

MDU RESOURCES GROUP INC  
Form 10-Q  
August 05, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q

ý 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  
o 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 1-3480

MDU RESOURCES GROUP, INC.

(Exact name of registrant as specified in its charter)

Delaware 41-0423660

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

1200 West Century Avenue

P.O. Box 5650

Bismarck, North Dakota 58506-5650

(Address of principal executive offices)

(Zip Code)

(701) 530-1000

(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. Yes ý No o.

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o.

Yes ý No o.

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 (Check one):

Large accelerated filer ý Accelerated filer o

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

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

Yes o No ý.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of July 29, 2016:

195,304,376 shares.

Definitions

The following abbreviations and acronyms used in this Form 10-Q are defined below:

Abbreviation or

Acronym

2015 Annual Report	Company's Annual Report on Form 10-K for the year ended December 31, 2015
AFUDC	Allowance for funds used during construction
ASC	FASB Accounting Standards Codification
ATBs	Atmospheric tower bottoms
Bbl	Barrel
Bombard Mechanical	Bombard Mechanical, LLC, an indirect wholly owned subsidiary of MDU Construction Services
Brazilian Transmission Lines	Company's former investment in companies owning three electric transmission lines
Btu	British thermal unit
Calumet	Calumet Specialty Products Partners, L.P.
Cascade	Cascade Natural Gas Corporation, an indirect wholly owned subsidiary of MDU Energy Capital
Centennial	Centennial Energy Holdings, Inc., a direct wholly owned subsidiary of the Company
Centennial Capital	Centennial Holdings Capital LLC, a direct wholly owned subsidiary of Centennial
Centennial Resources Company	Centennial Energy Resources LLC, a direct wholly owned subsidiary of Centennial MDU Resources Group, Inc.
Coyote Creek	Coyote Creek Mining Company, LLC, a subsidiary of The North American Coal Corporation
Coyote Station	427-MW coal-fired electric generating facility near Beulah, North Dakota (25 percent ownership)
Dakota Prairie Refinery	20,000-barrel-per-day diesel topping plant built by Dakota Prairie Refining in southwestern North Dakota
Dakota Prairie Refining	Dakota Prairie Refining, LLC, a limited liability company previously owned by WBI Energy and Calumet (previously included in the Company's refining segment)
D.C. Circuit Court dk	United States Court of Appeals for the District of Columbia Circuit Decatherm
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
EPA	United States Environmental Protection Agency
ERISA	Employee Retirement Income Security Act of 1974
ESCP	Erosion and Sediment Control Plan
Exchange Act	Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
FERC	Federal Energy Regulatory Commission
Fidelity	Fidelity Exploration & Production Company, a direct wholly owned subsidiary of WBI Holdings (previously referred to as the Company's exploration and production segment)
FIP	Funding improvement plan
GAAP	Accounting principles generally accepted in the United States of America
GHG	Greenhouse gas
Great Plains	Great Plains Natural Gas Co., a public utility division of the Company
IFRS	International Financial Reporting Standards
Intermountain	Intermountain Gas Company, an indirect wholly owned subsidiary of MDU Energy Capital
JTL - Montana	JTL Group, Inc. (Montana Corporation), an indirect wholly owned subsidiary of Knife River
JTL - Wyoming	JTL Group, Inc. (Wyoming Corporation), an indirect wholly owned subsidiary of Knife River
Knife River	Knife River Corporation, a direct wholly owned subsidiary of Centennial
Knife River - Northwest	Knife River Corporation - Northwest, an indirect wholly owned subsidiary of Knife River
kWh	Kilowatt-hour

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LTM LTM, Incorporated, an indirect wholly owned subsidiary of Knife River  
LWG Lower Willamette Group  
MDU Construction MDU Construction Services Group, Inc., a direct wholly owned subsidiary of Centennial  
Services  
MDU Energy Capital MDU Energy Capital, LLC, a direct wholly owned subsidiary of the Company

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MEPP	Multiemployer pension plan
MISO	Midcontinent Independent System Operator, Inc.
MMBtu	Million Btu
MMdk	Million dk
MNPUC	Minnesota Public Utilities Commission
Montana-Dakota	Montana-Dakota Utilities Co., a public utility division of the Company
Montana DEQ	Montana Department of Environmental Quality
Montana First Judicial District Court	Montana First Judicial District Court, Lewis and Clark County
Montana Seventeenth Judicial District Court	Montana Seventeenth Judicial District Court, Phillips County
MPPAA	Multiemployer Pension Plan Amendments Act of 1980
MTPSC	Montana Public Service Commission
MW	Megawatt
NDPSC	North Dakota Public Service Commission
Nevada State District Court	District Court Clark County, Nevada
NGL	Natural gas liquids
Notice of Civil Penalty	Notice of Civil Penalty Assessment and Order
Oil	Includes crude oil and condensate
Omimex	Omimex Canada, Ltd.
OPUC	Oregon Public Utility Commission
Oregon DEQ	Oregon State Department of Environmental Quality
PRP	Potentially Responsible Party
RIN	Renewable Identification Number
ROD	Record of Decision
RP	Rehabilitation plan
SDPUC	South Dakota Public Utilities Commission
SEC	United States Securities and Exchange Commission
SEC Defined Prices	The average price of oil and natural gas during the applicable 12-month period, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions
Securities Act	Securities Act of 1933, as amended
Tesoro	Tesoro Refining & Marketing Company LLC
United States District Court for the District of Montana	United States District Court for the District of Montana, Great Falls Division
United States Supreme Court	Supreme Court of the United States
VIE	Variable interest entity
Washington DOE	Washington State Department of Ecology
WBI Energy	WBI Energy, Inc., an indirect wholly owned subsidiary of WBI Holdings
WBI Energy Midstream	WBI Energy Midstream, LLC, an indirect wholly owned subsidiary of WBI Holdings
WBI Energy Transmission	WBI Energy Transmission, Inc., an indirect wholly owned subsidiary of WBI Holdings
WBI Holdings	WBI Holdings, Inc., a direct wholly owned subsidiary of Centennial
WUTC	Washington Utilities and Transportation Commission
WYPSC	Wyoming Public Service Commission



## Introduction

The Company is a regulated energy delivery and construction materials and services business, which was incorporated under the laws of the state of Delaware in 1924. Its principal executive offices are at 1200 West Century Avenue, P.O. Box 5650, Bismarck, North Dakota 58506-5650, telephone (701) 530-1000.

Montana-Dakota, through the electric and natural gas distribution segments, generates, transmits and distributes electricity and distributes natural gas in Montana, North Dakota, South Dakota and Wyoming. Cascade distributes natural gas in Oregon and Washington. Intermountain distributes natural gas in Idaho. Great Plains distributes natural gas in western Minnesota and southeastern North Dakota. These operations also supply related value-added services. The Company, through its wholly owned subsidiary, Centennial, owns WBI Holdings (comprised of the pipeline and midstream segment and Fidelity, formerly the Company's exploration and production business), Knife River (construction materials and contracting segment), MDU Construction Services (construction services segment), Centennial Resources and Centennial Capital (both reflected in the Other category).

In the second quarter of 2016, the Company sold all of the outstanding membership interests in Dakota Prairie Refining and exited that line of business. Therefore, the results of Dakota Prairie Refining are reflected in discontinued operations, other than certain general and administrative costs and interest expense which are reflected in the Other category.

In the second quarter of 2015, the Company announced its plan to market Fidelity and exit that line of business. The Company completed the sale of all of its marketed assets. Therefore, the results of Fidelity are reflected in discontinued operations, other than certain general and administrative costs and interest expense which are reflected in the Other category.

For more information on the Company's business segments and discontinued operations, see Notes 10 and 15.

