

Edgar Filing: MDU RESOURCES GROUP INC - Form 10-Q

MDU RESOURCES GROUP INC

Form 10-Q

November 02, 2018

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2018-05-31 2018-05-31 0000067716 mdu:TaxCutsandJobsActMember mdu:ElectricRateProceedingMember  
mdu:WYPSCMember 2018-03-30 2018-03-30 0000067716 mdu:NaturalgasrateproceedingMember  
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mdu:FuelContractMember 2018-09-30 0000067716 srt:MinimumMember  
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us-gaap:SubsequentEventMember 2018-10-18 iso4217:USD iso4217:USD xbrli:shares xbrli:shares xbrli:pure

**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 September 30, 2018

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 1-03480

**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)

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(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

No .

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes  No .

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes  No .

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of October 26, 2018:  
196,018,324 shares.

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## **Index**

	Page
<b><u>Definitions</u></b>	<u>3</u>
<b><u>Forward-Looking Statements</u></b>	<u>5</u>
<b><u>Introduction</u></b>	<u>5</u>
<b>Part I -- <u>Financial Information</u></b>	
<b>Item 1</b> <u>Financial Statements</u>	
<u>Consolidated Statements of Income -- Three and Nine Months Ended September 30, 2018 and 2017</u>	<u>6</u>
<u>Consolidated Statements of Comprehensive Income -- Three and Nine Months Ended September 30, 2018 and 2017</u>	<u>7</u>
<u>Consolidated Balance Sheets -- September 30, 2018 and 2017, and December 31, 2017</u>	<u>8</u>
<u>Consolidated Statements of Equity -- Nine Months Ended September 30, 2018 and 2017</u>	<u>9</u>
<u>Consolidated Statements of Cash Flows -- Nine Months Ended September 30, 2018 and 2017</u>	<u>10</u>
<u>Notes to Consolidated Financial Statements</u>	<u>11</u>
<b>Item 2</b> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>34</u>
<b>Item 3</b> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>53</u>
<b>Item 4</b> <u>Controls and Procedures</u>	<u>53</u>
<b>Part II -- <u>Other Information</u></b>	
<b>Item 1</b> <u>Legal Proceedings</u>	<u>55</u>
<b>Item 1A</b> <u>Risk Factors</u>	<u>55</u>
<b>Item 2</b> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>55</u>
<b>Item 4</b> <u>Mine Safety Disclosures</u>	<u>55</u>
<b>Item 6</b> <u>Exhibits</u>	<u>55</u>
<b><u>Exhibits Index</u></b>	<u>56</u>
<b><u>Signatures</u></b>	<u>57</u>



## **Definitions**

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

### **Abbreviation or Acronym**

2017 Annual Report	Company's Annual Report on Form 10-K for the year ended December 31, 2017
AFUDC	Allowance for funds used during construction
ASC	FASB Accounting Standards Codification
ASU	FASB Accounting Standards Update
Brazilian Transmission Lines	Company's former investment in companies owning three electric transmission lines in Brazil
BSSE	345-kilovolt transmission line from Ellendale, North Dakota, to Big Stone City, South Dakota
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)
dk	Decatherm
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act
EPA	United States Environmental Protection Agency
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)
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
Intermountain	Intermountain Gas Company, an indirect wholly owned subsidiary of MDU Energy Capital
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
LWG	Lower Willamette Group
MD&A	Management's Discussion and Analysis of Financial Condition and Results of Operations
MDU Construction Services	MDU Construction Services Group, Inc., a direct wholly owned subsidiary of Centennial
MDU Energy Capital	MDU Energy Capital, LLC, a direct wholly owned subsidiary of the Company
MISO	Midcontinent Independent System Operator, Inc.
MMcf	Million cubic feet
MMdk	Million dk
MNPUC	Minnesota Public Utilities Commission
Montana-Dakota	Montana-Dakota Utilities Co., a public utility division of the Company
MTPSC	Montana Public Service Commission
MW	Megawatt
NDPSC	North Dakota Public Service Commission
Non-GAAP	Not in accordance with GAAP

OPUC	Oregon Public Utility Commission
Oregon DEQ	Oregon State Department of Environmental Quality
Pronghorn	Natural gas processing plant located near Belfield, North Dakota (WBI Energy Midstream's 50 percent ownership interests were sold effective January 1, 2017)
PRP	Potentially Responsible Party
ROD	Record of Decision
SDPUC	South Dakota Public Utilities Commission
SEC	United States Securities and Exchange Commission
SSIP	System Safety and Integrity Program
TCJA	Tax Cuts and Jobs Act
Tesoro	Tesoro Refining & Marketing Company LLC
VIE	Variable interest entity
Washington DOE	Washington State Department of Ecology
WBI Energy	WBI Energy, Inc., a direct 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



## **Forward-Looking Statements**

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, and 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 not 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 Part I, Item 2 - MD&A - Business Segment Financial and Operating Data.

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. All forward-looking statements, whether written or oral and whether made by or on behalf of the Company, are expressly qualified by the risk factors and cautionary statements reported in Part II, Item 1A - Risk Factors in this Form 10-Q, Part I, Item 1A - Risk Factors in the 2017 Annual Report and subsequent filings with the SEC.

