 2013.

Dry natural gas gathering volumes are expected to be lower in 2013 compared to 2012 because of curtailments and the deferral of development activity by producers.

The Company recently reached an agreement to construct a pipeline in 2014 to connect the planned Garden Creek II gas processing plant in northwestern North Dakota to deliver natural gas into the Northern Border Pipeline.

The Company continues to pursue expansion of facilities and services offered to customers. Energy development within its geographic region, which includes portions of Colorado, Montana, North Dakota and Wyoming, is expanding, most notably the Bakken area of North Dakota and eastern Montana. The Company owns an extensive natural gas pipeline system in the Bakken area. Ongoing energy development is expected to have many direct and indirect benefits to this business.

#### Exploration and production

The Company expects to spend approximately \$400 million in capital expenditures in 2013. With improving well cost efficiencies and having essentially completed the extensive 2012 exploration program, the capital program will focus on



growth projects where the Company expects higher returns, namely the Bakken, Paradox Basin and Texas, as described below. Follow-up on development activity of the 2012 exploration program (beyond the activity in the Paradox) could take place in late 2013 or early 2014 depending upon the economic competitiveness of those plays once they are fully appraised. The 2013 planned capital expenditure total does not include potential acquisitions.

For 2013, the Company expects a 25 to 30 percent increase in oil production, a flat to slight increase in NGL production, and a 15 to 25 percent decrease in natural gas production. The majority of the capital program is focused on growing oil production considering current relative commodity prices. The Company expects to return to some natural gas development when the commodity prices make it more profitable to do so.

• The Company has a total of five drilling rigs deployed on its acreage in the Bakken, Paradox and Texas areas.

#### • Bakken areas

The Company owns a total of approximately 127,000 net acres of leaseholds in Mountrail, Stark and Richland counties.

Capital expenditures are expected to total approximately \$200 million in 2013. The Company is currently operating three rigs in the play; with improving drilling efficiencies and other factors that number could vary across the year from two to three rigs.

#### • Paradox Basin, Utah

The Company has increased its holding to approximately 92,000 net acres and also has an option to lease another 20,000 acres.

The Cane Creek 18-1 well was brought on line in April 2013 and is currently flowing at approximately 1,000 BOPD with a flowing tube pressure of approximately 2,000 psi.

The Company is continuing to proceed systematically in this play, and anticipates spending \$70 million of capital expenditures in 2013. As the play is fully understood, the opportunity to ramp up to full-scale development could increase the planned investment. At this point, the potential appears very significant.

Approximately 50 to 75 future net locations have been identified. Estimated gross ultimate recovery rates per well range from 250,000 to 1 million Bbls.

#### • Texas

The Company is targeting areas that have the potential for higher liquids content with approximately \$40 million of capital planned for this year.

#### • Other opportunities

The Company completed drilling a horizontal well during April 2013 in Sioux County, Nebraska. Completion operations will be conducted during the second quarter of 2013. Upon evaluation of this well, the Company may exercise an option to purchase a 65 percent working interest in approximately 79,000 gross acres.

The remaining forecasted 2013 capital has been allocated to other operated and non-operated opportunities.

Earnings guidance reflects estimated average NYMEX index prices for May through December in the ranges of \$85.00 to \$95.00 per Bbl of crude oil, and \$3.75 to \$4.25 per Mcf of natural gas. Estimated prices for NGL are in the range of \$30.00 to \$45.00 per Bbl.

For the last nine months of 2013, the Company has hedged 9,000 BOPD utilizing swaps and costless collars with a weighted average price of \$98.67 and \$92.50/\$107.03 (floor/ceiling) respectively, and 50,000 MMBtu of natural gas per day, with an additional 10,000 MMBtu per day for September through December, utilizing swaps at a weighted average price of \$3.76.

For the first six months of 2014, the Company has hedged 2,000 BOPD utilizing swaps with a weighted average price of \$95.075, and for 2014 the Company has hedged 20,000 MMBtu of natural gas per day utilizing swaps at a weighted average price of \$4.13.

For 2015, the Company has hedged 10,000 MMBtu of natural gas per day utilizing a swap at \$4.2825.