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## Part I -- Financial Information

## Item 1. Financial Statements

## MDU Resources Group, Inc.

## Consolidated Statements of Income

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
	(In thousands, except per share amounts)			
Operating revenues:				
Electric, natural gas distribution and regulated pipeline and midstream	\$206,052	\$215,678	\$591,918	\$622,167
Nonregulated pipeline and midstream, construction materials and contracting, construction services and other	837,896	722,361	1,312,245	1,176,717
Total operating revenues	1,043,948	938,039	1,904,163	1,798,884
Operating expenses:				
Fuel and purchased power	15,914	19,327	37,925	43,146
Purchased natural gas sold	47,439	66,590	208,474	267,739
Operation and maintenance:				
Electric, natural gas distribution and regulated pipeline and midstream	77,078	70,258	151,703	138,800
Nonregulated pipeline and midstream, construction materials and contracting, construction services and other	722,742	635,781	1,165,243	1,059,612
Depreciation, depletion and amortization	54,248	51,336	109,132	102,922
Taxes, other than income	37,562	35,038	80,736	76,648
Total operating expenses	954,983	878,330	1,753,213	1,688,867
Operating income	88,965	59,709	150,950	110,017
Other income	872	2,123	1,921	2,373
Interest expense	22,219	23,389	45,087	46,456
Income before income taxes	67,618	38,443	107,784	65,934
Income taxes	21,320	12,382	29,620	19,333
Income from continuing operations	46,298	26,061	78,164	46,601
Loss from discontinued operations, net of tax (Note 10)	(276,102)	(263,419)	(294,138)	(593,404)
Net loss	(229,804)	(237,358)	(215,974)	(546,803)
Loss from discontinued operations attributable to noncontrolling interest (Note 10)	(120,651)	(7,754)	(131,691)	(11,282)
Dividends declared on preferred stocks	171	171	343	342
Loss on common stock	\$(109,324)	\$(229,775)	\$(84,626)	\$(535,863)
Earnings (loss) per common share - basic:				
Earnings before discontinued operations	\$.24	\$.13	\$.40	\$.24
Discontinued operations attributable to the Company, net of tax	(.80)	(1.31)	(.83)	(2.99)
Earnings (loss) per common share - basic	\$(.56)	\$(1.18)	\$(.43)	\$(2.75)
Earnings (loss) per common share - diluted:				
Earnings before discontinued operations	\$.24	\$.13	\$.40	\$.24
Discontinued operations attributable to the Company, net of tax	(.80)	(1.31)	(.83)	(2.99)
Earnings (loss) per common share - diluted	\$(.56)	\$(1.18)	\$(.43)	\$(2.75)
Dividends declared per common share	\$.1875	\$.1825	\$.3750	\$.3650
Weighted average common shares outstanding - basic	195,304	194,805	195,294	194,643
Weighted average common shares outstanding - diluted	195,699	194,838	195,678	194,675

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 June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In thousands)			
Net loss	\$ (229,804)		\$ (237,358)	
	\$ (215,974)		\$ (546,803)	
Other comprehensive income (loss):				
Reclassification adjustment for loss on derivative instruments included in net loss, net of tax of \$56 and \$60 for the three months ended and \$114 and \$121 for the six months ended in 2016 and 2015, respectively	91	100	183	199
Amortization of postretirement liability (gains) losses included in net periodic benefit cost, net of tax of \$150 and \$420 for the three months ended and \$(819) and \$649 for the six months ended in 2016 and 2015, respectively	248	584	(1,347)	959
Foreign currency translation adjustment:				
Foreign currency translation adjustment recognized during the period, net of tax of \$19 and \$6 for the three months ended and \$33 and \$(63) for the six months ended in 2016 and 2015, respectively	31	9	56	(103)
Reclassification adjustment for loss on foreign currency translation adjustment included in net loss, net of tax of \$0 and \$0 for the three months ended and \$0 and \$491 for the six months ended in 2016 and 2015, respectively	—	—	—	802
Foreign currency translation adjustment	31	9	56	699
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 \$(16) and \$(23) for the three months ended and \$(10) and \$(34) for the six months ended in 2016 and 2015, respectively	(30)	(43)	(19)	(64)
Reclassification adjustment for loss on available-for-sale investments included in net loss, net of tax of \$19 and \$15 for the three months ended and \$37 and \$34 for the six months ended in 2016 and 2015, respectively	36	28	69	64
Net unrealized gain (loss) on available-for-sale investments	6	(15)	50	—
Other comprehensive income (loss)	376	678	(1,058)	1,857
Comprehensive loss	(229,428)		(236,680)	
	(217,032)		(544,946)	
Comprehensive loss from discontinued operations attributable to noncontrolling interest	(120,651)	(7,754)	(131,691)	(11,282)
Comprehensive loss attributable to common stockholders	\$(108,777)		\$(228,926)	
	\$(85,341)		\$(533,664)	

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

MDU Resources Group, Inc.  
Consolidated Balance Sheets  
(Unaudited)

	June 30, 2016	June 30, 2015	December 31, 2015
(In thousands, except shares and per share amounts)			
Assets			
Current assets:			
Cash and cash equivalents	\$85,117	\$143,527	\$83,903
Receivables, net	637,166	597,606	582,475
Inventories	265,849	290,239	240,551
Deferred income taxes	33,938	38,087	33,121
Prepayments and other current assets	50,309	66,676	29,528
Current assets held for sale	85,124	147,162	54,847
Total current assets	1,157,503	1,283,297	1,024,425
Investments	124,531	119,446	119,704
Property, plant and equipment	6,526,563	6,131,044	6,387,702
Less accumulated depreciation, depletion and amortization	2,551,941	2,438,005	2,489,322
Net property, plant and equipment	3,974,622	3,693,039	3,898,380
Deferred charges and other assets:			
Goodwill	641,527	635,204	635,204
Other intangible assets, net	7,160	8,506	7,342
Other	360,520	352,728	351,603
Noncurrent assets held for sale	123,721	1,160,657	565,509
Total deferred charges and other assets	1,132,928	2,157,095	1,559,658
Total assets	\$6,389,584	\$7,252,877	\$6,602,167
Liabilities and Equity			
Current liabilities:			
Long-term debt due within one year	\$58,598	\$415,539	\$238,539
Accounts payable	275,791	234,894	286,061
Taxes payable	45,749	37,365	46,880
Dividends payable	36,791	35,734	36,784
Accrued compensation	56,390	47,771	45,192
Other accrued liabilities	196,701	164,427	167,322
Current liabilities held for sale	32,357	145,211	130,375
Total current liabilities	702,377	1,080,941	951,153
Long-term debt	1,928,709	1,886,804	1,557,624
Deferred credits and other liabilities:			
Deferred income taxes	700,539	739,342	696,750
Other liabilities	820,349	757,108	812,342
Noncurrent liabilities held for sale	—	101,790	63,750
Total deferred credits and other liabilities	1,520,888	1,598,240	1,572,842
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	195,843	195,411	195,805
Shares issued - 195,843,297 at June 30, 2016, 195,411,301 at			

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June 30, 2015 and 195,804,665 at December 31, 2015

Other paid-in capital	1,230,342	1,220,615	1,230,119
Retained earnings	838,257	1,155,777	996,355
Accumulated other comprehensive loss	(38,206	)(40,246	)(37,148
Treasury stock at cost - 538,921 shares	(3,626	)(3,626	)(3,626
Total common stockholders' equity	2,222,610	2,527,931	2,381,505
Total stockholders' equity	2,237,610	2,542,931	2,396,505
Noncontrolling interest	—	143,961	124,043
Total equity	2,237,610	2,686,892	2,520,548
Total liabilities and equity	\$6,389,584	\$7,252,877	\$6,602,167