## **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, Great Plains, Cascade and Intermountain comprise the natural gas distribution segment.

Montana-Dakota also comprises the electric segment.

The Company, through its wholly owned subsidiary, Centennial, owns WBI Holdings, Knife River, MDU Construction Services, Centennial Resources and Centennial Capital. WBI Holdings is the pipeline and midstream segment, Knife River is the construction materials and contracting segment, MDU Construction Services is the construction services segment, and Centennial Resources and Centennial Capital are both reflected in the Other category.

For more information on the Company's business segments, see Note 14.

**Part I -- Financial Information****Item 1. Financial Statements****MDU Resources Group, Inc.****Consolidated Statements of Income****(Unaudited)**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
	(In thousands, except per share amounts)			
<b>Operating revenues:</b>				
Electric, natural gas distribution and regulated pipeline and midstream	\$ 200,617	\$ 206,936	\$ 851,761	\$ 866,035
Nonregulated pipeline and midstream, construction materials and contracting, construction services and other	1,080,170	1,065,612	2,469,917	2,412,077
<b>Total operating revenues</b>	<b>1,280,787</b>	<b>1,272,548</b>	<b>3,321,678</b>	<b>3,278,112</b>
<b>Operating expenses:</b>				
Operation and maintenance:				
Electric, natural gas distribution and regulated pipeline and midstream	82,920	80,204	252,961	237,881
Nonregulated pipeline and midstream, construction materials and contracting, construction services and other	913,671	893,762	2,166,570	2,116,575
Total operation and maintenance	996,591	973,966	2,419,531	2,354,456
Purchased natural gas sold	32,123	33,319	270,319	283,936
Depreciation, depletion and amortization	55,016	52,155	161,298	155,138
Taxes, other than income	38,647	38,882	128,257	127,273
Electric fuel and purchased power	18,406	18,906	58,901	57,544
<b>Total operating expenses</b>	<b>1,140,783</b>	<b>1,117,228</b>	<b>3,038,306</b>	<b>2,978,347</b>
<b>Operating income</b>	<b>140,004</b>	<b>155,320</b>	<b>283,372</b>	<b>299,765</b>
<b>Other income</b>	<b>2,683</b>	<b>2,068</b>	<b>4,864</b>	<b>6,212</b>
<b>Interest expense</b>	<b>20,955</b>	<b>20,909</b>	<b>62,202</b>	<b>61,978</b>
<b>Income before income taxes</b>	<b>121,732</b>	<b>136,479</b>	<b>226,034</b>	<b>243,999</b>
<b>Income taxes</b>	<b>14,363</b>	<b>46,930</b>	<b>32,629</b>	<b>74,406</b>
<b>Income from continuing operations</b>	<b>107,369</b>	<b>89,549</b>	<b>193,405</b>	<b>169,593</b>
<b>Income (loss) from discontinued operations, net of tax (Note 10)</b>	<b>(118)</b>	<b>(2,198)</b>	<b>85</b>	<b>(3,702)</b>
<b>Net income</b>	<b>107,251</b>	<b>87,351</b>	<b>193,490</b>	<b>165,891</b>
<b>Loss on redemption of preferred stocks</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>600</b>
<b>Dividends declared on preferred stocks</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>171</b>
<b>Earnings on common stock</b>	<b>\$ 107,251</b>	<b>\$ 87,351</b>	<b>\$ 193,490</b>	<b>\$ 165,120</b>
<b>Earnings per common share - basic:</b>				
Earnings before discontinued operations	\$ .55	\$ .46	\$ .99	\$ .86
Discontinued operations, net of tax	—	(.01)	—	(.01)
<b>Earnings per common share - basic</b>	<b>\$ .55</b>	<b>\$ .45</b>	<b>\$ .99</b>	<b>\$ .85</b>
<b>Earnings per common share - diluted:</b>				
Earnings before discontinued operations	\$ .55	\$ .46	\$ .99	\$ .86
Discontinued operations, net of tax	—	(.01)	—	(.02)
<b>Earnings per common share - diluted</b>	<b>\$ .55</b>	<b>\$ .45</b>	<b>\$ .99</b>	<b>\$ .84</b>
<b>Dividends declared per common share</b>	<b>\$.1975</b>	<b>\$.1925</b>	<b>\$.5925</b>	<b>\$.5775</b>
<b>Weighted average common shares outstanding - basic</b>	<b>196,018</b>	<b>195,304</b>	<b>195,618</b>	<b>195,304</b>
<b>Weighted average common shares outstanding - diluted</b>	<b>196,265</b>	<b>195,783</b>	<b>196,104</b>	<b>195,922</b>