The hedges that are in place as of April 30, 2013, are summarized in the following chart:

Commodity	Type	Index	Period Outstanding	Forward Notional Volume (Bbl/MMBtu)	Price (Per Bbl/MMBtu)
Crude Oil	Collar	NYMEX	4/13 - 12/13	275,000	\$95.00-\$117.00
Crude Oil	Collar	NYMEX	4/13 - 12/13	275,000	\$90.00-\$97.05
Crude Oil	Swap	NYMEX	4/13 - 12/13	137,500	\$95.00
Crude Oil	Swap	NYMEX	4/13 - 12/13	137,500	\$95.30
Crude Oil	Swap	NYMEX	4/13 - 12/13	137,500	\$100.00
Crude Oil	Swap	NYMEX	4/13 - 12/13	137,500	\$100.02
Crude Oil	Swap	NYMEX	4/13 - 12/13	275,000	\$102.00
Crude Oil	Swap	NYMEX	4/13 - 12/13	275,000	\$104.00
Crude Oil	Swap	NYMEX	4/13 - 12/13	275,000	\$98.00
Crude Oil	Swap	NYMEX	4/13 - 12/13	137,500	\$94.15
Crude Oil	Swap	NYMEX	4/13 - 12/13	137,500	\$94.00
Crude Oil	Swap	NYMEX	4/13 - 12/13	275,000	\$97.45
Crude Oil	Swap	NYMEX	1/14 - 6/14	181,000	\$95.15
Crude Oil	Swap	NYMEX	1/14 - 6/14	181,000	\$95.00
Natural Gas	Swap	NYMEX	4/13 - 12/13	2,750,000	\$3.76
Natural Gas	Swap	NYMEX	4/13 - 12/13	2,750,000	\$3.90
Natural Gas	Swap	NYMEX	4/13 - 12/13	2,750,000	\$4.00
Natural Gas	Swap	NYMEX	4/13 - 12/13	5,500,000	\$3.50
Natural Gas	Swap	NYMEX	9/13 - 12/14	4,870,000	\$4.13
Natural Gas	Swap	NYMEX	1/14 - 12/14	3,650,000	\$4.13
Natural Gas	Swap	NYMEX	1/15 - 12/15	3,650,000	\$4.2825

Effective April 1, 2013, the Company has elected to discontinue hedge accounting, as discussed in Note 12.

#### Construction materials and contracting

Approximate work backlog as of March 31, 2013, was \$589 million, compared to \$532 million a year ago. Private work represents 12 percent of construction backlog, up from 9 percent a year ago. Public work represents 88 percent of backlog. The backlog includes a variety of projects such as highway paving projects, airports, bridge work, reclamation and harbor expansions.

The Company's approximate backlog in North Dakota was \$67 million, compared to approximately \$40 million a year ago.

Projected revenues included in the Company's 2013 earnings guidance are in the range of \$1.5 billion to \$1.7 billion.

The Company anticipates margins in 2013 to be higher compared to 2012.

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The Company continues to pursue opportunities for expansion in energy projects such as refineries, transmission, wind towers and geothermal. Initiatives are aimed at capturing additional market share and expanding into new markets.

As the country's fifth-largest sand and gravel producer, the Company will continue to strategically manage its 1.1 billion tons of aggregate reserves in all its markets, as well as take further advantage of being vertically integrated.

Of the four labor contracts that Knife River was negotiating, as reported in Items 1 and 2 - Business and Properties - General in the 2012 Annual Report, three have been ratified. The one remaining contract is still in negotiations.

#### Construction services

Approximate work backlog as of March 31, 2013, was \$465 million, compared to \$333 million a year ago. The backlog includes a variety of projects such as substation and line construction, solar and other commercial, institutional and industrial projects including refinery work.

Projected revenues included in the Company's 2013 earnings guidance are in the range of \$900 million to \$1 billion.

The Company anticipates margins in 2013 to be lower compared to 2012.

The Company continues to pursue opportunities for expansion in energy projects such as refineries, transmission, substations, utility services, as well as solar. Initiatives are aimed at capturing additional market share and expanding into new markets.

#### NEW ACCOUNTING STANDARDS

For information regarding new accounting standards, see Note 7, which is incorporated by reference.

#### CRITICAL ACCOUNTING POLICIES INVOLVING SIGNIFICANT ESTIMATES

The Company's critical accounting policies involving significant estimates include impairment testing of oil and natural gas properties, impairment testing of long-lived assets and intangibles, revenue recognition, pension and other postretirement benefits, and income taxes. There were no material changes in the Company's critical accounting policies involving significant estimates from those reported in the 2012 Annual Report. For more information on critical accounting policies involving significant estimates, see Part II, Item 7 in the 2012 Annual Report.