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

MDU Resources Group, Inc.  
Consolidated Statements of Cash Flows  
(Unaudited)

	Six Months Ended June 30,	
	2016	2015
	(In thousands)	
Operating activities:		
Net loss	\$(215,974)	\$(546,803)
Loss from discontinued operations, net of tax	(294,138 )	(593,404 )
Income from continuing operations	78,164	46,601
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, depletion and amortization	109,132	102,922
Deferred income taxes	3,608	11,119
Changes in current assets and liabilities, net of acquisitions:		
Receivables	(44,909 )	(10,712 )
Inventories	(23,189 )	(47,559 )
Other current assets	(20,555 )	24,192
Accounts payable	7,339	14,447
Other current liabilities	33,214	(4,335 )
Other noncurrent changes	(14,626 )	(16,479 )
Net cash provided by continuing operations	128,178	120,196
Net cash provided by (used in) discontinued operations	(25,529 )	74,068
Net cash provided by operating activities	102,649	194,264
Investing activities:		
Capital expenditures	(220,098 )	(272,514 )
Net proceeds from sale or disposition of property and other Investments	14,778	29,550
	(262 )	1,208
Net cash used in continuing operations	(205,582 )	(241,756 )
Net cash provided by (used in) discontinued operations	28,040	(160,622 )
Net cash used in investing activities	(177,542 )	(402,378 )
Financing activities:		
Issuance of long-term debt	387,625	320,988
Repayment of long-term debt	(196,771 )	(35,137 )
Proceeds from issuance of common stock	—	14,499
Dividends paid	(73,575 )	(71,294 )
Tax withholding on stock-based compensation	(323 )	—
Net cash provided by continuing operations	116,956	229,056
Net cash provided by (used in) discontinued operations	(40,852 )	62,229
Net cash provided by financing activities	76,104	291,285
Effect of exchange rate changes on cash and cash equivalents	3	(123 )
Increase in cash and cash equivalents	1,214	83,048
Cash and cash equivalents -- beginning of year	83,903	60,479
Cash and cash equivalents -- end of period	\$85,117	\$143,527

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

MDU Resources Group, Inc.

Notes to Consolidated

Financial Statements

June 30, 2016 and 2015

(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 2015 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 2015 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 June 30, 2016, up to the date of issuance of these consolidated interim financial statements.

On June 24, 2016, WBI Energy entered into a membership interest purchase agreement with Tesoro to sell all of the outstanding membership interests in Dakota Prairie Refining to Tesoro. WBI Energy and Calumet each previously owned 50 percent of the Dakota Prairie Refining membership interests and were equal members in building and operating Dakota Prairie Refinery. To effectuate the sale, WBI Energy acquired Calumet's 50 percent membership interest in Dakota Prairie Refining on June 27, 2016. The sale of the membership interests to Tesoro closed on June 27, 2016. The sale of Dakota Prairie Refining reduces the Company's risk by decreasing exposure to commodity prices.

In the second quarter of 2015, the Company began the marketing and sale process of Fidelity with an anticipated sale to occur within one year. Between September 2015 and March 2016, the Company entered into purchase and sale agreements to sell all of Fidelity's marketed oil and natural gas assets. The completion of these sales occurred between October 2015 and April 2016. The sale of Fidelity was part of the Company's strategic plan to grow its capital investments in the remaining business segments and to focus on creating a greater long-term value.

The assets and liabilities for the Company's discontinued operations have been classified as held for sale and the results of operations are shown in loss from discontinued operations, other than certain general and administrative costs and interest expense which do not meet the criteria for income (loss) from discontinued operations. The Company's consolidated financial statements and accompanying notes for current and prior periods have been restated. At the time the assets were classified as held for sale, depreciation, depletion and amortization expense was no longer recorded. Unless otherwise indicated, the amounts presented in the accompanying notes to the consolidated financial statements relate to the Company's continuing operations. For more information on the Company's discontinued operations, see Note 10.

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 consist 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 \$31.7 million, \$29.3 million and \$27.8 million at June 30, 2016 and 2015, and December 31, 2015, 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 at June 30, 2016 and 2015, and December 31, 2015, was \$11.0 million, \$8.6 million and \$9.8 million, respectively.

Note 4 - Inventories and natural gas in storage

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. All other inventories are stated at the lower of average cost or market value. The portion of the cost of natural gas in storage expected to be used within one year is included in inventories. Inventories consisted of:

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	June 30, 2016	June 30, 2015	December 31, 2015
	(In thousands)		
Aggregates held for resale	\$ 130,544	\$ 123,457	\$ 115,854
Asphalt oil	42,591	79,422	36,498
Natural gas in storage (current)	19,689	11,310	21,023
Materials and supplies	20,765	22,594	16,997
Merchandise for resale	18,439	16,140	15,318
Other	33,821	37,316	34,861
Total	\$ 265,849	\$ 290,239	\$ 240,551

The remainder of natural gas in storage, which largely represents the cost of gas required to maintain pressure levels for normal operating purposes, is included in other assets and was \$49.1 million, \$49.3 million and \$49.1 million at June 30, 2016 and 2015, and December 31, 2015, respectively.

#### Note 5 - Impairment of long-lived assets

During the second quarter of 2015, the Company recognized an impairment of coalbed natural gas gathering assets at the pipeline and midstream segment of \$3.0 million, which is recorded in operation and maintenance expense on the Consolidated Statements of Income. The impairment is related to coalbed natural gas gathering assets located in Wyoming where there had been continued decline in natural gas development and production activity due to low natural gas prices. The coalbed natural gas gathering assets were written down to their estimated fair value that was determined using the income approach.

For more information on this nonrecurring fair value measurement, see Note 13.

For information regarding impairments related to the Company's discontinued operations, see Note 10.

#### Note 6 - Earnings (loss) per common share

Basic earnings (loss) per common share were computed by dividing earnings (loss) on common stock by the weighted average number of shares of common stock outstanding during the applicable period. Diluted earnings (loss) per common share were computed by dividing earnings (loss) 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 (loss) was the same for both the basic and diluted earnings (loss) per share calculations. A reconciliation of the weighted average common shares outstanding used in the basic and diluted earnings (loss) per share calculations was as follows:

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2015	
	2016	2015	2016	2015
	(In thousands)			
Weighted average common shares outstanding - basic	195,304	194,805	195,294	194,643
Effect of dilutive performance share awards	395	33	384	32
Weighted average common shares outstanding - diluted	195,699	194,838	195,678	194,675
Shares excluded from the calculation of diluted earnings per share	—	—	—	—



## Note 7 - Cash flow information

Cash expenditures for interest and income taxes were as follows:

	Six Months Ended June 30, 2016 2015 (In thousands)	
Interest, net of amounts capitalized and AFUDC - borrowed of \$548 and \$4,481 in 2016 and 2015, respectively	\$44,860	\$44,564
Income taxes paid, net	\$29,891	\$7,147

Noncash investing transactions were as follows:

	June 30, 2016 2015 (In thousands)	
Property, plant and equipment additions in accounts payable	\$18,449	\$11,576

## Note 8 - New accounting standards

**Revenue from Contracts with Customers** In May 2014, the FASB issued guidance on accounting for revenue from contracts with customers. The guidance provides for a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry specific guidance. This guidance was to be effective for the Company on January 1, 2017. In August 2015, the FASB issued guidance deferring the effective date of the revenue guidance one year and allowing entities to early adopt. With this decision, the guidance will be effective for the Company on January 1, 2018. Entities will have the option of using either a full retrospective or modified retrospective approach to adopting the guidance. Under the modified approach, an entity would recognize the cumulative effect of initially applying the guidance with an adjustment to the opening balance of retained earnings in the period of adoption. In addition, the modified approach will require additional disclosures. The Company is evaluating the effects the adoption of the new revenue guidance will have on its results of operations, financial position, cash flows and disclosures, as well as its method of adoption.