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		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,
	2018	2017	2018	2017
	(In thousands)			
<b>Net income</b>	\$ 107,251	\$ 87,351	\$ 193,490	\$ 165,891
<b>Other comprehensive income:</b>				
Reclassification adjustment for loss on derivative instruments included in net income, net of tax of \$55 and \$56 for the three months ended and \$164 and \$168 for the nine months ended in 2018 and 2017, respectively	92	92	279	275
Postretirement liability adjustment:				
Amortization of postretirement liability losses included in net periodic benefit cost (credit), net of tax of \$142 and \$203 for the three months ended and \$442 and \$609 for the nine months ended in 2018 and 2017, respectively	442	333	1,309	1,002
Reclassification of postretirement liability adjustment from regulatory asset, net of tax of \$0 and \$0 for the three months ended and \$0 and \$(725) for the nine months ended in 2018 and 2017, respectively	—	—	—	(917)
Postretirement liability adjustment	442	333	1,309	85
Foreign currency translation adjustment:				
Foreign currency translation adjustment recognized during the period, net of tax of \$0 and \$9 for the three months ended and \$(14) and \$5 for the nine months ended in 2018 and 2017, respectively	—	15	(61)	9
Reclassification adjustment for foreign currency translation adjustment included in net income, net of tax of \$0 and \$0 for the three months ended and \$75 and \$0 for the nine months ended in 2018 and 2017, respectively	—	—	249	—
Foreign currency translation adjustment	—	15	188	9
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 \$(13) and \$(10) for the three months ended and \$(52) and \$(38) for the nine months ended in 2018 and 2017, respectively	(51)	(19)	(199)	(70)
Reclassification adjustment for loss on available-for-sale investments included in net income, net of tax of \$9 and \$14 for the three months ended and \$26 and \$50 for the nine months ended in 2018 and 2017, respectively	33	27	97	93
Net unrealized gain (loss) on available-for-sale investments	(18)	8	(102)	23
Other comprehensive income	516	448	1,674	392
<b>Comprehensive income attributable to common stockholders</b>	<b>\$ 107,767</b>	<b>\$ 87,799</b>	<b>\$ 195,164</b>	<b>\$ 166,283</b>

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

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

	September 30, 2018	September 30, 2017	December 31, 2017
(In thousands, except shares and per share amounts)			
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents	\$ 67,077	\$ 37,356	\$ 34,599
Receivables, net	787,344	739,402	727,030
Inventories	270,293	232,555	226,583
Prepayments and other current assets	88,760	89,625	81,304
Current assets held for sale	571	304	479
<b>Total current assets</b>	<b>1,214,045</b>	<b>1,099,242</b>	<b>1,069,995</b>
<b>Investments</b>			
	143,303	133,895	137,613
<b>Property, plant and equipment</b>			
Less accumulated depreciation, depletion and amortization	2,796,649	2,667,762	2,691,641
<b>Net property, plant and equipment</b>	<b>4,306,311</b>	<b>3,991,129</b>	<b>4,079,188</b>
<b>Deferred charges and other assets:</b>			
Goodwill	640,203	631,791	631,791
Other intangible assets, net	4,318	4,209	3,837
Other	408,178	419,846	407,850
Noncurrent assets held for sale	1,835	64,333	4,392
<b>Total deferred charges and other assets</b>	<b>1,054,534</b>	<b>1,120,179</b>	<b>1,047,870</b>
<b>Total assets</b>	<b>\$ 6,718,193</b>	<b>\$ 6,344,445</b>	<b>\$ 6,334,666</b>
<b>Liabilities and Stockholders' Equity</b>			
<b>Current liabilities:</b>			
Long-term debt due within one year	\$ 3,915	\$ 148,499	\$ 148,499
Accounts payable	339,713	304,101	312,327
Taxes payable	50,461	108,946	42,537
Dividends payable	38,714	37,596	38,573
Accrued compensation	62,836	67,097	72,919
Other accrued liabilities	221,620	184,580	186,010
Current liabilities held for sale	7,959	5,749	11,993
<b>Total current liabilities</b>	<b>725,218</b>	<b>856,568</b>	<b>812,858</b>
<b>Long-term debt</b>			
	1,911,555	1,592,053	1,566,354
<b>Deferred credits and other liabilities:</b>			
Deferred income taxes	405,761	652,413	347,271
Other	1,154,366	889,494	1,179,140
<b>Total deferred credits and other liabilities</b>	<b>1,560,127</b>	<b>1,541,907</b>	<b>1,526,411</b>
<b>Commitments and contingencies</b>			
<b>Stockholders' equity:</b>			
Common stock			
Authorized - 500,000,000 shares, \$1.00 par value			
Shares issued - 196,557,245 at September 30, 2018 and 195,843,297 at September 30, 2017 and December 31, 2017	196,557	195,843	195,843
Other paid-in capital	1,247,151	1,232,766	1,233,412
Retained earnings	1,124,830	964,275	1,040,748
Accumulated other comprehensive loss	(43,619)	(35,341)	(37,334)
Treasury stock at cost - 538,921 shares	(3,626)	(3,626)	(3,626)
<b>Total stockholders' equity</b>	<b>2,521,293</b>	<b>2,353,917</b>	<b>2,429,043</b>

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**Total liabilities and stockholders' equity** \$ 6,718,193 \$ 6,344,445 \$ 6,334,666