#### LIQUIDITY AND CAPITAL COMMITMENTS

At March 31, 2013, the Company had cash and cash equivalents of \$74.1 million and available capacity of \$401.5 million under the outstanding credit facilities of the Company and its subsidiaries. The Company expects to meet its obligations for debt maturing within one year from various sources, including internally generated funds; the Company's credit facilities, as described later; and through the issuance of long-term debt and the Company's equity securities.

#### Cash flows

**Operating activities** The changes in cash flows from operating activities generally follow the results of operations as discussed in Financial and Operating Data and also are affected by changes in working capital.

Cash flows provided by operating activities in the first three months of 2013 increased \$11.9 million from the comparable period in 2012. Excluding working capital requirements, the Company experienced increased cash flows from operating activities primarily at the exploration and production business and electric and natural gas distribution businesses, as well as higher deferred income taxes of \$12.1 million. The increase in cash flows provided by operating activities was partially offset by higher working capital requirements of \$33.6 million.

**Investing activities** Cash flows used in investing activities in the first three months of 2013 increased \$14.4 million from the comparable period in 2012. The increase was primarily due to higher ongoing capital expenditures of \$14.0 million, including electric generation projects at the electric business, as well as higher capital expenditures at the natural gas distribution business.

Financing activities Cash flows provided by financing activities in the first three months of 2013 increased \$99.0 million from the comparable period in 2012, primarily due to higher issuance of long-term debt of \$112.0 million, largely due to the issuance of \$100.0 million of Senior Notes in February 2013, as discussed later; as well as lower dividends paid of \$31.6 million resulting from the Company accelerating the payment date for the quarterly common stock dividend from January 1, 2013 to December 31, 2012. Partially offsetting the increase in cash flows provided by financing activities was higher repayment of long-term debt of \$58.8 million.

#### Defined benefit pension plans

There were no material changes to the Company's qualified noncontributory defined benefit pension plans from those reported in the 2012 Annual Report. For more information, see Note 16 and Part II, Item 7 in the 2012 Annual Report.

### Capital expenditures

Net capital expenditures for the first three months of 2013 were \$198.7 million and are estimated to be approximately \$860 million (excluding noncontrolling interest capital expenditures) for 2013. Estimated capital expenditures include:

- System upgrades
- Routine replacements
- Service extensions
- Routine equipment maintenance and replacements
- Buildings, land and building improvements
- Pipeline, gathering and other midstream projects
- Further development of existing properties, acquisition of additional leasehold acreage and exploratory drilling at the exploration and production segment
- Power generation and transmission opportunities, including certain costs for additional electric generating capacity
- Environmental upgrades
- The diesel topping plant at the pipeline and energy services segment
- Other growth opportunities

The Company continues to evaluate potential future acquisitions and other growth opportunities; however, they are dependent upon the availability of economic opportunities and, as a result, capital expenditures may vary significantly from the estimated 2013 capital expenditures referred to previously. The Company expects the 2013 estimated capital expenditures to be funded by various sources, including internally generated funds; the Company's credit facilities, as described later; and through the issuance of long-term debt and the Company's equity securities.

### Capital resources

Certain debt instruments of the Company and its subsidiaries, including those discussed later, contain restrictive covenants and cross-default provisions. In order to borrow under the respective credit agreements, the Company and its subsidiaries must be in compliance with the applicable covenants and certain other conditions, all of which the Company and its subsidiaries, as applicable, were in compliance with at March 31, 2013. In the event the Company and its subsidiaries do not comply with the applicable covenants and other conditions, alternative sources of funding may need to be pursued. For additional information on the covenants, certain other conditions and cross-default provisions, see Part II, Item 8 - Note 9, in the 2012 Annual Report.

The following table summarizes the outstanding credit facilities of the Company and its subsidiaries at March 31, 2013:

Company	Facility	Facility Limit (In millions)	Amount Outstanding	Expiration Date
MDU Resources Group, Inc.	Commercial paper/ Revolving credit agreement	(a) \$125.0	\$72.0	(b) 10/4/17
Cascade Natural Gas Corporation	Revolving credit agreement	\$50.0	(c) \$17.0	12/27/13
Intermountain Gas Company	Revolving credit agreement	\$65.0	(d) \$20.5	8/11/13
Centennial Energy Holdings, Inc.	Commercial paper/ Revolving credit agreement	(e) \$500.0	\$229.0	(b) 6/8/17

(a) The \$125 million commercial paper program is supported by a revolving credit agreement with various banks totaling \$125 million (provisions allow for increased borrowings, at the option of the Company on stated conditions, up to a maximum of \$150 million). There were no amounts outstanding under the credit agreement.