**Simplifying the Presentation of Debt Issuance Costs** In April 2015, the FASB issued guidance on simplifying the presentation of debt issuance costs in the financial statements. This guidance requires entities to present debt issuance costs as a direct deduction to the related debt liability. The amortization of these costs will be reported as interest expense. The guidance was effective for the Company on January 1, 2016, and is to be applied retrospectively. Early adoption of this guidance was permitted, however the Company did not elect to do so. The guidance required a reclassification of the debt issuance costs on the Consolidated Balance Sheets, but did not impact the Company's results of operations or cash flows. As a result of the retrospective application of this change in accounting principle, the Company reclassified debt issuance costs of \$100,000 and \$100,000 from prepayments and other current assets and \$5.4 million and \$6.0 million from deferred charges and other assets - other to long-term debt on its Consolidated Balance Sheets at June 30, 2015 and December 31, 2015, respectively.

**Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or its Equivalent)** In May 2015, the FASB issued guidance on fair value measurement and disclosure requirements removing the requirement to include investments in the fair value hierarchy for which fair value is measured using the net asset value per share practical expedient. The new guidance also removes the requirement to make certain disclosures for all investments that are eligible to be measured at net asset value using the practical expedient, and rather limits those disclosures to investments for which the practical expedient has been elected. This guidance was effective for the Company on January 1, 2016, with early adoption permitted. The application of this guidance affected the Company's disclosures; however, it did not impact the Company's results of operations, financial position or cash flows.

**Simplifying the Measurement of Inventory** In July 2015, the FASB issued guidance regarding inventory that is measured using the first-in, first-out or average cost method. The guidance does not apply to inventory measured using the last-in, first-out or the retail inventory method. The guidance requires inventory within its scope to be

measured at the lower of cost or net realizable value, which is the estimated selling price in the normal course of business less reasonably predictable costs of completion, disposal and transportation. These amendments more closely align GAAP with IFRS. This guidance will be effective for the Company on January 1, 2017, and should be applied prospectively with early adoption permitted as of the beginning of an interim or annual reporting period. The Company is evaluating the effects the adoption of the new guidance will have on its results of operations, financial position and cash flows.

Balance Sheet Classification of Deferred Taxes In November 2015, the FASB issued guidance regarding the classification of deferred taxes on the balance sheet. The guidance will require all deferred tax assets and liabilities to be classified as noncurrent. These amendments will align GAAP with IFRS. This guidance will be effective for the Company on January 1, 2017, with early adoption permitted. Entities will have the option to apply the guidance prospectively, for all deferred tax assets and liabilities, or

retrospectively. The Company is evaluating the effects the adoption of the new guidance will have on its financial position and disclosures; however, it will not impact the Company's results of operations or cash flows.

**Recognition and Measurement of Financial Assets and Financial Liabilities** In January 2016, the FASB issued guidance regarding the classification and measurement of financial instruments. The guidance revises the way an entity classifies and measures investments in equity securities, the presentation of certain fair value changes for financial liabilities measured at fair value and amends certain disclosure requirements related to the fair value of financial instruments. This guidance will be effective for the Company on January 1, 2018, with early adoption of certain amendments permitted. The Company is evaluating the effects the adoption of the new guidance will have on its results of operations, financial position, cash flows and disclosures.

**Leases** In February 2016, the FASB issued guidance regarding leases. The guidance requires lessees to recognize a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term on the statement of financial position for leases with terms of more than 12 months. This guidance also requires additional disclosures. This guidance will be effective for the Company on January 1, 2019, and should be applied using a modified retrospective approach with early adoption permitted. The Company is evaluating the effects the adoption of the new guidance will have on its results of operations, financial position, cash flows and disclosures.

**Improvements to Employee Share-Based Payment Accounting** In March 2016, the FASB issued guidance regarding simplification of several aspects of the accounting for share-based payment transactions. The guidance will affect the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. This guidance will be effective for the Company on January 1, 2017, with early adoption permitted in any interim or annual period. An entity that elects early adoption must adopt all of the amendments in the same period. Certain amendments of this guidance are to be applied retrospectively and others prospectively. The Company is evaluating the effects the adoption of the new guidance will have on its results of operations, financial position, cash flows and disclosures.

#### Note 9 - Comprehensive income (loss)

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

Three Months Ended June 30, 2016	Net Unrealized Gain (Loss) on Derivative Instruments Qualifying as Hedges (In thousands)	Postretirement Liability Adjustment	Foreign Currency Translation Adjustment	Net Unrealized Gain (Loss) on Available-for-sale Investments	Total Accumulated Other Comprehensive Loss
Balance at beginning of period	\$(2,575)	\$(35,852)	\$(175)	\$20	\$(38,582)
Other comprehensive income (loss) before reclassifications	—	—	31	(30)	)1
Amounts reclassified from accumulated other comprehensive loss	91	248	—	36	375
Net current-period other comprehensive income	91	248	31	6	376
Balance at end of period	\$(2,484)	\$(35,604)	\$(144)	\$26	\$(38,206)
Three Months Ended June 30, 2015	Net Unrealized Gain (Loss) on Derivative	Postretirement Liability Adjustment	Foreign Currency Translation Adjustment	Net Unrealized Gain (Loss) on Available-for-sale Investments	Total Accumulated Other Comprehensive Loss

	Instruments Qualifying as Hedges (In thousands)				
Balance at beginning of period	\$ (2,972)	\$ (37,843)	)\$ (139)	)\$ 30	\$ (40,924 )
Other comprehensive income (loss) before reclassifications	—	—	9	(43)	)(34 )
Amounts reclassified from accumulated other comprehensive loss	100	584	—	28	712
Net current-period other comprehensive income (loss)	100	584	9	(15)	)678
Balance at end of period	\$ (2,872)	\$ (37,259)	)\$ (130)	)\$ 15	\$ (40,246 )

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Six Months Ended June 30, 2016	Net Unrealized Gain (Loss) on Derivative Instruments Qualifying as Hedges (In thousands)			Foreign Currency Translation Adjustment on Available-for-sale Investments	Net Unrealized Gain (Loss) on Available-for-sale Investments	Total Accumulated Other Comprehensive Loss
	Postretirement Liability Adjustment					
Balance at beginning of period	\$(2,667)	\$(34,257)	\$(200)	\$(24)	\$(37,148)	
Other comprehensive income (loss) before reclassifications	—	—	56	(19)	37	
Amounts reclassified from accumulated other comprehensive loss	183	(1,347)	—	69	(1,095)	
Net current-period other comprehensive income (loss)	183	(1,347)	56	50	(1,058)	
Balance at end of period	\$(2,484)	\$(35,604)	\$(144)	\$26	\$(38,206)	

Six Months Ended June 30, 2015	Net Unrealized Gain (Loss) on Derivative Instruments Qualifying as Hedges (In thousands)			Foreign Currency Translation Adjustment on Available-for-sale Investments	Net Unrealized Gain (Loss) on Available-for-sale Investments	Total Accumulated Other Comprehensive Loss
	Postretirement Liability Adjustment					
Balance at beginning of period	\$(3,071)	\$(38,218)	\$(829)	\$15	\$(42,103)	
Other comprehensive loss before reclassifications	—	—	(103)	(64)	(167)	
Amounts reclassified from accumulated other comprehensive loss	199	959	802	64	2,024	
Net current-period other comprehensive income	199	959	699	—	1,857	
Balance at end of period	\$(2,872)	\$(37,259)	\$(130)	\$15	\$(40,246)	

Reclassifications out of accumulated other comprehensive loss were as follows:

Reclassification adjustment for loss on derivative instruments included in net loss:	Three Months Ended June 30, 2016		Six Months Ended June 30, 2015		Location on Consolidated Statements of Income
	2016	2015	2016	2015	
Interest rate derivative instruments	\$(147)	\$(160)	\$(297)	\$(320)	Interest expense
	56	60	114	121	Income taxes
	(91)	(100)	(183)	(199)	
	(398)	(1,004)	2,166	(1,608)	(a)

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Amortization of postretirement liability gains (losses) included in net periodic benefit cost	150	420	(819)	)649	Income taxes
	(248)	)(584)	)1,347	(959)	)
Reclassification adjustment for loss on foreign currency translation adjustment included in net loss	—	—	—	(1,293)	)Other income
	—	—	—	491	Income taxes
	—	—	—	(802)	)
Reclassification adjustment for loss on available-for-sale investments included in net loss	(55)	)(43)	)(106)	)(98)	)Other income
	19	15	37	34	Income taxes
	(36)	)(28)	)(69)	)(64)	)
Total reclassifications	\$(375)	\$(712)	\$1,095	\$(2,024)	

(a) Included in net periodic benefit cost. For more information, see Note 16.

Note 10 - Discontinued operations

The assets and liabilities of the Company's discontinued operations have been classified as held for sale and the results of operations are shown in loss from discontinued operations, other than certain general and administrative costs and interest expense which do not meet the criteria for income (loss) from discontinued operations. The Company's consolidated financial statements and accompanying notes for current and prior periods have been restated. At the time the assets were classified as held for sale, depreciation, depletion and amortization expense was no longer recorded.

Dakota Prairie Refining

On June 24, 2016, WBI Energy entered into a membership interest purchase agreement with Tesoro to sell all of the outstanding membership interests in Dakota Prairie Refining to Tesoro. WBI Energy and Calumet each previously owned 50 percent of the Dakota Prairie Refining membership interests and were equal members in building and operating Dakota Prairie Refinery. To effectuate the sale, WBI Energy acquired Calumet's 50 percent membership interest in Dakota Prairie Refining on June 27, 2016. The sale of the membership interests to Tesoro closed on June 27, 2016. The sale of Dakota Prairie Refining reduces the Company's risk by decreasing exposure to commodity prices.

In connection with the sale, WBI Energy has cash in an escrow account for RINs obligations, which is included in current assets held for sale on the Consolidated Balance Sheet at June 30, 2016. The Company retained certain liabilities of Dakota Prairie Refining which are reflected in current liabilities held for sale on the Consolidated Balance Sheet at June 30, 2016. Also, Centennial continues to guarantee certain debt obligations of Dakota Prairie Refining; however, Tesoro has agreed to indemnify Centennial for any losses and litigation expenses arising from the guarantee. For more information related to the guarantee, see Note 18.

The carrying amounts of the major classes of assets and liabilities that are classified as held for sale related to the operations of Dakota Prairie Refining on the Company's Consolidated Balance Sheets were as follows:

	June 30, June 30,		December 31,
	2016	2015	2015
	(In thousands)		
Assets			
Current assets:			
Cash and cash equivalents	\$—	\$845	\$ 688
Receivables, net	433	29,639	7,693
Inventories	—	24,166	13,176
Deferred income taxes	—	84	(a)—
Income taxes receivable	12,550	7,332	2,495
Prepayments and other current assets	11,083	7,888	6,214
Total current assets held for sale	24,066	69,954	30,266
Noncurrent assets:			
Net property, plant and equipment	—	418,885	412,717
Deferred income taxes	57,644	5,839	5,745
Other	—	5,729	9,627
Total noncurrent assets held for sale	57,644	430,453	428,089
Total assets held for sale	\$81,710	\$500,407	\$ 458,355
Liabilities			
Current liabilities:			
Short-term borrowings	\$—	\$26,000	\$ 45,500
Long-term debt due within one year	—	3,000	5,250
Accounts payable	7,170	38,170	24,468
Taxes payable	—	1,601	1,391
Deferred income taxes	—	—	272
Accrued compensation	—	649	938
Other accrued liabilities	8,303	932	4,953
Total current liabilities held for sale	15,473	70,352	82,772
Noncurrent liabilities:			
Long-term debt	—	66,000	63,750
Deferred income taxes	—	19,600	(b)29,314
Total noncurrent liabilities held for sale	—	85,600	93,064
Total liabilities held for sale	\$15,473	\$155,952	\$ 175,836

(a) On the Company's Consolidated Balance Sheet, this amount was reclassified to a current deferred income tax liability and is reflected in current liabilities held for sale.

(b) On the Company's Consolidated Balance Sheets, these amounts were reclassified to noncurrent deferred income tax assets and are reflected in noncurrent assets held for sale.

The Company's deferred tax assets were largely comprised of \$137.6 million of federal and state net operating loss carryforwards that expire in 2037 if not utilized.

The Company performed a fair value assessment of the assets and liabilities classified as held for sale. In the second quarter of 2016, the fair value assessment was determined using the market approach based on the sale transaction to Tesoro. The fair value assessment indicated an impairment based on the carrying value exceeding the fair value, which resulted in the Company recording an impairment of \$251.9 million (\$156.7 million after tax) in the quarter ended June 30, 2016. The impairment was included in operating expenses from discontinued operations. The fair



value of Dakota Prairie Refining's assets has been categorized as Level 3 in the fair value hierarchy. At June 30, 2016, Dakota Prairie Refining had not incurred any material exit and disposal costs, and does not expect to incur any material exit and disposal costs.

#### Fidelity

In the second quarter of 2015, the Company began the marketing and sale process of Fidelity with an anticipated sale to occur within one year. Between September 2015 and March 2016, the Company entered into purchase and sale agreements to sell all of Fidelity's marketed oil and natural gas assets. The completion of these sales occurred between October 2015 and April 2016. The sale of Fidelity was part of the Company's strategic plan to grow its capital investments in the remaining business segments and to focus on creating a greater long-term value.

The carrying amounts of the major classes of assets and liabilities that are classified as held for sale related to the operations of Fidelity on the Company's Consolidated Balance Sheets were as follows:

	June 30, 2016	June 30, 2015	December 31, 2015
	(In thousands)		
<b>Assets</b>			
<b>Current assets:</b>			
Receivables, net	\$8,207	\$33,551	\$ 13,387
Inventories	—	6,748	1,308
Commodity derivative instruments	—	2,537	—
Income taxes receivable	52,847	31,033	9,665
Prepayments and other current assets	4	3,423	221
Total current assets held for sale	61,058	77,292	24,581
<b>Noncurrent assets:</b>			
Investments	—	37	37
Net property, plant and equipment	5,507	1,097,576	793,422
Deferred income taxes	61,347	52,017	127,655
Other	161	161	161
Less allowance for impairment of assets held for sale	938	399,987	754,541
Total noncurrent assets held for sale	66,077	749,804	166,734
Total assets held for sale	\$127,135	\$827,096	\$ 191,315
<b>Liabilities</b>			
<b>Current liabilities:</b>			
Accounts payable	\$456	\$49,400	\$ 25,013
Taxes payable	—	4,064	1,052
Deferred income taxes	4,120	1,401	3,620
Accrued compensation	1,459	4,460	13,080
Commodity derivative instruments	—	3,511	—
Other accrued liabilities	10,849	12,107	4,838
Total current liabilities held for sale	16,884	74,943	47,603
<b>Noncurrent liabilities:</b>			
Other liabilities	—	35,790	—
Total noncurrent liabilities held for sale	—	35,790	—
Total liabilities held for sale	\$16,884	\$110,733	\$ 47,603

The Company performed a fair value assessment of the assets and liabilities classified as held for sale. In the second quarter of 2016, the fair value assessment was determined using the income and market approaches. The income approach was determined by using the present value of future estimated cash flows. The market approach was based on market transactions of similar properties. The estimated carrying value exceeded the fair value and the Company recorded an impairment of \$900,000 (\$600,000 after tax) in the second quarter of 2016. In the first quarter of 2016, the fair value assessment was determined using the market approach largely based on a purchase and sale agreement. The estimated fair value exceeded the carrying value and the Company recorded an impairment reversal of \$1.4 million (\$900,000 after tax) in the first quarter of 2016. The impairment and impairment reversal were included in operating expenses from discontinued operations. The estimated fair value of Fidelity's assets have been categorized as Level 3 in the fair value hierarchy. In 2015, the Company recorded impairments totaling \$754.5 million (\$475.4 million after tax) related to the assets and liabilities classified as held for sale, including an impairment of \$400.0 million (\$252.0 million after tax) during the second quarter of 2015. For more information, see Part II, Item 8 - Note 2, in the 2015 Annual Report.