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

8

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**MDU Resources Group, Inc.**  
**Consolidated Statements of Equity**  
**(Unaudited)**

Nine Months Ended September 30, 2018

	Common Stock		Other Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Total
	Shares	Amount				Shares	Amount	
	(In thousands, except shares)							
<b>Balance at December 31, 2017</b>	195,843,297	\$ 195,843	\$ 1,233,412	\$ 1,040,748	\$ (37,334)	(538,921)	\$(3,626)	\$ 2,429,043
Cumulative effect of adoption of ASU 2014-09	—	—	—	(970)	)—	—	—	(970)
Adjusted balance at January 1, 2018	195,843,297	195,843	1,233,412	1,039,778	(37,334)	(538,921)	(3,626)	2,428,073
Net income	—	—	—	193,490	—	—	—	193,490
Other comprehensive income	—	—	—	—	1,674	—	—	1,674
Reclassification of certain prior period tax effects from accumulated other comprehensive loss	—	—	—	7,959	(7,959)	)—	—	—
Dividends declared on common stock	—	—	—	(115,998)	)—	—	—	(115,998)
Stock-based compensation	—	—	3,810	(399)	)—	—	—	3,411
Repurchase of common stock	—	—	—	—	—	(182,424)	(5,020)	(5,020)
Issuance of common stock upon vesting of stock-based compensation, net of shares used for tax withholdings	—	—	(7,350)	)—	—	182,424	5,020	(2,330)
Issuance of common stock	713,948	714	17,279	—	—	—	—	17,993
<b>Balance at September 30, 2018</b>	<b>196,557,245</b>	<b>\$ 196,557</b>	<b>\$ 1,247,151</b>	<b>\$ 1,124,830</b>	<b>\$ (43,619)</b>	<b>(538,921)</b>	<b>\$(3,626)</b>	<b>\$ 2,521,293</b>

Nine Months Ended September 30, 2017

	Preferred Stock		Common Stock		Other Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock		Total
	Shares	Amount	Shares	Amount				Shares	Amount	
	(In thousands, except shares)									
<b>Balance at December 31, 2016</b>	150,000	\$ 15,000	195,843,297	\$ 195,843	\$ 1,232,478	\$ 912,282	\$(35,733)	(538,921)	\$(3,626)	\$ 2,316,244
Net income	—	—	—	—	—	165,891	—	—	—	165,891
Other comprehensive income	—	—	—	—	—	—	392	—	—	392
Dividends declared on preferred stocks	—	—	—	—	—	(171)	)—	—	—	(171)
Dividends declared on common stock	—	—	—	—	—	(112,788)	)—	—	—	(112,788)
Stock-based compensation	—	—	—	—	2,729	(339)	)—	—	—	2,390
Repurchase of common stock	—	—	—	—	—	—	—	(64,384)	(1,684)	(1,684)
	—	—	—	—	(2,441)	)—	—	64,384	1,684	(757)

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Issuance of common stock upon vesting of stock-based compensation, net of shares used for tax withholdings												
Redemption of preferred stock	(150,000)	(15,000)	)—	—	—	(600)	)—	—	—	—	(15,600)	)
<b>Balance at September 30, 2017</b>	<b>—</b>	<b>\$—</b>	<b>195,843,297</b>	<b>\$ 195,843</b>	<b>\$ 1,232,766</b>	<b>\$ 964,275</b>	<b>\$ (35,341)</b>	<b>(538,921)</b>	<b>\$ (3,626)</b>	<b>\$ 2,353,917</b>		



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

	Nine Months Ended	
	September 30,	
	2018	2017
	(In thousands)	
<b>Operating activities:</b>		
Net income	\$ 193,490	\$ 165,891
Income (loss) from discontinued operations, net of tax	85	(3,702 )
Income from continuing operations	193,405	169,593
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	161,298	155,138
Deferred income taxes	42,428	(16,777 )
Changes in current assets and liabilities, net of acquisitions:		
Receivables	(55,749 )	(121,128 )
Inventories	(38,785 )	2,047
Other current assets	(3,452 )	(40,655 )
Accounts payable	16,155	30,097
Other current liabilities	31,971	66,647
Other noncurrent changes	(27,170 )	(15,081 )
Net cash provided by continuing operations	320,101	229,881
Net cash provided by (used in) discontinued operations	(2,720 )	42,020
<b>Net cash provided by operating activities</b>	<b>317,381</b>	<b>271,901</b>
<b>Investing activities:</b>		
Capital expenditures	(345,599 )	(222,084 )
Acquisitions, net of cash acquired	(27,858 )	—
Net proceeds from sale or disposition of property and other	12,451	121,162
Investments	(1,560 )	(260 )
Net cash used in continuing operations	(362,566 )	(101,182 )
Net cash provided by discontinued operations	1,236	2,234
<b>Net cash used in investing activities</b>	<b>(361,330 )</b>	<b>(98,948 )</b>
<b>Financing activities:</b>		
Issuance of long-term debt	356,952	133,437
Repayment of long-term debt	(157,315 )	(183,968 )
Dividends paid	(115,859 )	(113,131 )
Redemption of preferred stock	—	(15,600 )
Repurchase of common stock	(5,020 )	(1,684 )
Tax withholding on stock-based compensation	(2,330 )	(757 )
Net cash provided by (used in) continuing operations	76,428	(181,703 )
Net cash provided by discontinued operations	—	—
<b>Net cash provided by (used in) financing activities</b>	<b>76,428</b>	<b>(181,703 )</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(1 )</b>	<b>(1 )</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>32,478</b>	<b>(8,751 )</b>
Cash and cash equivalents -- beginning of year	34,599	46,107
Cash and cash equivalents -- end of period	\$ 67,077	\$ 37,356