- (b) Amount outstanding under commercial paper program.
- (c) Certain provisions allow for increased borrowings, up to a maximum of \$75 million.
- (d) Certain provisions allow for increased borrowings, up to a maximum of \$80 million.
- (e) The \$500 million commercial paper program is supported by a revolving credit agreement with various banks totaling \$500 million (provisions allow for increased borrowings, at the option of Centennial on stated conditions, up to a maximum of \$650 million). There were no amounts outstanding under the credit agreement.

The Company's and Centennial's respective commercial paper programs are supported by revolving credit agreements. While the amount of commercial paper outstanding does not reduce available capacity under the respective revolving credit agreements, the Company and Centennial do not issue commercial paper in an aggregate amount exceeding the available



capacity under their credit agreements. The commercial paper borrowings may vary during the period, largely the result of fluctuations in working capital requirements due to the seasonality of the construction businesses.

The following includes information related to the preceding table.

MDU Resources Group, Inc. The Company's revolving credit agreement supports its commercial paper program. Commercial paper borrowings under this agreement are classified as long-term debt as they are intended to be refinanced on a long-term basis through continued commercial paper borrowings. The Company's objective is to maintain acceptable credit ratings in order to access the capital markets through the issuance of commercial paper. Downgrades in the Company's credit ratings have not limited, nor are currently expected to limit, the Company's ability to access the capital markets. If the Company were to experience a downgrade of its credit ratings, it may need to borrow under its credit agreement and may experience an increase in overall interest rates with respect to its cost of borrowings.

Prior to the maturity of the credit agreement, the Company expects that it will negotiate the extension or replacement of this agreement. If the Company is unable to successfully negotiate an extension of, or replacement for, the credit agreement, or if the fees on this facility become too expensive, which the Company does not currently anticipate, the Company would seek alternative funding.

Due to the \$246.8 million after-tax noncash write-downs of oil and natural gas properties in 2012, earnings were insufficient by \$17.2 million and \$51.2 million to cover fixed charges for the 12 months ended March 31, 2013 and December 31, 2012, respectively. If the \$246.8 million after-tax noncash write-downs were excluded, the coverage of fixed charges including preferred stock dividends would have been 4.6 times and 4.4 times for the 12 months ended March 31, 2013 and December 31, 2012, respectively.

The coverage of fixed charges including preferred stock dividends, that excludes the effect of the after-tax noncash write-downs of oil and natural gas properties is a non-GAAP financial measure. The Company believes that this non-GAAP financial measure is useful because the write-downs excluded are not indicative of the Company's cash flows available to meet its fixed charges obligations. The presentation of this additional information is not meant to be considered a substitute for the financial measure prepared in accordance with GAAP.

Total equity as a percent of total capitalization was 59 percent, 66 percent and 60 percent at March 31, 2013 and 2012 and December 31, 2012, respectively. This ratio is calculated as the Company's total equity, divided by the Company's total capital. Total capital is the Company's total debt, including short-term borrowings and long-term debt due within one year, plus total equity. This ratio indicates how a company is financing its operations, as well as its financial strength.

The Company currently has a shelf registration statement on file with the SEC, under which the Company may issue and sell any combination of common stock and debt securities. The Company may sell all or a portion of such securities if warranted by market conditions and the Company's capital requirements. Any public offer and sale of such securities will be made only by means of a prospectus meeting the requirements of the Securities Act and the rules and regulations thereunder. The Company's board of directors currently has authorized the issuance and sale of up to an aggregate of \$1.0 billion worth of such securities. The Company's board of directors reviews this authorization on a periodic basis and the aggregate amount of securities authorized may be increased in the future.

MDU Energy Capital, LLC MDU Energy Capital has contracted to issue \$25.0 million of Senior Notes on May 15, 2013, under a note purchase agreement dated October 22, 2012.

Centennial Energy Holdings, Inc. Centennial's revolving credit agreement supports its commercial paper program. Commercial paper borrowings under this agreement are classified as long-term debt as they are intended to be refinanced on a long-term basis through continued commercial paper borrowings. Centennial's objective is to maintain acceptable credit ratings in order to access the capital markets through the issuance of commercial paper. Downgrades in Centennial's credit ratings have not limited, nor are currently expected to limit, Centennial's ability to access the capital markets. If Centennial were to experience a downgrade of its credit ratings, it may need to borrow under its credit agreement and may experience an increase in overall interest rates with respect to its cost of borrowings.