The Company incurred transaction costs of approximately \$300,000 in the first quarter of 2016, and \$2.5 million in 2015. In addition to the transaction costs, and due in part to the change in plans to sell the assets of Fidelity rather than

sell Fidelity as a company, Fidelity incurred and expensed approximately \$3.8 million and \$5.6 million of exit and disposal costs for the three and six months ended June 30, 2016, respectively, and has incurred \$10.5 million of exit and disposal costs to date. The Company expects to incur an additional \$300,000 of exit and disposal costs for the remainder of 2016. The exit and disposal costs are associated with severance and other related matters and exclude the office lease expiration discussed in the following paragraph. The majority of these exit and disposal activities were completed by the end of the second quarter of 2016.

Fidelity vacated its office space in Denver, Colorado. The Company incurred lease payments of approximately \$400,000 and \$900,000 for the three and six months ended June 30, 2016, respectively. Lease termination payments of \$3.2 million and

\$3.3 million were made during the second quarter of 2016 and fourth quarter of 2015, respectively. Existing office furniture and fixtures were relinquished to the lessor in the second quarter of 2016.

Historically, the Company used the full-cost method of accounting for its oil and natural gas production activities. Under this method, all costs incurred in the acquisition, exploration and development of oil and natural gas properties are capitalized and amortized on the units-of-production method based on total proved reserves.

Prior to the oil and natural gas properties being classified as held for sale, capitalized costs were subject to a "ceiling test" that limits such costs to the aggregate of the present value of future net cash flows from proved reserves discounted at 10 percent, as mandated under the rules of the SEC, plus the cost of unproved properties not subject to amortization, plus the effects of cash flow hedges, less applicable income taxes. Proved reserves and associated future cash flows are determined based on SEC Defined Prices and exclude cash outflows associated with asset retirement obligations that have been accrued on the balance sheet. If capitalized costs, less accumulated amortization and related deferred income taxes, exceed the full-cost ceiling at the end of any quarter, a permanent noncash write-down is required to be charged to earnings in that quarter regardless of subsequent price changes.

The Company's capitalized cost under the full-cost method of accounting exceeded the full-cost ceiling at March 31, 2015. SEC Defined Prices, adjusted for market differentials, were used to calculate the ceiling test. Accordingly, the Company was required to write down its oil and natural gas producing properties. The Company recorded a \$500.4 million (\$315.3 million after tax) noncash write-down in operating expenses from discontinued operations in the first quarter of 2015.

#### Dakota Prairie Refining and Fidelity

The reconciliation of the major classes of income and expense constituting pretax loss from discontinued operations, which includes Dakota Prairie Refining and Fidelity, to the after-tax net loss from discontinued operations on the Company's Consolidated Statements of Income were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(In thousands)			
Operating revenues	\$74,756	\$91,468	\$122,732	\$148,109
Operating expenses	443,756	505,487	513,526	1,086,781
Operating loss	(369,000)	(414,019)	(390,794)	(938,672)
Other income	183	385	387	2,459
Interest expense	832	434	1,753	517
Loss from discontinued operations before income taxes	(369,649)	(414,068)	(392,160)	(936,730)
Income taxes	(93,547)	(150,649)	(98,022)	(343,326)
Loss from discontinued operations	(276,102)	(263,419)	(294,138)	(593,404)
Loss from discontinued operations attributable to noncontrolling interest	(120,651)	(7,754)	(131,691)	(11,282)
Loss from discontinued operations attributable to the Company	\$(155,451)	\$(255,665)	\$(162,447)	\$(582,122)

The pretax loss from discontinued operations attributable to the Company, related to the operations of Dakota Prairie Refining, were \$244.0 million and \$6.8 million for the three months ended and \$253.9 million and \$9.8 million for the six months ended June 30, 2016 and 2015, respectively.

#### Note 11 - Goodwill and other intangible assets

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

	Balance as of January 1, 2016 (In thousands)	Goodwill * Acquired During the Year	Balance as of June 30, 2016 *
Six Months Ended June 30, 2016	\$345,736	\$ —	\$345,736

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Pipeline and midstream	9,737	—	9,737
Construction materials and contracting	176,290	—	176,290
Construction services	103,441	6,323	109,764
Total	\$635,204	\$ 6,323	\$641,527

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

Six Months Ended June 30, 2015	Balance as of January 1, 2015 (In thousands)	Goodwill * Acquired During the Year	Balance as of June 30, 2015 *
Natural gas distribution	\$345,736	\$	-\$345,736
Pipeline and midstream	9,737	—	9,737
Construction materials and contracting	176,290	—	176,290
Construction services	103,441	—	103,441
Total	\$635,204	\$	-\$635,204

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

Year Ended December 31, 2015	Balance as of January 1, 2015 (In thousands)	Goodwill * Acquired During the Year	Balance as of December 31,* 2015
Natural gas distribution	\$345,736	\$	-\$ 345,736
Pipeline and midstream	9,737	—	9,737
Construction materials and contracting	176,290	—	176,290
Construction services	103,441	—	103,441
Total	\$635,204	\$	-\$ 635,204

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

Other amortizable intangible assets were as follows:

	June 30, 2016	June 30, 2015	December 31, 2015
Customer relationships	\$17,145	\$20,975	\$ 20,975
Accumulated amortization	(13,108)	(16,065)	(16,845)
	4,037	4,910	4,130
Noncompete agreements	2,430	4,409	4,409
Accumulated amortization	(1,585)	(3,581)	(3,655)
	845	828	754
Other	7,764	8,300	8,304
Accumulated amortization	(5,486)	(5,532)	(5,846)
	2,278	2,768	2,458
Total	\$7,160	\$8,506	\$ 7,342

Amortization expense for amortizable intangible assets for the three and six months ended June 30, 2016, was \$600,000 and \$1.3 million, respectively. Amortization expense for amortizable intangible assets for the three and six months ended June 30, 2015, was \$700,000 and \$1.4 million, respectively. Estimated amortization expense for amortizable intangible assets is \$2.5 million in 2016, \$2.2 million in 2017, \$1.2 million in 2018, \$1.0 million in 2019, \$500,000 in 2020 and \$1.1 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 June 30, 2016, the Company had no outstanding commodity, foreign currency or interest rate

hedges.

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.

Fidelity

At June 30, 2015, Fidelity held oil swap agreements with total forward notional volumes of 1.1 million Bbl and natural gas swap agreements with total forward notional volumes of 1.8 million MMBtu. At June 30, 2016 and December 31, 2015, Fidelity had no outstanding derivative agreements. Fidelity historically utilized these derivative instruments to manage a portion of the market risk associated with fluctuations in the price of oil and natural gas on its forecasted sales of oil and natural gas production. The realized and unrealized gains and losses on the commodity derivative instruments, which were not designated as hedges, were both included in loss from discontinued operations and the associated assets and liabilities were classified as held for sale.