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



**MDU Resources Group, Inc.**  
**Notes to Consolidated**  
**Financial Statements**

**September 30, 2018 and 2017**  
**(Unaudited)**

**Note 1 - Basis of presentation**

The accompanying consolidated interim financial statements were prepared in accordance with GAAP for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. 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 2017 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 September 30, 2018, up to the date of issuance of these consolidated interim financial statements.

On December 22, 2017, President Trump signed into law the TCJA which includes lower corporate tax rates, repealing the domestic production deduction, disallowance of immediate expensing for regulated utility property and modifying or repealing many other business deductions and credits. The reduction in the corporate tax rate was effective on January 1, 2018, reducing the Company's income tax expense for 2018. The Company continues to review the components of the TCJA and the impact on the Company's consolidated financial statements and related disclosures for 2018 and thereafter.

While the Company was able to make reasonable estimates of the impact of the reduction in corporate tax rate on the Company's net deferred tax liabilities during the fourth quarter of 2017, such estimates may be affected by other analyses related to the TCJA, including, but not limited to, the state tax effect of adjustments to federal temporary differences and the calculation of deemed repatriation of deferred foreign income. The final transition impacts of the TCJA may differ from amounts disclosed, possibly materially, due to, among other things, interpretations, legislative action to address questions, changes in accounting standards for income taxes or related interpretations, or updates or changes to estimates the Company has utilized to calculate the transition impacts. The SEC has issued rules that would allow for a measurement period of up to one year after the enactment date of the TCJA to finalize the recording of the related tax impacts, of which there were no such material adjustments during the nine months ended September 30, 2018. The Company currently anticipates finalizing and recording any resulting adjustments by December 31, 2018, which will be included in income from continuing operations.

Due to the enactment of the TCJA, the regulated jurisdictions in which the Company's regulated businesses provide service have requested the Company furnish plans for the effect of the reduced corporate tax rate, which may impact the Company's rates to customers. Therefore, the Company has reserved for such impacts as an offset to revenue in certain jurisdictions. The Company will continue to make changes to reserve balances as new information becomes available. For more information on the details and statuses of the open requests, see Note 16.

Effective January 1, 2018, the Company adopted the requirements of the revenue from contracts with customers guidance following the modified retrospective method, as discussed in Notes 6 and 8. As such, results for reporting periods beginning January 1, 2018, are presented under the new guidance, while prior period amounts are not adjusted and continue to be reported in accordance with the historic accounting for revenue recognition. Based on the Company's analysis, the Company did not identify a significant change in the timing of revenue recognition under the new guidance as compared to the historic accounting for revenue recognition.

Certain prior year amounts have been reclassified to conform to the current year presentation in the consolidated financial statements related to the retrospective adoption of the FASB guidance to improve the presentation of net periodic pension and net periodic postretirement benefit costs, which was effective on January 1, 2018. The components of net periodic pension and postretirement costs, other than service costs, were reclassified from operating expenses to other income on the Consolidated Statements of Income, as discussed in Note 6.

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 income (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. 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 \$29.2 million, \$27.2 million and \$34.7 million at September 30, 2018 and 2017, and December 31, 2017, 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 September 30, 2018 and 2017, and December 31, 2017, was \$7.3 million, \$9.0 million and \$8.1 million, respectively.

**Note 4 - Inventories and natural gas in storage**

Natural gas in storage for the Company's regulated operations is generally carried at lower of cost or net realizable value, or cost using the last-in, first-out method. All other inventories are stated at the lower of cost or net realizable value. The portion of the cost of natural gas in storage expected to be used within one year was included in inventories. Inventories on the Consolidated Balance Sheets were as follows:

	September 30, 2018	September 30, 2017	December 31, 2017
	(In thousands)		
Aggregates held for resale	\$ 133,477	\$ 116,399	\$ 115,268
Asphalt oil	40,781	26,682	30,360
Natural gas in storage (current)	29,084	29,974	20,950
Materials and supplies	23,563	20,778	18,650
Merchandise for resale	15,954	15,346	14,905
Other	27,434	23,376	26,450
Total	\$ 270,293	\$ 232,555	\$ 226,583

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 deferred charges and other assets - other and was \$47.8 million, \$49.5 million and \$49.3 million at September 30, 2018 and 2017, and December 31, 2017, 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 nonvested performance share awards and restricted stock units. Common stock outstanding includes issued shares less shares held in treasury. Earnings on common stock 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 calculations was as follows:

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
	(In thousands)			
Weighted average common shares outstanding - basic	196,018	195,304	195,618	195,304
Effect of dilutive performance share awards and restricted stock units	247	479	486	618
Weighted average common shares outstanding - diluted	196,265	195,783	196,104	195,922
Shares excluded from the calculation of diluted earnings per share	114	—	—	—

**Note 6 - New accounting standards****Recently adopted accounting standards**

**ASU 2014-09 - 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. In August 2015, the FASB issued guidance deferring the effective date of the revenue guidance and allowing entities to

12

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early adopt. With this decision, the guidance was effective for the Company on January 1, 2018. Entities had the option of using either a full retrospective or modified retrospective approach to adopting the guidance. Under the modified retrospective approach, an entity recognizes the cumulative effect of initially applying the guidance with an adjustment to the opening balance of retained earnings in the period of adoption.

The Company adopted the guidance on January 1, 2018, using the modified retrospective approach. The Company elected the practical expedient to not disclose the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied (or partially unsatisfied) as of the end of the reporting period, along with an explanation of when such revenue would be expected to be recognized. This practical expedient was used since the performance obligations are part of contracts with an original duration of one year or less. The Company also elected the practical expedient to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that the Company otherwise would have recognized is one year or less. Upon completion of the Company's evaluation of contracts and methods of revenue recognition under the previous accounting guidance, the Company did not identify any material cumulative effect adjustments to be made to retained earnings. In addition, the Company has expanded revenue disclosures, both quantitatively and qualitatively, related to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers, as discussed in Note 8. The Company reviewed its revenue streams to evaluate the impact of this guidance and did not identify a significant change in the timing of revenue recognition, results of operations, financial position or cash flows. The Company reviewed its internal controls related to revenue recognition and disclosures and concluded that the guidance impacted certain business processes and controls. As such, the Company developed modifications to its internal controls for certain topics under the guidance as they apply to the Company and such modifications were not deemed to be significant. Results for reporting periods beginning after December 31, 2017, are presented under the new guidance, while prior period amounts are not adjusted and continue to be reported in accordance with historic accounting for revenue recognition.

Under the modified retrospective approach, the guidance was applied only to contracts that were not completed as of January 1, 2018. Therefore, the Company recognized the cumulative effect of initially applying the guidance with an adjustment to the opening balance of retained earnings at January 1, 2018. For the nine months ended September 30, 2018, there were no material impacts to the financial statements as a result of applying the guidance. The cumulative effect of the changes made to the Consolidated Balance Sheet were as follows:

December 31, 2017	Adjustments	January 1, 2018
(In thousands)		

#### **Liabilities and Stockholders' Equity**

##### **Current liabilities:**

Other accrued liabilities	\$ 186,010	\$ 903		\$ 186,913
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##### **Deferred credits and other liabilities:**

Deferred income taxes	347,271	(332	)	346,939
Other	1,179,140	399		1,179,539

##### **Commitments and contingencies**

##### **Stockholders' equity:**

Retained earnings	1,040,748	(970	)	1,039,778
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The cumulative effect adjustment is related to prepaid natural gas transportation to storage contracts where a separate performance obligation existed and has not yet been satisfied. As such, these contracts were still open and met the criteria for a cumulative effect adjustment.

**ASU 2016-15 - Classification of Certain Cash Receipts and Cash Payments** In August 2016, the FASB issued guidance to clarify the classification of certain cash receipts and payments in the statement of cash flows. The guidance is intended to standardize the presentation and classification of certain transactions, including cash payments for debt prepayment or extinguishment, proceeds from insurance claim settlements and distributions from equity method investments. In addition, the guidance clarifies how to classify transactions that have characteristics of more than one class of cash flows. The Company adopted the guidance on January 1, 2018, on a prospective basis. The guidance did not have a material effect on the Company's statement of cash flows.

**ASU 2017-01 - Clarifying the Definition of a Business** In January 2017, the FASB issued guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions or disposals of assets or businesses. The guidance provides a screen to determine when an integrated set of assets and activities is not a business. The guidance also affects other aspects of accounting, such as determining reporting units for goodwill testing and whether an entity has acquired or sold a business. The Company adopted the guidance on January 1,

2018, on a prospective basis. The guidance did not have a material effect on the Company's results of operations, financial position, cash flows or disclosures.

13

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**ASU 2017-07 - Improving the Presentation of Net Periodic Pension Cost and Net Periodic**

**Postretirement Benefit Cost** In March 2017, the FASB issued guidance to improve the presentation of net periodic pension and net periodic postretirement benefit costs. The guidance required the service cost component to be presented in the income statement in the same line item or items as other compensation costs arising from services performed during the period. Other components of net periodic benefit cost shall be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. The guidance also only allows the service cost component to be capitalized.