Prior to the maturity of the Centennial credit agreement, Centennial expects that it will negotiate the extension or replacement of this agreement, which provides credit support to access the capital markets. In the event Centennial is unable to successfully negotiate this agreement, or in the event the fees on this facility become too expensive, which Centennial does not currently anticipate, it would seek alternative funding.

On February 20, 2013, under a note purchase agreement dated December 20, 2012, Centennial issued \$100.0 million of Senior Notes with due dates ranging from December 2019 to December 2027 at a weighted average interest rate of 4.7 percent.

#### Off balance sheet arrangements

In connection with the sale of the Brazilian Transmission Lines, Centennial has agreed to guarantee payment of any indemnity obligations of certain of the Company's indirect wholly owned subsidiaries who are the sellers in three purchase and sale agreements for periods ranging up to 10 years from the date of sale. The guarantees were required by the buyers as a condition to the sale of the Brazilian Transmission Lines.

Centennial continues to guarantee CEM's obligations under a construction contract for an electric generating facility near Hobbs, New Mexico. For more information, see Note 18.

#### Contractual obligations and commercial commitments

There are no material changes in the Company's contractual obligations relating to long-term debt, estimated interest payments, operating leases, purchase commitments, derivatives, asset retirement obligations and minimum funding requirements for its defined benefit plans for 2013 from those reported in the 2012 Annual Report.

For more information on the Company's uncertain tax positions, see Note 14.

For more information on contractual obligations and commercial commitments, see Part II, Item 7 in the 2012 Annual Report.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to the impact of market fluctuations associated with commodity prices, interest rates and foreign currency. The Company has policies and procedures to assist in controlling these market risks and utilizes derivatives to manage a portion of its risk.

For more information on derivative instruments and commodity price risk, see Part II, Item 7A in the 2012 Annual Report, the Consolidated Statements of Comprehensive Income and Note 12.

#### Commodity price risk

Fidelity utilizes derivative instruments to manage a portion of the market risk associated with fluctuations in the price of oil and natural gas and basis differentials on forecasted sales of oil and natural gas production.

The following table summarizes derivative agreements entered into by Fidelity as of March 31, 2013. These agreements call for Fidelity to receive fixed prices and pay variable prices.

(Forward notional volume and fair value in thousands)

	Weighted Average Fixed Price (Per Bbl/MMBtu)	Forward Notional Volume (Bbl/MMBtu)	Fair Value
Oil swap agreements maturing in 2013	\$98.67	1,925	\$3,633
Oil swap agreements maturing in 2014	\$95.08	362	\$482
Natural gas swap agreements maturing in 2013	\$3.76	14,970	\$(5,464 )
Natural gas swap agreements maturing in 2014	\$4.13	7,300	\$(709 )

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Natural gas swap agreement maturing in 2015	\$4.28	3,650	\$(74 )
	Weighted Average Floor/Ceiling Price (Per Bbl)	Forward Notional Volume (Bbl)	Fair Value
Oil collar agreements maturing in 2013	\$92.50/\$107.03	550	\$324

Interest rate risk

There were no material changes to interest rate risk faced by the Company from those reported in the 2012 Annual Report.

Centennial entered into interest rate swap agreements to manage a portion of its interest rate exposure on the forecasted issuance of long-term debt. The agreements call for Centennial to receive payments from or make payments to counterparties based on the difference between fixed and variable rates as specified by the interest rate swap agreements.

The following table summarizes derivative instruments entered into by Centennial as of March 31, 2013. The agreements call for Centennial to receive variable rates and pay fixed rates.

(Notional amount and fair value in thousands)

	Weighted Average Fixed Interest Rate	Notional Amount	Fair Value
Interest rate swap agreements with mandatory termination dates in 2013	3.23	¥\$40,000	\$(4,458 )

#### Foreign currency risk

The Company's equity method investment in ECTE is exposed to market risks from changes in foreign currency exchange rates between the U.S. dollar and the Brazilian Real. For more information, see Part II, Item 8 - Note 4 in the 2012 Annual Report.

At March 31, 2013, the Company had no outstanding foreign currency hedges.