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Centennial

Centennial has historically entered into interest rate derivative instruments to manage a portion of its interest rate exposure on the forecasted issuance of long-term debt. As of June 30, 2016 and 2015, and December 31, 2015, Centennial had no outstanding interest rate swap agreements.

Fidelity and Centennial

The gains and losses on derivative instruments were as follows:

Three Months Ended June 30, 2016	Six Months Ended June 30, 2015
----------------------------------	--------------------------------

(In thousands)

Interest rate derivatives designated as cash flow hedges:

Amount of loss reclassified from accumulated other comprehensive loss into interest expense (effective portion), net of tax	\$91	\$100	\$183	\$199
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Commodity derivatives not designated as hedging instruments:

Amount of loss recognized in discontinued operations, before tax	—	(8,101)	—	(19,309)
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Over the next 12 months net losses of approximately \$400,000 (after tax) are estimated to be reclassified from accumulated other comprehensive income (loss) into earnings, as the hedged transactions affect earnings.

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 June 30, 2015 (In thousands)
-------------------	---	---

Not designated as hedges:

Commodity derivatives Current assets held for sale	\$ 2,537
Total asset derivatives	\$ 2,537

Liability Derivatives	Location on Consolidated Balance Sheets	Fair Value at June 30, 2015 (In thousands)
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Not designated as hedges:

Commodity derivatives Current liabilities held for sale	\$ 3,511
Total liability derivatives	\$ 3,511

All of the Company's commodity derivative instruments at June 30, 2015, 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:

June 30, 2015	Gross Amounts Recognized on the Consolidated Balance Sheet	Gross Amounts on the Consolidated Balance Sheet	Net Amounts on the Consolidated Balance Sheet
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Sheets Sheets  
(In thousands)

Assets:

Commodity derivatives	\$2,537	\$ (2,537	)	\$—
Total assets	\$2,537	\$ (2,537	)	\$—

Liabilities:

Commodity derivatives	\$3,511	\$ (2,537	)	\$974
Total liabilities	\$3,511	\$ (2,537	)	\$974

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## 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 \$71.4 million, \$68.2 million and \$67.5 million, at June 30, 2016 and 2015, and December 31, 2015, respectively, are classified as investments on the Consolidated Balance Sheets. The net unrealized gains on these investments were \$2.3 million and \$3.9 million for the three and six months ended June 30, 2016. The net unrealized gains on these investments were \$400,000 and \$2.4 million for the three and six months ended June 30, 2015. 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 available-for-sale securities, which include 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. Unrealized gains or losses are recorded in accumulated other comprehensive income (loss). Details of available-for-sale securities were as follows:

June 30, 2016	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Mortgage-backed securities	\$10,420	\$ 52	\$ (12)	)\$10,460
Total	\$10,420	\$ 52	\$ (12)	)\$10,460
June 30, 2015	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Mortgage-backed securities	\$8,072	\$ 29	\$ (28)	)\$8,073
U.S. Treasury securities	2,327	22	—	2,349
Total	\$10,399	\$ 51	\$ (28)	)\$10,422
December 31, 2015	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
Mortgage-backed securities	\$9,128	\$ 19	\$ (49)	)\$9,098
U.S. Treasury securities	1,315	—	(6)	)1,309
Total	\$10,443	\$ 19	\$ (55)	)\$10,407

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 are valued at the net asset value of shares held at the end of the quarter, based on published market quotations on active markets, or using other known sources including pricing from outside sources.

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.

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 six months ended June 30, 2016 and 2015, there were no transfers between Levels 1 and 2.

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

Fair Value Measurements  
at June 30, 2016, Using  
Quoted  
Prices  
in Significant  
Active  
Markets  
for  
Identical  
Assets  
(Level 1)  
(In thousands)

	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2016
Assets:			
Money market funds	\$ 1,525	\$ —	—\$ 1,525
Insurance contract*	—71,355	—	71,355
Available-for-sale securities:			
Mortgage-backed securities	—10,460	—	10,460
Total assets measured at fair value	\$ 83,340	\$ —	—\$ 83,340

\* The insurance contract invests approximately 9 percent in common stock of mid-cap companies, 6 percent in common stock of small-cap companies, 17 percent in common stock of large-cap companies, 66 percent in fixed-income investments, 1 percent in target date investments and 1 percent in cash equivalents.

Fair Value Measurements  
at June 30, 2015, Using  
Quoted Prices in  
Significant  
Active Markets  
for  
Identical  
Assets  
(Level 1)  
(In thousands)

	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2015
Assets:			
Money market funds	\$ 860	\$ —	—\$ 860
Insurance contract*	—68,187	—	68,187
Available-for-sale securities:			
Mortgage-backed securities	—8,073	—	8,073
U.S. Treasury securities	—2,349	—	2,349
Total assets measured at fair value	\$ 79,469	\$ —	—\$ 79,469

\* The insurance contract invests approximately 20 percent in common stock of mid-cap companies, 18 percent in common stock of small-cap companies, 28 percent in common stock of large-cap companies, 32 percent in fixed-income investments, 1 percent in target date investments and 1 percent in cash equivalents.

Fair Value Measurements  
at December 31, 2015,  
Using  
Quoted Prices in  
Significant  
Active Markets  
for  
Identical  
Assets  
(Level 1)  
(In thousands)

Inputs (Level 3)  
Markets (Level 2)  
for  
Identical  
Assets  
(Level 1)  
(In thousands)

## Assets:

Money market funds	\$-1,420	\$	—\$ 1,420
Insurance contract*	-67,459	—	67,459
Available-for-sale securities:			
Mortgage-backed securities	-9,098	—	9,098
U.S. Treasury securities	-1,309	—	1,309
Total assets measured at fair value	\$-79,286	\$	—\$ 79,286

\* The insurance contract invests approximately 9 percent in common stock of mid-cap companies, 7 percent in common stock of small-cap companies, 19 percent in common stock of large-cap companies, 63 percent in fixed-income investments, 1 percent in target date investments and 1 percent in cash equivalents.

The Company applies the provisions of the fair value measurement standard to its nonrecurring, non-financial measurements, including long-lived asset impairments. These assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances. The Company reviews the carrying value of its long-lived assets, excluding goodwill, whenever events or changes in circumstances indicate that such carrying amounts may not be recoverable.

During the second quarter of 2015, coalbed natural gas gathering assets were reviewed for impairment and found to be impaired and were written down to their estimated fair value using the income approach. Under this approach, fair value is determined by using the present value of future estimated cash flows. The factors used to determine the estimated future cash flows include, but are not limited to, internal estimates of gathering revenue, future commodity prices and operating costs and equipment salvage values. The estimated cash flows are discounted using a rate that approximates the weighted average cost of capital of a market participant. These fair value inputs are not typically observable. At June 30, 2015, coalbed natural gas gathering assets were written down to the nonrecurring fair value measurement of \$1.1 million. The fair value of these coalbed natural gas gathering assets have been categorized as Level 3 in the fair value hierarchy.

The Company performed fair value assessments of the assets and liabilities classified as held for sale. For more information on these Level 3 nonrecurring fair value measurements, see Note 10.