The Company adopted the guidance on January 1, 2018, on a retrospective basis. The guidance required the reclassification of all components of net periodic benefit costs, except for the service cost component, from operating expenses to other income on the Consolidated Statements of Income with no impact to earnings. As a result of the retrospective application of this change in accounting guidance, the Company reclassified \$1.5 million and \$4.5 million from operation and maintenance expense to other income on the Consolidated Statements of Income for the three and nine months ended September 30, 2017, respectively. The Company also reclassified unrealized gains on investments used to satisfy obligations under the defined benefit plans of \$2.6 million and \$7.9 million for the three and nine months ended September 30, 2017, respectively, which were included in operation and maintenance expense, to other income on the Consolidated Statements of Income. The guidance did not have a material effect on the Company's results of operations, cash flows or disclosures.

**ASU 2018-02 - Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income**

In February 2018, the FASB issued guidance that allows an entity to reclassify the stranded tax effects resulting from the newly enacted federal corporate income tax rate from accumulated other comprehensive income (loss) to retained earnings. The guidance is effective for the Company on January 1, 2019, including interim periods, with early adoption permitted. The guidance can be applied using one of two methods. One method is to record the reclassification of the stranded income taxes at the beginning of the period of adoption. The other method is to apply the guidance retrospectively to each period in which the income tax effects of the TCJA are recognized in accumulated other comprehensive income (loss). The Company early adopted the guidance on January 1, 2018, and elected to reclassify the stranded income taxes at the beginning of the period. During the first quarter of 2018, the Company reclassified \$7.9 million of stranded tax expense from accumulated other comprehensive loss to retained earnings. The guidance did not have a material effect on the Company's results of operations, cash flows or disclosures.

**Recently issued accounting standards not yet adopted**

**ASU 2016-02 - Leases** In February 2016, the FASB issued guidance regarding leases. The guidance requires lessees to recognize a lease liability and a right-of-use asset on the balance sheet for operating and financing leases. The guidance remains largely the same for lessors, although some changes were made to better align lessor accounting with the new lessee accounting and to align with the revenue recognition standard. The guidance also requires additional disclosures, both quantitative and qualitative, related to operating and finance leases for the lessee and sales-type, direct financing and operating leases for the lessor. This guidance will be effective for the Company on January 1, 2019, with early adoption permitted.

In July 2018, the FASB issued ASU 2018-11 - *Leases: Targeted Improvements*, an accounting standard update to ASU 2016-02. This ASU provides an entity the option to adopt the guidance using one of two modified retrospective approaches. An entity can adopt the guidance using the modified retrospective transition approach beginning in the earliest year presented in the financial statements. This method of adoption would require the restatement of prior periods reported and the presentation of lease disclosures under the new guidance for all periods reported. The additional transition method of adoption introduced by ASU 2018-11, allows entities the option to apply the guidance on the date of adoption by recognizing a cumulative effect adjustment to retained earnings during the period of adoption and does not require prior comparative periods to be restated. The Company is planning to adopt the standard on January 1, 2019, utilizing the practical expedient that allows the Company to not reassess whether an expired or existing contract contains a lease, the classification of leases or initial direct costs, as well as the additional transition method of adoption applied on the date of adoption. The Company also plans to adopt a short-term leasing policy as the lessee where leases with a term of 12 months or less will not be included on the Consolidated Balance Sheet.

The Company formed a lease implementation team and is currently in the contract review and assessment phase to identify and evaluate contracts containing leases. Additionally, the team is implementing new and revising existing software to meet the reporting and disclosure requirements of the standard. The Company also has started to assess the impact the standard will have on its processes and internal controls and is identifying new and updating current processes. During the assessment phase, the Company is using various analytic methodologies to ensure the completeness of the lease inventory. The Company expects that most of the current operating leases will be subject to the guidance and recognized as operating lease liabilities and right-of-use assets

on the Consolidated Balance Sheets upon adoption. During the fourth quarter of 2018, the Company will engage internal auditors to review and assess the completeness of the lease inventory and the effectiveness of the revised and new internal controls. The Company continues to evaluate the impact the new guidance will have on lease contracts where the Company is the lessor and, at this time, does not anticipate a significant impact. In January 2018, the FASB issued a practical expedient for land easements under the new lease guidance. The practical expedient permits an entity to elect the option to not evaluate land easements under the new guidance if they existed or expired before the adoption of the new lease guidance and were not previously accounted for as leases under the previous lease guidance. Once an entity adopts the new guidance, the entity should apply the new guidance on a prospective basis to all new or modified land easements. The Company is currently planning to adopt this practical expedient. The Company continues to monitor other

industry-specific issues as it relates to the regulated businesses but does not expect these issues to have a material impact on the Company's results of operations, financial position or disclosures.

**ASU 2017-04 - Simplifying the Test for Goodwill Impairment** In January 2017, the FASB issued guidance on simplifying the test for goodwill impairment by eliminating Step 2, which required an entity to measure the amount of impairment loss by comparing the implied fair value of reporting unit goodwill with the carrying amount of such goodwill. This guidance requires entities to perform a quantitative impairment test, previously Step 1, to identify both the existence of impairment and the amount of impairment loss by comparing the fair value of a reporting unit to its carrying amount. Entities will continue to have the option of performing a qualitative assessment to determine if the quantitative impairment test is necessary. The guidance also requires additional disclosures if an entity has one or more reporting units with zero or negative carrying amounts of net assets. The guidance will be effective for the Company on January 1, 2020, and must be applied on a prospective basis 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.