#### ITEM 4. CONTROLS AND PROCEDURES

The following information includes the evaluation of disclosure controls and procedures by the Company's chief executive officer and the chief financial officer, along with any significant changes in internal controls of the Company.

##### Evaluation of disclosure controls and procedures

The term "disclosure controls and procedures" is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. The Company's disclosure controls and other procedures are designed to provide reasonable assurance that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. The Company's disclosure controls and procedures include controls and procedures designed to provide reasonable assurance that information required to be disclosed is accumulated and communicated to management, including the Company's chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure. The Company's management, with the participation of the Company's chief executive officer and chief financial officer, has evaluated the effectiveness of the Company's disclosure controls and procedures. Based upon that evaluation, the chief executive officer and the chief financial officer have concluded that, as of the end of the period covered by this report, such controls and procedures were effective at a reasonable assurance level.

##### Changes in internal controls

No change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the quarter ended March 31, 2013, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

#### PART II -- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For information regarding legal proceedings, see Note 18, which is incorporated herein by reference.

ITEM 1A. RISK FACTORS

This Form 10-Q contains forward-looking statements within the meaning of Section 21E of the Exchange Act. Forward-looking statements are all statements other than statements of historical fact, including without limitation those statements that are identified by the words "anticipates," "estimates," "expects," "intends," "plans," "predicts" and similar expressions.

The Company is including the following factors and cautionary statements in this Form 10-Q to make applicable and to take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 for any forward-looking statements made by, or on behalf of, the Company. Forward-looking statements include statements concerning plans,

objectives, goals, strategies, future events or performance, and underlying assumptions (many of which are based, in turn, upon further assumptions) and other statements that are other than statements of historical facts. From time to time, the Company may publish or otherwise make available forward-looking statements of this nature, including statements contained within Prospective Information. All these subsequent forward-looking statements, whether written or oral and whether made by or on behalf of the Company, also are expressly qualified by these factors and cautionary statements.

Forward-looking statements involve risks and uncertainties, which could cause actual results or outcomes to differ materially from those expressed. The Company's expectations, beliefs and projections are expressed in good faith and are believed by the Company to have a reasonable basis, including without limitation, management's examination of historical operating trends, data contained in the Company's records and other data available from third parties. Nonetheless, the Company's expectations, beliefs or projections may not be achieved or accomplished.

Any forward-looking statement contained in this document speaks only as of the date on which the statement is made, and the Company undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances that occur after the date on which the statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time, and it is not possible for management to predict all of the factors, nor can it assess the effect of each factor on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statement.

There are no material changes in the Company's risk factors from those reported in Part I, Item 1A - Risk Factors in the 2012 Annual Report. These factors and the other matters discussed herein are important factors that could cause actual results or outcomes for the Company to differ materially from those discussed in the forward-looking statements included elsewhere in this document.

#### ITEM 4. MINE SAFETY DISCLOSURES

For information regarding mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Act and Item 104 of Regulation S-K, see Exhibit 95 to this Form 10-Q, which is incorporated herein by reference.

#### ITEM 6. EXHIBITS

See the index to exhibits immediately preceding the exhibits filed with this report.

SIGNATURES

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

MDU RESOURCES GROUP, INC.

DATE: May 7, 2013

BY: /s/ Doran N. Schwartz  
Doran N. Schwartz  
Vice President and Chief Financial Officer

BY: /s/ Nicole A. Kivisto  
Nicole A. Kivisto  
Vice President, Controller and  
Chief Accounting Officer



EXHIBIT INDEX

Exhibit No.

3	Company Bylaws, as amended and restated, on March 4, 2013
+10(a)	MDU Resources Group, Inc. Executive Incentive Compensation Plan, as amended March 4, 2013, and Rules and Regulations, as amended March 4, 2013
12	Computation of Ratio of Earnings to Fixed Charges and Combined Fixed Charges and Preferred Stock Dividends
31(a)	Certification of Chief Executive Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31(b)	Certification of Chief Financial Officer filed pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
95	Mine Safety Disclosures
101	The following materials from MDU Resources Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Statements of Income, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements, tagged in summary and detail

+ Management contract, compensatory plan or arrangement.

MDU Resources Group, Inc. agrees to furnish to the SEC upon request any instrument with respect to long-term debt that MDU Resources Group, Inc. has not filed as an exhibit pursuant to the exemption provided by Item 601(b)(4)(iii)(A) of Regulation S-K.