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	Fair Value
	(In thousands)	
Long-term debt at June 30, 2016	\$1,987,307	\$2,134,708
Long-term debt at June 30, 2015	\$2,302,343	\$2,395,095
Long-term debt at December 31, 2015	\$1,796,163	\$1,819,828

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

#### Note 14 - Equity

A summary of the changes in equity was as follows:

Six Months Ended June 30, 2016	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
	(In thousands)		
Balance at December 31, 2015	\$2,396,505	\$ 124,043	\$2,520,548
Net loss	(84,283 )	(131,691 )	(215,974 )
Other comprehensive loss	(1,058 )	—	(1,058 )
Dividends declared on preferred stocks	(343 )	—	(343 )
Dividends declared on common stock	(73,239 )	—	(73,239 )
Stock-based compensation	2,015	—	2,015
Issuance of common stock upon vesting of stock-based compensation, net of shares used for tax withholdings	(323 )	—	(323 )
Net tax deficit on stock-based compensation	(1,664 )	—	(1,664 )
Contribution from noncontrolling interest	—	7,648	7,648
Balance at June 30, 2016	\$2,237,610	\$ —	\$2,237,610

Six Months Ended June 30, 2015	Total Stockholders' Equity	Noncontrolling Interest	Total Equity
	(In thousands)		
Balance at December 31, 2014	\$3,134,041	\$ 115,743	\$3,249,784
Net loss	(535,521 )	(11,282 )	(546,803 )
Other comprehensive income	1,857	—	1,857
Dividends declared on preferred stocks	(342 )	—	(342 )
Dividends declared on common stock	(71,078 )	—	(71,078 )
Stock-based compensation	1,107	—	1,107

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Net tax deficit on stock-based compensation	(1,632 )	—	(1,632 )
Issuance of common stock	14,499	—	14,499
Contribution from noncontrolling interest	—	39,500	39,500
Balance at June 30, 2015	\$2,542,931	\$ 143,961	\$2,686,892

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## 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. The vast majority of the Company's operations are located within the United States.

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 midstream segment provides natural gas transportation, underground storage, gathering and processing services, as well as oil gathering, through regulated and nonregulated pipeline systems and processing facilities primarily in the Rocky Mountain and northern Great Plains regions of the United States.

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 provides utility construction services specializing in constructing and maintaining electric and communications lines, gas pipelines, fire suppression systems, and external lighting and traffic signalization. This segment also provides utility excavation and inside electrical and mechanical services, and manufactures and distributes transmission line construction equipment and other supplies.

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, automobile liability and pollution liability coverages. Centennial Capital also owns certain real and personal property. The Other category also includes certain general and administrative costs (reflected in operation and maintenance expense) and interest expense which were previously allocated to the refining business and Fidelity and do not meet the criteria for income (loss) from discontinued operations. The Other category also includes Centennial Resources' former investment in the Brazilian Transmission Lines.

Discontinued operations includes the results of Dakota Prairie Refining and Fidelity other than certain general and administrative costs and interest expense as described above. Dakota Prairie Refining refined crude oil and produced and sold diesel fuel, naphtha, ATBs and other by-products of the production process. In the second quarter of 2016, the Company sold all of the outstanding membership interests in Dakota Prairie Refining. Fidelity engaged in oil and natural gas development and production activities in the Rocky Mountain and Mid-Continent/Gulf States regions of the United States. Between September 2015 and March 2016, the Company entered into purchase and sale agreements to sell all of Fidelity's marketed oil and natural gas assets. The completion of these sales occurred between October 2015 and April 2016. For more information on discontinued operations, see Note 10.

The information below follows the same accounting policies as described in Note 1 of the Company's Notes to Consolidated Financial Statements in the 2015 Annual Report. Information on the Company's businesses was as follows:

	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2016	2015	2016	2015
	(In thousands)			
External operating revenues:				
Regulated operations:				
Electric	\$73,832	\$64,265	\$156,755	\$136,041
Natural gas distribution	112,770	132,965	412,165	463,538
Pipeline and midstream	19,450	18,448	22,998	22,588
	206,052	215,678	591,918	622,167
Nonregulated operations:				
Pipeline and midstream	10,268	14,749	18,966	27,749



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Construction materials and contracting	541,257	495,640	751,108	701,298
Construction services	285,924	211,515	541,424	446,918
Other	447	457	747	752
	837,896	722,361	1,312,245	1,176,717
Total external operating revenues	\$1,043,948	\$938,039	\$1,904,163	\$1,798,884

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	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
	(In thousands)			
Intersegment operating revenues:				
Regulated operations:				
Electric	\$—	\$—	\$—	\$—
Natural gas distribution	—	—	—	—
Pipeline and midstream	6,594	6,564	27,691	27,625
	6,594	6,564	27,691	27,625
Nonregulated operations:				
Pipeline and midstream	36	110	119	316
Construction materials and contracting	97	1,257	215	2,205
Construction services	77	3,491	539	15,186
Other	1,669	1,792	3,338	3,563
	1,879	6,650	4,211	21,270
Intersegment eliminations	(8,473)	(13,214)	(31,902)	(48,895)
Total intersegment operating revenues	\$—	\$—	\$—	\$—
Earnings (loss) on common stock:				
Regulated operations:				
Electric	\$8,022	\$5,910	\$19,141	\$14,237
Natural gas distribution	(7,777)	(5,375)	17,464	16,075
Pipeline and midstream	5,564	4,328	10,852	9,685
	5,809	4,863	47,457	39,997
Nonregulated operations:				
Pipeline and midstream	737	(966)	739	89
Construction materials and contracting	33,696	20,136	19,225	5,501
Construction services	6,990	7,003	12,964	11,763
Other	(1,105)	(4,404)	(2,564)	(9,358)
	40,318	21,769	30,364	7,995
Intersegment eliminations	—	(742)	—	(1,733)
Earnings on common stock before loss from discontinued operations	46,127	25,890	77,821	46,259
Loss from discontinued operations, net of tax	(276,102)	(263,419)	(294,138)	(593,404)
Loss from discontinued operations attributable to noncontrolling interest	(120,651)	(7,754)	(131,691)	(11,282)
Total loss on common stock	\$(109,324)	\$(229,775)	\$(84,626)	\$(535,863)

## Note 16 - Employee benefit plans

## Pension and other postretirement 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:

	Pension Benefits		Other Postretirement Benefits	
	2016	2015	2016	2015
Three Months Ended June 30,	(In thousands)			
Components of net periodic benefit cost:				
Service cost	\$—	\$46	\$374	\$425
Interest cost	4,220	4,206	895	889
Expected return on assets	(5,182)	(5,753)	(1,118)	(1,223)
Amortization of prior service cost (credit)	—	18	(343)	(343)
Amortization of net actuarial loss	1,514	1,813	299	553
Curtailment loss	—	258	—	—
Net periodic benefit cost, including amount capitalized	552	588	107	301
Less amount capitalized	121	53	4	33
Net periodic benefit cost	\$431	\$535	\$103	\$268
Six Months Ended June 30,	(In thousands)			
Components of net periodic benefit cost:				
Service cost	\$—	\$86	\$824	\$908
Interest cost	8,610	8,570	1,844	1,803
Expected return on assets	(10,462)	(11,126)	(2,267)	(2,398)
Amortization of prior service cost (credit)	—	36	(686)	(685)
Amortization of net actuarial loss	3,107	3,548	747	1,014
Curtailment loss	—	258	—	—
Net periodic benefit cost, including amount capitalized	1,255	1,372	462	642
Less amount capitalized	202	129	38	62
Net periodic benefit cost	\$1,053	\$1,243	\$424	\$580

Prior to 2013, defined pension plan benefits and accruals for all nonunion and certain union plans were frozen. On June 30, 2015, an additional union plan was frozen. As of June 30, 2015, all of the Company's defined pension plans were frozen. These employees were eligible to receive additional defined contribution plan benefits.

## Nonqualified benefit plans

In addition to the qualified plan defined pension benefits reflected in the table, the Company also has unfunded, nonqualified benefit plans for executive officers and certain key management employees that generally provide for defined benefit payments at age 60.