**ASU 2018-07 - Improvements to Nonemployee Share-Based Payment Accounting** In June 2018, the FASB issued guidance on simplifying the accounting for nonemployee share-based payment transactions by expanding the scope of ASC 718, *Compensation - Stock Compensation*, to include share-based payment transactions for acquiring goods and services from nonemployees. The guidance will require nonemployee share-based payment awards be measured at the grant-date fair value of the equity instruments at the grant date. The guidance will be effective for the Company on January 1, 2019, including interim periods, and must be applied using a modified retrospective approach with early adoption permitted. The modified retrospective approach requires an entity to record a cumulative-effect adjustment to retained earnings at the beginning of the year of adoption. 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.

**ASU 2018-13 - Changes to the Disclosure Requirements for Fair Value Measurement** In August 2018, the FASB issued guidance on modifying the disclosure requirements on fair value measurements as part of the disclosure framework project. The guidance modifies, among other things, the disclosures required for Level 3 fair value measurements, including the range and weighted average of significant unobservable inputs. The guidance removes, among other things, the disclosure requirement to disclose transfers between Levels 1 and 2. The guidance will be effective for the Company on January 1, 2020, including interim periods, with early adoption permitted. Level 3 fair value measurement disclosures should be applied prospectively while all other amendments should be applied retrospectively. The Company is evaluating the effects the adoption of the new guidance will have on its disclosures.

**ASU 2018-14 - Changes to the Disclosure Requirements for Defined Benefit Plans** In August 2018, the FASB issued guidance on modifying the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans as part of the disclosure framework project. The guidance removes disclosures that are no longer considered cost beneficial, clarifies the specific requirements of disclosures and adds disclosure requirements identified as relevant. The guidance adds, among other things, the requirement to include an explanation for significant gains and losses related to changes in benefit obligations for the period. The guidance removes, among other things, the disclosure requirement to disclose the amount of net periodic benefit costs to be amortized over the next fiscal year from accumulated other comprehensive income (loss) and the effects a one percentage point change in assumed health care cost trend rates will have on certain benefit components. The guidance will be effective for the Company on January 1, 2021, and must be applied on a retrospective basis with early adoption permitted. The Company is evaluating the effects the adoption of the new guidance will have on the its disclosures.

**ASU 2018-15 - Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract** In August 2018, the FASB issued guidance on the accounting for implementation costs of a hosting arrangement that is a service contract. The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract similar to the costs incurred to develop or obtain internal-use software and such capitalized costs to be expensed over the term of the hosting arrangement. Costs incurred during the preliminary and postimplementation stages should continue to be expensed as activities are performed. The capitalized costs are required to be presented on the balance sheet in the same line the prepayment for the fees associated with the hosting arrangement would be presented. In addition, the expense related to the capitalized implementation costs should be presented in the same line on the income statement as the fees associated with the hosting element of the arrangements. The guidance will be effective for the Company on January 1, 2020, including interim periods, and may be applied on a retrospective or a prospective basis with early adoption permitted. The Company is evaluating the effects the adoption of the new guidance will have on the its results of operations, financial position, cash flows and disclosures.

**SEC File Number S7-15-16 - Disclosure Update and Simplification** In October 2018, the SEC published guidance in the Federal Register on disclosure updates and simplifications. The guidance removes disclosures that are no longer considered cost beneficial, duplicative of GAAP required disclosures, clarifies the specific requirements of disclosures and adds disclosure requirements identified as relevant. The amendments are intended to facilitate disclosure of information to investors and simplify the compliance without significantly altering the total mix of information provided to investors. The guidance will be effective for the Company on November 5, 2018, including interim periods, and must be applied on a prospective basis. The Company is

evaluating the effects the adoption of the new guidance will have on its disclosures, various sections of the Annual Report on Form 10-K for the year ended December 31, 2018, and future reports on Form 10-Q.

**Note 7 - Comprehensive income (loss)**

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

	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
Three Months Ended September 30, 2018					
Balance at beginning of period	\$ (2,136 )	\$ (41,816 )	\$ —	\$ (183 )	\$ (44,135 )
Other comprehensive loss before reclassifications	—	—	—	(51)	(51)
Amounts reclassified from accumulated other comprehensive loss	92	442	—	33	567
Net current-period other comprehensive income (loss)	92	442	—	(18)	516
Balance at end of period	\$ (2,044 )	\$ (41,374 )	\$ —	\$ (201 )	\$ (43,619 )
Three Months Ended September 30, 2017					
Balance at beginning of period	\$ (2,117 )	\$ (33,469 )	\$ (155 )	\$ (48 )	\$ (35,789 )
Other comprehensive income (loss) before reclassifications	—	—	15	(19)	(4)
Amounts reclassified from accumulated other comprehensive loss	92	333	—	27	452
Net current-period other comprehensive income	92	333	15	8	448
Balance at end of period	\$ (2,025 )	\$ (33,136 )	\$ —		